

MAGELLAN HEALTH SERVICES, INC.

Policy Regarding Director Nominations by the Board of Directors

(As Adopted By the Board on October 27, 2004)

Composition of the Board

Size of the Board

The Board believes 9 members is an appropriate size of the Board based on its present circumstances, consistent with the current provisions of the Company's Amended and Restate Certificate of Incorporation and Bylaws.

Board Membership Criteria

Directors of Magellan should be individuals of accomplishment in their careers. They should be able in carrying out their responsibilities as directors to make independent business judgments in an analytical manner and should exhibit practical wisdom and mature judgment. Directors of Magellan are expected to possess the highest personal and professional ethics, integrity and values, and should be committed to promoting the long-term interests of Magellan's stockholders, free of any relationship that may on a regular basis create a conflict of interest between his or her directorial role and personal or other associative interests. Each Director should have expertise and experience in an area pertinent to the Company's business, and have the time to and, by personality, be effective in providing advice and guidance to the management based on that expertise and experience. Director should have certain minimum qualifications, including being able to read and understand basic financial statements and being over 21 years of age.

In accordance with the Corporation's Amended and Restated Certificate of Incorporation and Bylaws, a majority of the members of the Board of Directors should be independent as determined in compliance with the corporate governance listing standards of the Nasdaq Stock Market, on which Magellan's Ordinary Common Stock is listed for trading. In addition, the Board's membership should be sufficient to allow it to establish an audit committee and a management compensation committee that meet the additional requirements of independence and expertise established by the corporate governance listing standards of the Nasdaq Stock Market and the Company's certificate of incorporation and bylaws, including at least one director willing to chair the Audit Committee having the knowledge, credentials and experience sufficient to satisfy the definition of an "audit committee financial expert" under applicable securities laws. The Board has determined that a majority of the directors currently meet the criteria for director independence established by the Nasdaq Stock Market. For a director to be considered independent under the Nasdaq Market Stock listing standards, the Board must determine that the director is not an officer or employee of Magellan or any of its

subsidiaries and does not have any relationship which would interfere with the exercise of independent business judgment in carrying out his or her responsibilities as a director. The Board shall nominate directors for election such that, upon the election of such nominees, a majority of the members of the Board shall continue to satisfy the criteria of director independence of the Nasdaq Stock Market, including the Board's determination that her or she does not have any relationship which would interfere with the exercise of independent business judgment in carrying out his or her responsibilities as a director. The Board of Directors may from time to time establish guidelines to assist it in determining director independence in accordance with the listing standards and such other standards as the Board may consider pertinent.

Each incumbent independent director is expected to notify the Lead Director, as soon as reasonably practicable, in the event that his or her personal circumstances change in a manner that may affect the Board's evaluation of such director's independence.

Magellan does not restrict its directors from serving on the boards of directors (or committees thereof) of other publicly-traded companies. However, when the Board selects director nominees, and members of committees of the Board, it will consider the other demands on each individual's time, including those arising from such service.

The Board has determined not to establish at this time any term limits to an individual's membership on the Board or a mandatory retirement age. However, the Board will, as part of its annual assessment of the composition of the Board, review the extent of a director's tenure on the Board, and directors should not expect that, once elected to the Board, they will necessarily be renominated thereafter.

The foregoing criteria are intended as guidelines for the Board's consideration of nominees and may be supplemented or varied by the Board as it deems appropriate

Overall Composition of the Board

The Board shall review, on an annual basis, the composition of the Board in light of the characteristics of independence, diversity, age, skills, experience, availability of service to Magellan, tenure of incumbent directors on the Board and the Board's anticipated needs.

Changes in Personal Circumstances

Directors are expected to offer their resignation from the Board in the event of any significant change in personal circumstances (including a change in principal occupation), in the event a significant on-going time commitment arises that may be inconsistent with the director's service to the Board, in the case of a development

of any relationship that may on a regular basis create a conflict of interest between his or her directorial role and personal or other associative interests or, in the case of a director who has been determined to be an independent director, in the event of a change in circumstances that would result in the director no longer being considered independent. Such offers of resignation will give the Board an opportunity to review whether it is appropriate for such director to continue to serve as a member of the Board.

The foregoing criteria are intended as guidelines for the Board's consideration of nominees and may be supplemented or varied by the Board as it deems appropriate

Board Consideration and Selection of Director Nominations

Functioning of the Board As A Nominating Committee

The Board believes that under the existing circumstances it is not necessary for a separate nominating committee of the Board of Directors to be established and that the nomination of directors by the Board for election by the stockholders (or to fill vacancies), and other matters regarding the selection of nominees for election as directors, can be properly and adequately addressed by the entire Board, consistent with the following policies and procedures. The functions typically carried out by a nominating committee shall be carried out by the full Board of Directors, subject to the following policies and procedures. [The Lead Director shall be responsible for coordinating the Board's consideration of such matters, subject to the following policies and procedures.]

Consideration of Shareholder Nominees

Candidates timely and appropriately presented by a stockholder for consideration by the Board for selection as a nominee for election as a director shall be considered by the Board of Directors. Stockholders should present such candidates for consideration in accordance with the timing, informational and procedural requirements of the Company's Bylaws (Art. II, Section 4) and the guidelines attached as Exhibit A. The Board of Directors in its absolute discretion may consider candidates presented by a stockholder in a manner that does not satisfy such requirements. The Board of Directors shall also consider candidates presented by any member of the Board or any officer of the Company and may in its absolute discretion consider candidates presented by any other person having a legitimate interest in the affairs of the Company. Information regarding candidates should be addressed or otherwise provided to the attention of the Secretary of the Corporation, who shall make such information available in a timely and appropriate manner to all Board members.

Renomination of Incumbent Directors

In determining whether to recommend an incumbent Board member for renomination in connection with a stockholder meeting, the independent directors, apart from such Board member, will review such director's overall service to the Company during the term of his or her service, including the number of meetings attended, level of participation, quality of performance, and any circumstances that have presented or are expected to present a conflict of interest on the part of the director with the Company. In general, other than in cases of death or disability or pending or actual resignation or removal, no specific effort will be initiated to conduct a search to fill the position of an incumbent director unless and until such time as the full Board, upon recommendation of a majority of the independent directors, has determined that such director will not be renominated.

Recommendation of the Independent Directors

The independent directors shall consider candidates presented for consideration as nominees for election as a director (including incumbent directors), conferring among themselves and with the other directors, and with stockholders and other parties-in-interest, has they consider appropriate regarding such candidates. The Board of Directors may retain a director search firm or other consultant or consultants to assist it in the identification and selection of appropriate candidates for nomination for election as directors and, upon request of a majority of the independent directors, shall authorize the retention of such a firm or consultant, at the expense of the Company, to act at and report in the first instance to the independent directors (acting in the event of any dispute by a vote of a majority thereof) under the direction of an independent director selected by the Board. Any report or recommendation of such director search firm or consultant shall be made available to all the other directors.

The independent directors, by the affirmative vote of not less than a majority of the independent directors, shall recommend to the full Board of Directors a nominee for each position on the Board of Directors to be filled by election at the annual meeting of stockholders or at a special meeting of stockholders (or by written consent of the stockholders in lieu of a meeting) or action of the Board to fill a vacancy as permitted by law and the Company's certificate of incorporation and bylaws, subject to any rights that the holders of any series of preferred stock of the Company may have with respect to the nomination of any directors and the provisions regarding the nomination of directors of any agreement with securityholders or creditors of the Company or other parties-in-interest into which the Company has entered and that is in effect and applicable to the circumstances. The Company shall not enter into any such agreement unless approved by both the affirmative vote of a majority of the entire Board and the affirmative vote of a majority of the independent directors then in office. The independent directors shall make their recommendation of nominees sufficiently in advance of the annual meeting of stockholders, or a special meeting of stockholders for the election of directors (or solicitation of action by written consent in lieu of a meeting), in a manner complying with

the provisions of this policy and sufficient to allow adequate consideration of the recommendation by the full Board of Directors as practicable in the circumstances and the preparation of appropriate proxy solicitation materials as required by law. The Board of Directors may establish a schedule for the consideration of nominees for election at the annual meeting of stockholders as it in its discretion shall consider appropriate to the orderly carrying out of this policy.

Considering the recommendation of the independent directors, the full Board of Directors shall select the nominees of the Board for election by the stockholders (or the election of an individual to fill a vacancy).

Disclosures to Stockholders Regarding the Director Nomination Process

The Board of Directors shall oversee the disclosures made by the Company to stockholders regarding the criteria, procedures and processes employed by the Board of Directors in the selection of its nominees for election as directors.

Supplementation and Amendment of this Policy

The policy may be supplemented or amended from time to time by action of the Board of Directors, as permitted by law and the Company's certificate of incorporation or bylaws.

Requirements Relating to Submission of Shareholder Nominees

A shareholder-recommended Board candidate must be submitted in writing to the Secretary together with the following documents and information:

- All information relating to such candidate that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected,.
- Whether the candidate qualifies as "independent" under Nasdaq listing standards and securities law requirements relating to service on the audit committee.
- The name and address of the recommending shareholder, as they appear on the Corporation's books, and of any beneficial owner on whose behalf the recommendation is made.
- The class and number of shares of the Company that are beneficially owned and held of record by such shareholder and any such beneficial owner.
- Information regarding whether the recommending shareholder, beneficial owner or candidate or their affiliates have any plans or proposals for the Company, including for any extraordinary transaction.
- Whether the recommending shareholder, beneficial owner or candidate seeks to use the nomination to redress personal claims or grievances against the Company or to further personal interests or special interests not shared by shareholders at large.

In order for all shareholder-recommended candidates to be considered by the Board in an orderly manner, generally, shareholder-recommended candidates should be submitted not later than six months in advance of the anniversary of the mailing date of the Company's most recent past annual meeting proxy statement.

The Board shall be entitled to request additional information regarding a candidate and to interview a candidate as it deems appropriate.

Compliance with the foregoing requirements regarding the submission by stockholders of candidates for consideration by the Board shall not, by itself, satisfy the requirements of the Company's Bylaws for advance notice of nominations to be made by stockholders of directors for election at a stockholder meeting.