MAGELLAN HEALTH SERVICES INC
Form DEF 14A
April 07, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

Magellan Health Services, Inc.

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

MAGELLAN HEALTH SERVICES, INC.
55 Nod Road
Avon, Connecticut 06001
www.MagellanHealth.com

April 7, 2010

Dear Shareholder:

You are cordially invited to attend the 2010 annual meeting of shareholders of Magellan Health Services, Inc. to be held on Thursday, May 20, 2010 at 9:00 a.m., local time, in the Towpath Ballroom of the Avon Old Farms Hotel, 279 Avon Mountain Road, Avon, Connecticut 06001.

This year, two (2) directors are nominated for election to our board of directors. At the meeting, shareholders will be asked to: (i) elect two (2) directors to serve until our 2013 annual meeting; (ii) ratify the appointment of Ernst & Young LLP as our independent auditor for fiscal year 2010; and (iii) transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The accompanying proxy statement provides a detailed description of these proposals. We urge you to read the accompanying materials so that you may be informed about the business to be addressed at our annual meeting.

It is important that your shares be represented at the annual meeting. Accordingly, we ask you, whether or not you plan to attend the annual meeting, to complete, sign and date the enclosed proxy card and return it to us promptly in the enclosed envelope or to otherwise vote in accordance with the instructions on your proxy card. If you attend the meeting, you may vote in person, even if you have previously mailed-in your proxy. However, if you hold your shares in a brokerage account ("*street name*"), you will need to provide a proxy form from the institution that holds your shares reflecting your stock ownership as of the record date, to be able to vote by ballot at the meeting.

We look forward to seeing you at the meeting.

IF YOU PLAN TO ATTEND THE MEETING:

Registration and seating will begin at 8:00 a.m. Shareholders and their guests will be asked to sign-in and may be asked to present valid picture identification. Shareholders holding stock in street name will need to obtain a proxy form from their broker or other institution that holds their shares to evidence their stock ownership as of the record date.

Sincerely,

René Lerer, M.D.
Chairman and Chief Executive Officer

Table of Contents

MAGELLAN HEALTH SERVICES, INC.

55 Nod Road
Avon, Connecticut 06001
www.MagellanHealth.com

Notice of Annual Meeting of Shareholders

TIME AND DATE	9:00 a.m., local time, on Thursday, May 20, 2010
PLACE	The Towpath Ballroom of the Avon Old Farms Hotel, 279 Avon Mountain Road, Avon, CT 06001
PURPOSE	(1) To elect two (2) members of the board of directors, to serve until our 2013 annual meeting;
	(2) To ratify the appointment of Ernst & Young LLP as our independent auditor for the fiscal year 2010; and
	(3) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.
RECORD DATE	You can vote if you are a shareholder of record at the close of business on March 31, 2010.
PROXY VOTING	It is important that you vote your shares. You can vote your shares by completing and returning the proxy card sent to you. You can revoke a proxy at any time prior to its exercise at the meeting by following the instructions in the accompanying proxy statement.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on May 20, 2010.

Our proxy statement and form of proxy are enclosed along with our 2009 Annual Report to Shareholders. These materials are also available on our internet site at *www.MagellanHealth.com/ar* and *www.MagellanHealth.com/proxy.*

DANIEL N. GREGOIRE
Secretary

Avon, Connecticut
April 7, 2010

Table of Contents

TABLE OF CONTENTS

INTRODUCTION	1
ABOUT THE MEETING	1
What is the purpose of the annual meeting?	1
Who is entitled to vote at the meeting?	1
What constitutes a quorum and why is one required?	1
How do I vote?	2
Can I change my vote?	2
What vote is required to approve each proposal?	2
Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held May 20, 2010	2
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	3
Who are the largest owners of your stock?	3
How much stock do your executive officers and directors own?	4
Section 16(a) Beneficial Ownership Reporting Compliance	5
CORPORATE GOVERNANCE AND RELATED MATTERS	6
General	6
Lead Director	6
Management of Risk	7
Committees of the Board of Directors	7
Number of Meetings and Attendance	8
Directors' Compensation	9
Process for Selecting Nominees to the Board	11
Director Independence	14
Compensation Committee Interlocks and Insider Participation	15
Review of Related Person Transactions	15
Codes of Ethics	17
Disclosure Controls and Procedures	18
Communications with Directors and Management	18
PROPOSAL NUMBER ONE ELECTION OF DIRECTORS	19
Certain Information Regarding Our Directors and Executive Officers	19
Directors	20
Director Election and Terms of Office	23
Arrangements Regarding the Nomination of Directors	23
EXECUTIVE COMPENSATION	24
Compensation Discussion and Analysis	24
Report of Management Compensation Committee	37
Summary Compensation Table for 2009, 2008 and 2007	38
Grants of Plan-Based Awards for 2009	40
Benefit Plans and Awards	41
Outstanding Equity Awards at December 31, 2009	43
Option Exercises and Stock Vested for 2009	44
Nonqualified Deferred Compensation	45

Table of Contents

EXECUTIVE OFFICERS	46
Executive Officers of the Company	46
Employment Contracts and Termination of Employment and Change of Control Payments	47
Certain Relationships and Related Party Transactions	56
Report of Audit Committee	57
PROPOSAL NUMBER TWO RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR	58
Audit, Audit-Related, Tax and Other Fees	58
ADDITIONAL INFORMATION	59
Shareholder Proposals	59
Solicitation	59
OTHER MATTERS	60
REQUESTS FOR MORE INFORMATION	60

Table of Contents

MAGELLAN HEALTH SERVICES, INC.
55 Nod Road
Avon, Connecticut 06001

Proxy Statement for Annual Meeting of Shareholders
To Be Held May 20, 2010

INTRODUCTION

This proxy statement is being furnished to shareholders of Magellan Health Services, Inc., a Delaware corporation (the "*company"* or *"we"* or "*us"*), in connection with the solicitation of proxies by our board of directors for use at our annual meeting of shareholders to be held on Thursday, May 20, 2010, at 9:00 a.m., local time, in the Towpath Ballroom of the Avon Old Farms Hotel, Avon, Connecticut 06001, and any adjournment or postponement thereof. This proxy statement is dated April 7, 2010, and is first being mailed to shareholders along with the related form of proxy on or about April 7, 2010.

ABOUT THE MEETING

What is the purpose of the annual meeting?

At the annual meeting, shareholders will be asked to consider and vote upon two proposals: (i) to elect two (2) directors to serve until the 2013 annual meeting ("*Proposal Number One"*); and (ii) to ratify the appointment of Ernst & Young LLP as our independent auditor for fiscal year 2010 ("*Proposal Number Two"*). In addition, management will report on our performance and respond to your questions. Although one (1) director position remains open, a candidate for that position has not been nominated and shareholders at the meeting will not be entitled to vote or give proxies to fill the position.

Who is entitled to vote at the meeting?

Only shareholders of record at the close of business on March 31, 2010, the date our board of directors has fixed as the record date for determining holders of outstanding shares of our Ordinary Common Stock, par value $.01 per share ("*shares"* or "*common stock"*), who are entitled to notice of and to vote at the annual meeting, are entitled to vote at the meeting.

What constitutes a quorum and why is one required?

The presence at the meeting, in person or by proxy, of shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast on the election of directors or any other matter on the record date, will constitute a quorum. A quorum is the minimum number of shares required by law to be present or represented by proxy at the annual meeting for any action to be taken at the annual meeting. As of March 31, 2010, the approximate number of holders of record of our common stock was 299, and 33,337,110 shares of our common stock were issued and outstanding. The presence, in person or by proxy, of the holders of common stock representing at least 16,668,556 votes are required to establish a quorum.

Abstentions and broker non-votes are counted for purposes of determining the number of shares represented at the meeting. Broker non-votes occur when a broker nominee, holding shares in street name for the beneficial owner of the shares, has not received voting instructions from the beneficial owner and does not have discretionary authority to vote. Proposal Number Two requires the affirmative vote of the holders of a majority of the shares present or represented by proxies at the meeting and entitled to vote on the matter. Abstentions will have the effect of a vote against Proposal Number Two.

Table of Contents

A properly executed proxy marked "WITHHOLD AUTHORITY" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum at the meeting.

How do I vote?

If you complete and properly sign and return the accompanying proxy card in time for the meeting, it will be voted as you direct. If you are a registered shareholder on the record date and attend the meeting, you may deliver your completed proxy card in person. If your shares are held on the record date by a broker (held "in street name") and you wish to vote at the meeting in person or by proxy, you must obtain a proxy form from your broker to evidence your ownership and voting rights. Your votes will be counted by tellers of our transfer agent. These tellers will canvass the shareholders present at the annual meeting, count their votes and count the votes represented by proxies presented.

Unless your proxy specifies otherwise, proxies will be voted (a) FOR the election of the nominated directors in Proposal Number One; (b) FOR the ratification of Ernst & Young LLP as our independent auditor for fiscal year 2010 in Proposal Number Two; and (c) otherwise in the discretion of the proxy holders as to any other matter that may come before the annual meeting. We expect that our current executive officers and members of our board of directors will vote their shares (representing approximately 0.4% of the shares of common stock issued and outstanding as of March 31, 2010) in favor of election of the nominee directors in Proposal Number One and in favor of Proposal Number Two, as presented in this proxy statement.

Can I change my vote?

Any shareholder who has given a proxy has the power to revoke that proxy at any time before it is voted either: (i) by filing a written revocation or a duly executed proxy bearing a later date, by mail and received before the annual meeting, with Daniel N. Gregoire, our Secretary, at Magellan Health Services, Inc., 55 Nod Road, Avon, Connecticut 06001; (ii) by appearing at the annual meeting and voting in person; or (iii) by casting another vote in the same manner as the original vote was cast. Attendance at the annual meeting will not in and of itself constitute the revocation of a proxy. Voting by those present during the conduct of the annual meeting will be by ballot.

What vote is required to approve each proposal?

Election of Directors. The affirmative vote of a plurality of the votes of the shares of common stock that are present in person or represented by proxy at the annual meeting and entitled to vote in the election of directors, is required to elect the directors proposed in Proposal Number One.

Ratification of Independent Auditors. The affirmative vote of the holders of a majority of the votes that are present in person or represented by proxy at the annual meeting and entitled to vote on the matter, is required to approve Proposal Number Two.

We will post the results of the voting on our internet site at *www.MagellanHealth.com*.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on May 20, 2010

Under the rules of the U.S. Securities and Exchange Commission (the "*SEC*"), we have chosen to deliver proxy materials to shareholders under the "full set delivery option," i.e. by providing paper copies of the company's full proxy statement and form of proxy for our annual meeting of shareholders to be held at 9:00 a.m., local time, on May 20, 2010, in the Towpath Ballroom of the Avon Old Farms Hotel, 279 Avon Mountain Road, Avon, Connecticut 06001, and our 2009 Annual Report to Shareholders. These materials are also available on our internet site at *www.MagellanHealth.com/*ar and *www.MagellanHealth.com/proxy.*

Table of Contents

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Who are the largest owners of your stock?

The following table sets forth certain information as of March 31, 2010 (except as otherwise noted) with respect to any person known by the company to be the beneficial owner of more than 5% of the outstanding shares of our common stock:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class(1)
BlackRock, Inc.(2) 40 East 52nd Street New York, NY 10022	3,454,636	10.4
HealthCor Management, L.P.(3) 152 West 57th Street, 47th Floor New York, NY 10019	3,095,670	9.3
TimesSquare Capital Management, LLC(4) 1177 Avenue of the Americas, 39th Floor New York, NY 10036	2,193,667	6.6
The Guardian Life Insurance Company of America(5) [no address provided]	2,185,592	6.6

(1) The information regarding the beneficial ownership of common stock by each named entity is included in reliance on its reports filed with the SEC, except that the percentage of common stock beneficially owned is based upon the company's calculations made in reliance upon the number of shares reported to be beneficially owned by such entity in such report and on 33,337,110 shares of common stock issued and outstanding as of 3/31/10.

(2) Based on information set forth in a Schedule 13G amendment filed on 1/29/10. BlackRock, Inc. is the parent holding company of the following investment adviser subsidiaries which exercise investment control over accounts that hold company shares: Barclays Global Investors, NA, BlackRock Asset Management Japan Limited, BlackRock Advisors (UK) Limited, BlackRock Institutional Trust Company, N.A., BlackRock Fund Advisors, BlackRock Asset Management Australia Limited, BlackRock Advisors, LLC, BlackRock Capital Management, Inc., BlackRock Investment Management, LLC, BlackRock International Ltd. and State Street Research & Management Co.

(3) Based on information set forth in Schedule 13G Amendment No. 3 filed on 2/12/10. HealthCor Management, L.P. is an investment manager exercising investment control over its affiliated funds which hold company shares: HealthCor Offshore Master Fund, L.P., HealthCor Offshore, Ltd., HealthCor Hybrid Offshore Master Fund, L.P., HealthCor Hybrid Offshore, Ltd., and HealthCor, L.P. Also listed as having shared voting and dispositive power are HealthCor Offshore GP, LLC, HealthCor Hybrid Offshore GP, LLC, HealthCor Capital, L.P., HealthCor Group LLC, HealthCor Associates, LLC, Arthur Cohen and Joseph Healey.

(4) Based on information set forth in Schedule 13G Amendment No. 5 filed on 2/9/10. TimesSquare Capital Management, LLC is an investment adviser exercising investment control over accounts that hold company shares.

(5) Based on information set forth in a Schedule 13G amendment filed on 2/11/10. The Guardian Life Insurance Company of America is an insurance company and the parent of Guardian Investor Services LLC, an investment advisor and broker-dealer, and RS Investment Management Co. LLC, an investment advisor, both of which exercise investment discretion over accounts that hold company shares.

Table of Contents

How much stock do your executive officers and directors own?

The following table sets forth information regarding the beneficial ownership of our common stock as of March 31, 2010 (except as otherwise noted) by: (i) each director and nominee for director; (ii) each of the executive officers named in the Summary Compensation Table; and (iii) all directors and executive officers as a group.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)(2)	Percent of Class(3)
Michael P. Ressner	26,851	*
Michael Diament	26,851	*
William J. McBride	26,851	*
Robert M. Le Blanc	21,132	*
William D. Forrest	13,569	*
René Lerer, M.D.	652,680	1.9
Nancy L. Johnson	14,676	*
Eran Broshy	4,999	*
Karen S. Rohan		
Jonathan N. Rubin	46,980	*
Daniel N. Gregoire	141,976	*
Tina Blasi	42,363	*
All directors and executive officers as a group (15 persons)	1,162,466	3.4

* Less than 1.0% of total outstanding.

(1) Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, the company believes that each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. This table is based upon information supplied by the directors and executive officers.

(2) Includes as beneficially owned stock options held by such individuals which are exercisable or vest within 60 days of 3/31/10, in accordance with SEC Rule 13d-3. Does not include stock options for which applicable performance hurdles have not been met. The above ownership figures include the following stock options:

Name	Options Held
Michael P. Ressner	12,120
Michael Diament	12,120
William J. McBride	12,120
Robert M. Le Blanc	12,120
William D. Forrest	5,451
René Lerer, M.D.	598,367
Nancy L. Johnson	6,264
Eran Broshy	
Karen S. Rohan	
Jonathan N. Rubin	45,448
Daniel N. Gregoire	136,023
Tina Blasi	40,337
Caskie Lewis-Clapper	111,689
Alan M. Lotvin	23,122
Timothy P. Nolan	

(3) The percentage of common stock beneficially owned is based upon 33,337,110 shares of common stock issued and outstanding as of the above date.

4

Table of Contents

Section 16(a) Beneficial Ownership Reporting Compliance.

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), requires our executive officers and directors, and persons who own more than 10% of our common stock, to file reports of ownership and changes in ownership of our common stock with the SEC. Executive officers, directors and greater than 10% shareholders are required by the SEC to furnish us with copies of all Section 16(a) reports that they file.

Based on our review of the copies of such reports, or written representations from certain reporting persons that no reports on Form 3, 4 or 5 were required for those persons, we believe that all reports required by Section 16(a) to be filed by our executive officers, directors and greater than 10% shareholders during 2009 were filed on a timely basis.

Table of Contents

CORPORATE GOVERNANCE AND RELATED MATTERS

General

The business and affairs of the company are managed under the direction of the board of directors. The size of the board is currently fixed at nine (9) directors, divided into three groups of three directors each who serve for staggered three-year terms. The board has been structured in this fashion to provide stability in the composition of the board and to encourage a long-term outlook by the board to allow it to formulate and implement our business plan. The board currently includes eight (8) directors, and one director position currently remains open. The board intends to fill the open director position by appointment when it selects an appropriate person after the annual meeting.

Several provisions of the company's by-laws and the policies adopted by the board are designed to promote effective and independent governance of the company. Under the by-laws, the board is required to present to the shareholders nominees for election as director and to take other corporate actions to cause the composition of the board, and in particular its Audit and Management Compensation Committees, to meet all applicable independence requirements. As described under "*Director Independence"* below, the NASDAQ Global Select Market ("*NASDAQ"*) listing standards require the company's board to be comprised of a majority of independent directors. Additional independence requirements under NASDAQ and SEC rules apply to the composition of the Audit and Management Compensation Committees. Our board also has a Nominating/Corporate Governance Committee to identify and recommend individuals to the board for nomination as members of the board and to review corporate governance principles which apply to the company. Our chief executive officer, Dr. Lerer, serves as our chairman of the board. If the chairman of the board is not considered independent under applicable rules, our by-laws provide for the designation of a lead director to fulfill various leadership functions on behalf of the non-employee directors for which the chairman of the board otherwise would be responsible. Due to Dr. Lerer's service as both chief executive officer and chairman of the board, he is not considered independent for these purposes and the lead director provisions of our by-laws are applicable, as described below. The board has also adopted corporate governance guidelines which address several issues with how the board functions; these guidelines are posted on the Corporate Governance section of our internet site at *www.MagellanHealth.com.*

The board has combined the roles of chairman of the board and chief executive officer in Dr. Lerer because it believes that that structure enables the company to most effectively pursue its business strategy and plans, and allows Dr. Lerer to more effectively represent the company with its various constituents. The company's business strategy in recent years has been to expand beyond the managed behavioral healthcare business into other specialty managed healthcare fields, and combining the chairman and chief executive officer roles has allowed the chief executive officer to more effectively direct the company's efforts toward that objective. At the same time, the company's strong lead director role provides an effective means for the independent directors to exercise appropriate independent oversight of management. See "*Lead Director*" below.

Lead Director

Mr. Le Blanc currently serves as the lead director of the board of directors. In that role, Mr. Le Blanc chairs the executive sessions of our independent outside (non-management) directors and meets regularly with the chairman of the board and chief executive officer regarding major corporate strategies and policies. As part of all regularly-scheduled meetings of the board, the outside directors meet in executive session, with Mr. Le Blanc chairing the meeting, to discuss pending board matters. At present, all of the directors except Dr. Lerer are independent outside directors. In addition, Mr. Le Blanc has been designated the lead director for purposes of receiving communications from interested parties and from shareholders. Mr. Le Blanc is considered independent under applicable independence standards. You may express your concerns to the independent directors by contacting the lead director through the communication channels set forth in the section entitled *"Communications with Directors and Management"* below.

Table of Contents

Management of Risk

The board believes that risk management oversight forms an integral part of formulating and carrying out its business strategy and plans for the company. Several risk management functions are assigned in the first instance to the Audit Committee, which oversees the company's internal audit function, the engagement of independent auditors, the design and results of the annual independent audit, the assessment of internal financial and other controls, and the risk management function of the company's legal and compliance staffs. However, the full board regularly considers risk management issues during its normal decision-making processes. In addition, the Management Compensation Committee has considered the risks arising out of the company's compensation policies and practices.

The Audit Committee recently established an enterprise-wide risk management process which is coordinated by the company's internal auditors and includes the identification and evaluation of risks through interviews with key members of management. The Audit Committee is charged under its charter with reviewing the effectiveness of the company's processes for assessing and managing significant risks and reviewing the steps that management has taken to minimize those risks. It considers and reviews with management, the company's independent auditors and the head of the company's internal audit function the effectiveness of or weaknesses in the company's internal controls, including information systems and security, the overall control environment and accounting and financial controls. It reviews with the head of the company's internal audit function (independent of other members of senior management) and the independent auditors the coordination of their audit efforts to assure completeness of coverage of key business controls and risk areas, reduction of redundant efforts, and the effective use of audit resources. The Audit Committee also regularly reviews risk management matters with the company's general counsel.

Committees of the Board of Directors

The board of directors has established an Audit Committee, a Management Compensation Committee and a Nominating/Corporate Governance Committee, each of which is comprised solely of independent directors. The standards for determining director independence are discussed under "*Director Independence*" below. The functions, responsibilities and members of each of the committees are also described below. Each committee operates under a charter which is available in the Corporate Governance section of our internet site at *www.MagellanHealth.com*.

Audit Committee. The Audit Committee has been established in accordance with Section 3(a)(58)(A) of the Exchange Act and has a written charter adopted by the board of directors which is available on our internet site at *www.MagellanHealth.com*. The primary function of the Audit Committee is to assist the board of directors in fulfilling its financial oversight responsibility by reviewing the company's financial statements, the other financial information that is proposed to be provided to our shareholders, the periodic financial reports filed with the SEC, the system of internal controls that management and the board of directors have established, and the audit process. The Audit Committee has the power to conduct or authorize investigations into any matter within the scope of its responsibilities and has unrestricted access to management, the company's internal audit staff and to current and former independent auditors and attorneys. The Audit Committee is responsible for selecting and engaging the independent auditors and the head of the company's internal audit functions, reviewing the scope and approach of the annual audit with the independent auditors, and pre-approving any audit and non-audit services to be performed by the independent auditors. The Audit Committee is also required to review and approve the company's "whistle blower" policies and procedures for employees to report fraud, accounting irregularities or other wrongdoing. It is authorized to retain independent counsel, accountants and others to assist it at the company's expense.

The members of the Audit Committee are appointed annually by the board, and the Audit Committee must be composed of at least three directors, one of whom is appointed chairperson. The committee is required to meet at least five times per year, or more frequently as circumstances dictate. The current members of the Audit Committee are Michael Ressner (chairman), William McBride and

Table of Contents

Michael Diament. The board of directors has determined that each of Messrs. Ressner, McBride and Diament is independent for purposes of the NASDAQ listing standards. The board has determined that Mr. Ressner is an "*audit committee financial expert,"* as defined by Item 407 of SEC Regulation S-K, and has financial sophistication, as required by NASDAQ listing standards. The board has determined that each of Messrs. McBride and Diament is financially literate. Each member of the Audit Committee also meets the additional independence requirements for audit committees under SEC Rule 10a-3.

Management Compensation Committee. The Management Compensation Committee is responsible for overseeing our management compensation philosophies, policies, programs and practices. It has a written charter adopted by the board of directors which is available in the Corporate Governance section of our internet site at *www.MagellanHealth.com*. The committee establishes our general compensation philosophy and oversees the development and implementation of compensation programs. It also reviews and approves the means used for applying corporate goals and setting performance objectives to be used in determining the compensation of our chief executive officer, other executive officers and other members of senior management. The committee also reviews and approves the compensation for the chief executive officer and the other executive officers designated in this proxy statement as Named Executive Officers. The current members of the Management Compensation Committee are Michael Diament (chairman), Robert Le Blanc and William Forrest. The board of directors has determined that each of Messrs. Diament, Le Blanc and Forrest is independent for purposes of the NASDAQ listing standards.

Nominating/Corporate Governance Committee. The Nominating/Corporate Governance Committee identifies and recommends individuals to the board for nomination as members of the board and its committees, oversees the company's ongoing efforts to ensure high standards of corporate governance and ethics and periodically reviews and makes recommendations to the board concerning governance issues. In nominating candidates, the committee takes into consideration the factors that it deems appropriate, including those described in the Nominating/Corporate Governance Committee Charter, which is available in the Corporate Governance section of our internet site at *www.MagellanHealth.com*. As provided in the company's by-laws, candidates for election to the board may also be nominated by shareholders who meet certain requirements. The process which the Nominating/Corporate Governance Committee follows in selecting nominees is described under *"Process for Selecting Nominees to the Board"* below. The current members of the Nominating/Corporate Governance Committee are William McBride (chairman), Nancy Johnson and Eran Broshy. The board of directors has determined that each of Mr. McBride, Ms. Johnson and Mr. Broshy is independent for purposes of the NASDAQ listing standards.

Number of Meetings and Attendance

During 2009, the full board of directors held eight meetings, the Audit Committee held five meetings, the Management Compensation Committee held six meetings and the Nominating/Corporate Governance Committee held four meetings. Each of the incumbent directors attended 100% of all of the 2009 meetings of the board of directors and the 2009 meetings of the Audit, Management Compensation and Nominating/Corporate Governance Committees of which they were a member, except that one board member did not attend one telephonic meeting of the full board and accordingly attended 87% of the meetings of the full board.

While the board does not have a written policy regarding board member attendance at annual shareholder meetings, all members are encouraged to attend, and the decision to recommend an incumbent board member for re-nomination takes into account, among other criteria, the number of meetings attended and level of participation. All of the directors then serving attended the 2009 annual meeting of shareholders.

Table of Contents

Directors' Compensation

The following table sets forth, for the year ended December 31, 2009, the compensation paid by the company to its non-executive directors. The company does not pay any compensation in their capacity as directors to any directors who are also executive officers of the company. During 2009, Dr. Lerer served as both an executive officer and a director of the company.

Name	Fees Earned or Paid in Cash	Stock Awards(1)	Total
	($)	($)	($)
Michael P. Ressner	107,000	125,015	232,015
Michael S. Diament	125,000	125,015	250,015
William J. McBride	113,000	125,015	238,015
Robert M. Le Blanc	99,500	125,015	224,515
William D. Forrest	81,000	125,015	206,015
Nancy L. Johnson	78,000	125,015	203,015
Eran Broshy(2)	83,166	153,092	236,258
Allen F. Wise(3)	15,000	N/A	15,000
Steven J. Shulman(3)	68,691	N/A	68,691

(1) The amounts shown in this column for the directors other than Mr. Shulman represent the grant date fair values of restricted share awards calculated on the basis of the number of shares awarded (4,130 for each of the directors) multiplied by the closing price of the company's stock on the day of the award, 5/19/09 ($30.27). These figures differ from the $125,000 values of stock awards contemplated by company policy due to rounding to the nearest whole share.

(2) Mr. Broshy was appointed a director on 2/25/09. In connection with his appointment and as compensation for the period from his appointment through the date of the 2009 annual meeting (5/19/09), Mr. Broshy on 3/2/09 received a pro-rated award of 869 restricted shares valued at the closing price on that date ($32.31).

(3) Messrs. Wise and Shulman resigned from the board effective February 24 and 25, 2009, respectively. The amounts of cash fees earned by them in 2009 include amounts paid in 2008 for services performed in 2009.

Table of Contents

Annual Board Fees. In return for their services to the company as directors, the individuals who serve as members of the board of directors receive the fees listed below; provided that no compensation is paid to those members who are also serving as employees of the company:

Type of Fee	Committee	2009 Fee
Annual Retainer all non-employee directors	N/A	$ 50,000
Committee Chair	Audit	20,000
	Compensation	20,000
	Nominating/Corporate Governance	10,000
Committee Member	Audit	15,000
	Compensation	10,000
	Nominating/Corporate Governance	10,000
Lead Director	N/A	20,000
Per meeting of the full board, attendance in person	N/A	2,000
Per meeting of the full board, attendance by telephone	N/A	1,000
Per committee meeting, attendance in person	N/A	1,500
Per committee meeting, attendance by telephone	N/A	1,000

Equity Compensation. For their services in 2009, independent directors serving as of the date of the 2009 annual meeting received awards of restricted shares under the 2008 Management Incentive Plan ("*2008 MIP*") with an aggregate fair market value at that time equal to $125,000, as measured by the closing price of the company's stock on that date. Directors whose service commences after the date of an annual meeting are eligible to receive an award with a lesser aggregate fair market value as determined by the board. Mr. Broshy, who was appointed to the board on February 25, 2009, received a pro rated award on March 2, 2009 with an aggregate value equal to $28,077, for his service from the date of his appointment to the date of the 2009 annual meeting.

The Management Compensation Committee on February 7, 2008 approved a Director Share Ownership Policy which was implemented beginning in 2008. Under that policy, directors are required to maintain a minimum share ownership position equal in value to five times the annual retainer fee applicable to board members generally. For 2009, this annual retainer fee was $50,000, and directors were required to hold shares with an aggregate fair market value equal to no less than $250,000. In order to meet this requirement, directors are permitted to accumulate shares over time through regular grants as described above. However, directors are not allowed to sell any shares unless they will retain share ownership with an aggregate fair market value equal to or greater than the required amount. Currently, all directors other than Mr. Broshy, who joined the board on February 25, 2009, meet this requirement.

The Management Compensation Committee has the responsibility of reviewing the schedule of fees payable to directors and the design of the company's compensation of directors. Following its review of these issues, its recommendations are forwarded to the board for approval. The committee decided not to recommend any change to the schedule of fees for 2010.

Table of Contents

Process for Selecting Nominees to the Board

The Nominating/Corporate Governance Committee is responsible for, among other things, identifying, evaluating and recommending to the board and shareholders candidates for election as members of the board. The board has adopted for application by the committee in selecting candidates Corporate Governance Guidelines and a Policy for Selecting Nominees for Election as Directors, which are available in the Corporate Governance section of the company's internet site at *www.MagellanHealth.com*. Shareholders may participate in the nomination of directors by two methods: by recommending individual nominees for consideration for selection as nominees by the board of directors or by directly nominating an individual to be voted on by shareholders for election as a director. For further information on the nomination of directors directly by shareholders, see "*Direct Shareholder Nominations*" below. The Nominating/Corporate Governance Committee will evaluate and make recommendations to the board regarding individuals properly presented by shareholders as candidates for nomination by the board.

In general, no specific search effort must be completed to fill a director position. In the case of a vacancy in a director position, the committee recommends to the board an individual to fill that vacancy either through appointment by the board or through election by the shareholders. The committee may retain a search firm to assist it in identifying and evaluating candidates. The Policy for Selecting Nominees for Election as Directors provides that, in nominating candidates, the committee may take into consideration the factors that it considers appropriate. The factors listed in the Policy include the candidates' personal qualities and characteristics; accomplishments and reputation in the business community; the candidate's current knowledge and contacts in the communities in which the company does business and in the company's industry; the candidate's experience with business and other organizations of comparable size; the candidate's ability and willingness to commit adequate time to board and committee matters; the candidate's ability to complement the skills of the other directors and potential directors in building a board that is effective, collegial and responsive to the needs of the company; and diversity of viewpoints, background, experience and other demographics. The Nominating/Corporate Governance Committee has maintained a diversity in business experience and viewpoints among board members by selecting individuals as nominees who have backgrounds in and outside of the managed healthcare industry, in finance and accounting and in government service. The board believes that it has promoted diversity in its membership in a way which has effectively served the company and its strategic goals.

The Nominating/Corporate Governance Committee may consider candidates proposed by management, but it is not required to do so. The committee conducts appropriate inquiries into the background and qualifications of possible candidates. With respect to incumbent directors, the Nominating/Corporate Governance Committee reviews the director's overall service to the company during his or her term, including the number of meetings attended, level of participation, quality of performance, and circumstances that have presented or are expected to present a conflict of interest with the company. No search effort must be initiated to fill the position of an incumbent director unless and until the board has determined that such director will not be re-nominated.

In cases where members of the Nominating/Corporate Governance Committee are subject to re-election at the next annual meeting, those directors exclude themselves from any committee discussion or action on their nomination. Neither of the nominees for election at the meeting serves on the committee.

The Nominating/Corporate Governance Committee also develops and recommends to the board standards to be applied in making determinations as to the absence of any material relationship between the company and a director and as to a director being otherwise considered independent under the NASDAQ rules.

Table of Contents

The Nominating/Corporate Governance Committee also identifies board members qualified to fill vacancies on any committee of the board (including the Nominating/Corporate Governance Committee) and recommends the appointment of members to fill those vacancies. In nominating a candidate for committee membership, the Nominating/Corporate Governance Committee takes into consideration the factors set forth in the charter of the committee, if any, and any other factors it deems appropriate.

Messrs. Ressner and Diament were nominated for re-election as directors at the annual meeting through the process described above. The Nominating/Corporate Governance Committee has not recommended and the board has not nominated a candidate to fill the remaining open director position.

Shareholder Recommendations

Shareholders who wish to recommend an individual for consideration by the Nominating/Corporate Governance Committee as a prospective nominee for election to the board may do so by writing to our corporate secretary at 55 Nod Road, Avon, CT 06001, along with whatever supporting material the shareholder considers appropriate. All such shareholder-recommended candidates should satisfy the following criteria established by the Nominating/Corporate Governance Committee for its nominees for board membership:

- The candidate should be an individual of accomplishment in his or her career.

- The candidate should be able in carrying out his or her responsibilities as a director to make independent business judgments in an analytical manner and should exhibit practical wisdom and mature judgment.

- The candidate should possess the highest personal and professional ethics, integrity and values, and should be committed to promoting the long-term interests of the company's shareholders, free of any relationship that may on a regular basis create a conflict of interest between his or her directorial role and personal or associative interests.

- The candidate should have expertise and experience in an area pertinent to the company's business, and have the time to and, by personality, be capable of effectively providing advice and guidance to the management of the company based on that expertise and experience.

In order for shareholder-recommended candidates to be considered in an orderly manner, generally, names and other supporting materials should be submitted not later than six months prior to the anniversary of the mailing date of the Company's most recent past annual meeting proxy statement, which will be October 7, 2010 for the 2011 annual meeting. Materials in support of a shareholder-recommended candidate should include:

- All information about the candidate that is required to be disclosed in solicitations of proxies for election of directors or otherwise required under Regulation 14A under the Exchange Act, including a written consent to being named in the board's proxy statement as a nominee and to serving as a director if elected.

- An indication of whether the candidate qualifies as "*independent"* under the 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 company's books, and of any beneficial owner on whose behalf the recommendation is made.

- The class and number of shares of the company's stock that are beneficially owned and held of record by such shareholder or beneficially owned by such beneficial owner.

Table of Contents

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 stockholders at large.

Direct Shareholder Nominations

In order to provide for the orderly consideration by shareholders of all nominees to be presented for election as directors by vote of the shareholders, our by-laws require that certain advance notice be given to the company of a nomination made by a shareholder. No shareholder provided the requisite notice for presentation of a nominee to be voted on at the upcoming annual meeting of shareholders. To nominate an individual to be voted on for election as a director at a future shareholder meeting, notice of the nomination must be given in writing to our corporate secretary at 55 Nod Road, Avon, CT 06001 by a shareholder entitled to notice of and to vote at the meeting. To be effective, the nomination must be received not later than 90 days prior to the anniversary date of the previous year's annual meeting, provided that if the date of the annual meeting is more than 30 days before or after the anniversary date of the previous annual meeting, the nomination must be received within 15 days after the public announcement by the company of the date of the annual meeting. The nomination must contain the following information to the extent known by the shareholder:

The name, age, business address, and residence address of the proposed nominee(s) and of the notifying shareholder.

The principal occupation of the proposed nominee.

A representation that the notifying shareholder intends to appear in person or by proxy at the meeting to nominate the person(s) specified in the notice.

The class and total number of shares of capital stock and other company securities that are beneficially owned by the notifying shareholder and by the proposed nominee and, if such securities are not owned solely and directly by the notifying shareholder or the proposed nominee, the manner of beneficial ownership.

A description of all arrangements or understandings between the notifying shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination(s) are to be made by the notifying shareholder.

Such other information regarding the nominee proposed by such shareholder as would be required to be included in a proxy statement filed with the SEC pursuant to Regulation 14A under the Exchange Act had the nominee been nominated by the board.

The consent of the nominee to serve as a director of the company if so elected.

The company may request any proposed nominee to furnish such other information as may reasonably be required by the company to determine the qualifications of the proposed nominee to serve as a director of the company. Within 15 days after receipt by the secretary of a shareholder notice of nomination, the board must instruct the secretary to advise the notifying shareholder of any deficiencies in the notice. The notifying shareholder must cure the deficiencies within 15 days of receipt of such notice.

Nominations that are not in compliance with the by-laws will not be given effect.

Table of Contents

Director Independence

NASDAQ listing standards require that a majority of the company's board of directors be classified as independent directors. Under NASDAQ rules, no director qualifies as independent unless the director is not an officer or employee of the company and was not employed by the company during the preceding three years, and the board determines that the director has no relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. For various corporate governance purposes, including the composition of the Nominating/Corporate Governance Committee and the Management Compensation Committee, we have separately adopted a standard for determining when a director is independent which is identical to the NASDAQ standard. This standard is set forth below. In addition, the charters of the committees of the board may contain additional considerations which bear on a determination that their members are independent for purposes of service on those committees.

Our Nominating/Corporate Governance Committee as one of its key functions periodically monitors and reviews the independence status of the directors. At its meeting held on February 23, 2010, the committee reported to the full board on its review of director independence. As part of receiving the committee report, the board reviewed and considered transactions and relationships between each director or any member of his or her immediate family and the company and its subsidiaries, including those reported under "*Executive Officers Certain Relationships and Related Party Transactions"* below. The purpose of this review was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent. In making this determination, the board applied the following NASDAQ standards, in addition to considering any other relevant facts and circumstances:

- A director who is, or at any time during the past three years was, employed by the company, is not considered independent.

- A director who accepted or who has a family member who accepted any payments from the company in excess of $120,000 during any period of twelve consecutive months within the three preceding years, except compensation for board or committee service, compensation paid to a family member who is an employee (other than an executive officer) of the company, and benefits under a tax-qualified retirement plan or non-discretionary compensation, is not considered independent.

- A director who is a family member of an individual who is, or at any time during the past three years was, employed by the company as an executive officer, is not considered independent.

- A director who is, or has a family member who is, a partner in, or a controlling stockholder or any executive officer of, any organization to which the company made, or from which the company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or $200,000, whichever is more, other than payments arising from investments in the company's securities and payments under non-discretionary charitable contribution matching programs, is not considered independent.

- A director who is, or has a family member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the company serve on the compensation committee of such other entity, is not considered independent.

- A director who is, or has a family member who is, a current partner of the company's outside auditor, or was a partner or employee of the company's outside auditor who worked on the company's audit at any time during any of the past three years, is not considered independent.

Table of Contents

In addition, the NASDAQ standards impose additional independence and qualification standards on the members of our Audit Committee. Under these standards, each committee member, in addition to meeting the definition of independence applicable to all non-employee directors, is prohibited from accepting directly or indirectly any consulting, advisory or other compensatory fee from the company or from being an affiliated person of the company, and must not have participated in the preparation of the company's financial statements at any time during the past three years.

Under the standards set forth above, the board determined that all of its members, including each of the members of our Audit Committee, Management Compensation Committee and Nominating/Corporate Governance Committee, are independent as of the date of this proxy statement, except Dr. Lerer (our chief executive officer).

With respect to Mr. Diament, the board considered whether his independence was affected by the fact that his brother and sister-in-law act as participating providers under contracts with the company's behavioral health subsidiary. However, in view of the fact that those individuals participate on standard economic terms as other providers, that the amount of their fees derived from the company was not material, and that the services provided by them represent bona fide services, the board determined that Mr. Diament's independence was not affected. The board also considered whether the independence of Mr. McBride was affected by the agreements and relationships that the company had during 2008 with AmeriGroup Corporation described below under *"Executive Officers Certain Relationships and Related Party Transactions*." However, in view of his position with that company, the relative size of the transaction in relation to the company and AmeriGroup, and the lack of involvement of Mr. McBride in those agreements, the committee reported to the full board, and the board determined, that his independence was not affected by those matters.

Compensation Committee Interlocks and Insider Participation

The Management Compensation Committee as of the date hereof consists of Messrs. Michael Diament (chairman), Robert Le Blanc and William Forrest, each a non-employee director.

None of the members of the Management Compensation Committee was an officer or employee of the company during 2009 or was formerly an officer of the company. None of the company's executive officers serves as a member of the compensation committee (or other board committee performing equivalent functions or the board) of another entity that has one or more executive officers who serves on the company's board or on the Management Compensation Committee, and none of the company's executive officers serve as a director of another entity one of whose executive officers serve on the Management Compensation Committee.

Review of Related Person Transactions

The board has adopted a Related Person Transaction Policy, the purpose of which is to address the reporting, review and approval or ratification of transactions with related persons. As a general matter, the company seeks to avoid related person transactions because they can involve potential or actual conflicts of interest and pose the risk that they may be, or be perceived to be, based on considerations other than the company's best interests. However, the company recognizes that in some circumstances transactions between the company and related persons may be incidental to the normal course of business or provide an opportunity that is in the best interests of the company, or that is not inconsistent with the best interests of the company and where it is not efficient to pursue an alternative transaction. A copy of the policy is available in the Corporate Governance section of our internet site at *www.MagellanHealth.com.*

Table of Contents

The policy applies to the following persons:

- each director and executive officer of the company;
- any nominee for election as a director of the company;
- any security holder who is known to the company to own of record or beneficially more than five percent of any class of the company's voting securities; and
- any immediate family member of any of the above persons.

For purposes of the policy, a related person transaction means any transaction or arrangement or series of transactions or arrangements in which the company participates (whether or not the company is a party) and a related person has a direct or indirect interest that is material to the related person. A related person's interest in a transaction or arrangement will be presumed material to that person unless it is clearly incidental in nature or has been determined in accordance with the policy to be immaterial in nature such that further review is not warranted. The policy lists several types of transactions or arrangements that are not considered related person transactions for purposes of the policy, some of which include the following:

- use of property, equipment or other assets owned or provided by the company, including aircraft, vehicles, housing and computer or telephonic equipment, by a related person primarily for company business purposes, if such use is subject to other policies of the company regarding such use;
- reimbursement of business expenses incurred by a director or executive officer in the performance of his or her duties and approved for reimbursement in accordance with the company's policies and practices; and
- compensation arrangements for employees and consultants for their services as such that have been approved by the Management Compensation Committee, other than certain perquisites.

Under the policy, except as otherwise provided, any director, nominee for director or executive officer who intends to enter into a related person transaction must disclose that intention and all material facts with respect to the transaction to the Audit Committee. Also, any officer or employee who intends to cause the company to enter into any related person transaction must disclose that intention and all material facts with respect to the transaction to his or her superior, who is responsible for seeing that that information is reported to the Audit Committee. As part of disclosing the material facts with respect to the transaction, the person proposing the transaction must provide specific details about his or her interest in the transaction, a description of the connection that person has with the transaction, the business justification for the transaction and other specific details. The Audit Committee must then review the related person transaction and approve the transaction before the transaction will be given effect. If the company in error enters into a related person transaction without pre-approval by the committee, the transaction must promptly upon discovery be presented to the Audit Committee for its review. The committee then will make a recommendation whether undoing or modifying the transaction is appropriate and whether any disciplinary action or changes in the company's controls and procedures should be made.

The Audit Committee may delegate its authority to review, approve or ratify related person transactions or categories of transactions, other than those involving a member of the committee, to the chairman of the committee where action is warranted between scheduled committee meetings. Any determination made under delegated authority must be presented to the full Audit Committee for review by the next regular meeting of the committee.

Table of Contents

In approving or ratifying a related person transaction, the Audit Committee will consider under the relevant facts and circumstances whether the transaction is in, or is not inconsistent with, the best interests of the company, including the following factors:

- the position within or the relationship of the related person with the company;
- the materiality of the transaction to the related person and the company;
- the business purpose for and reasonableness of the transaction, taken in the context of alternatives available to the company;
- whether the transaction is comparable to a transaction that could be available on an arms-length basis or is on terms that the company offers generally to persons who are not related;
- whether the transaction is in the ordinary course of the company's business and was proposed and considered in the ordinary course of business; and
- the effect of the transaction on the company's business and operations.

The policy may be changed at any time by the board.

For a description of certain arrangements between the company and related parties, see "*Executive Officers Certain Relationships and Related Party Transactions.*"

Codes of Ethics

The board has adopted a Code of Ethics for Directors, covering directors only, and a Code of Ethics for Covered Officers, covering senior executives and individuals reporting directly to the chief executive officer and finance department employees at a vice president level or above. In addition, the company has adopted a Corporate Compliance Handbook covering all employees. The codes and the handbook provide a framework for a comprehensive ethics and compliance process designed to ensure that we conduct our business in a legal and ethical manner. All covered persons are expected to understand and comply with the policies and obligations described in the codes and the handbook.

The Code of Ethics for Directors deals with conflicts of interest, corporate opportunities, confidentiality, fair dealing, protection and proper use of company assets, compliance with laws, insider trading and personal loans to executive officers and directors. The Code of Ethics for Covered Officers deals with good faith and fair dealing in all negotiations and transactions, actual and apparent conflicts of interest, responsible use and protection of company assets, disclosures filed with the SEC or otherwise communicated to the public, compliance with laws, prompt reporting of violations of the code of ethics and other applicable policies, and accountability with respect to compliance with the code of ethics.

The handbook, among other things, contains a whistleblower policy that sets forth steps an employee should take if he or she has a question about a legal or ethical issue related to his or her job or the company, and prohibits retribution against any person raising an issue.

The company will provide to any person without charge, upon request, copies of its Code of Ethics for Directors, Code of Ethics for Covered Officers and Corporate Compliance Handbook for all employees. Any such request should be made in writing to the Investor Relations Department, Magellan Health Services, Inc., 55 Nod Road, Avon, CT 06001. The Code of Ethics for Directors and Code of Ethics for Covered Officers are also available in the Corporate Governance section of our internet site at *www.MagellanHealth.com*. The company intends to disclose any future material amendments to the provisions of the codes of ethics and material waivers from such codes of ethics, if any, made with respect to any of its directors and executive officers on its internet site.

Disclosure Controls and Procedures

We have adopted disclosure controls and procedures that are designed to ensure that all public financial disclosures are accurate, complete and timely. We have also created a disclosure committee, which is responsible for ensuring our compliance with the disclosure controls and procedures and for the evaluation of those procedures. If you become aware that our public disclosures are not accurate, complete or timely, or become aware of a transaction or development you believe may require disclosure, you should report the matter as soon as practicable to our corporate secretary at 55 Nod Road, Avon, Connecticut 06001.

Communications with Directors and Management

We have several communications channels established for employees, shareholders and other interested parties to communicate with our management and/or our board of directors or committees thereof.

Member and Provider Communications: Our members and providers have specific mechanisms for contacting us regarding such matters as benefits, claims or other administrative matters. Member and provider contact information is available on our internet site at *www.MagellanHealth.com*. Although our employees and members of management address most of these matters, significant issues are brought to the attention of senior management and, in certain cases, the board of directors.

Investor Relations: We maintain an investor relations department that is responsible for communicating with current or prospective shareholders and addressing any issues raised by them. The contact information for our investor relations department is as follows:

E-mail: ir@MagellanHealth.com

Post Office Address:
Investor Relations Department
Magellan Health Services, Inc.
55 Nod Road
Avon, CT 06001
Telephone: (877) 645-6464

Lead Director: You may communicate with Mr. Le Blanc, our lead director, through the following channels:

E-mail: leaddirector@MagellanHealth.com.

Post Office Address:
Communications with Lead Director
c/o Magellan Health Services, Inc.
55 Nod Road
Avon, CT 06001

You may communicate with the board of directors as a group through the lead director.

All communications to the lead director will be treated confidentially. Communications should clearly identify the issue being raised, the name of the party initiating the communication and contact information for potential follow-up.

These communications will initially be received by a designee of the lead director who will log, track and summarize the matters raised in the communication. After consideration of the communication by the lead director, he may direct that such communications be presented to the full board of directors, the non-management directors, one or more board committees or management and may direct that matters raised in the communications be investigated by outside advisors or counsel or by management.

Table of Contents

PROPOSAL NUMBER ONE
ELECTION OF DIRECTORS

Our certificate of incorporation provides for a board of directors divided into three groups, each group having a different three-year term of office expiring at the annual meeting of shareholders in the relevant year. Directors are elected for a term of three years except in the case of elections to fill vacancies or newly created directorships.

The board of directors currently consists of eight (8) persons: René Lerer, M.D., Michael P. Ressner, Michael S. Diament, William J. McBride, Robert M. Le Blanc, William D. Forrest, Nancy L. Johnson and Eran Broshy. The size of the board is currently fixed at nine (9) directors, and one director position is currently open while the board seeks an appropriate person to fill the position. The board anticipates filling the open position later in 2010.

The board of directors proposes that Michael P. Ressner and Michael S. Diament, who are currently serving as directors, be re-elected, each to serve for a term of three (3) years and until the election and qualification of his successor. Proxies in the accompanying form, if properly signed and notarized, will be voted FOR the election of Michael P. Ressner and Michael S. Diament as directors unless marked WITHHOLD AUTHORITY. Each nominee has indicated his or her willingness to serve on the board, if elected, and the board of directors has no reason to believe that any nominee will decline or be unable to serve as a director. However, if a nominee will be unavailable for any reason, then the proxies may be voted for the election of such person as may be recommended by the board of directors.

William J. McBride, Robert M. Le Blanc and William D. Forrest serve as directors whose terms expire in 2011. René Lerer, M.D., Nancy Johnson and Eran Broshy serve as directors whose terms expire in 2012. These directors are not standing for re-election because their terms of office as directors extend past the annual meeting.

Certain Information Regarding Our Directors and Executive Officers

The following table lists the age and committee membership as of the date of this proxy statement of each director who is a nominee for election as a director at the annual meeting and each director whose term of office continues past the annual meeting. Descriptions of each director's business experience during the past five years are set forth in the next section, entitled *"Directors."*

NOMINEES FOR ELECTION FOR TERMS EXPIRING IN 2013

Name	Age	Committee Membership
Michael P. Ressner	61	Audit (Chair)
Michael S. Diament	41	Management Compensation (Chair), Audit

DIRECTORS WHOSE TERMS EXPIRE IN 2011

Name	Age	Committee Membership
William J. McBride	65	Nominating/Corporate Governance (Chair), Audit
Robert M. Le Blanc	43	Management Compensation
William D. Forrest	49	Management Compensation

Table of Contents

DIRECTORS WHOSE TERMS EXPIRE IN 2012

Name	Age	Committee Membership
René Lerer, M.D.	54	
Nancy L. Johnson	75	Nominating/Corporate Governance
Eran Broshy	51	Nominating/Corporate Governance

Directors

Under the company's certificate of incorporation and by-laws, the number of directors is currently fixed at nine (9). Eight (8) directors are currently serving on the board and one director position remains open. The company's by-laws require a majority of directors to be independent in accordance with NASDAQ's listing standards. Upon the recommendation and with the assistance of the Nominating/Corporate Governance Committee, the board of directors has determined that except for Dr. Lerer, who is the company's chief executive officer, all directors who are currently serving are independent, as that term is defined by the NASDAQ listing standards. For a discussion of these independence standards see "*Corporate Governance and Related Matters Director Independence*" above.

Nominees for Election for Terms Expiring in 2013

Michael P. Ressner was initially appointed to the board in 2004. He retired from Nortel Networks where between 1981 and 2003 he was a senior executive with functional responsibilities that spanned the areas of finance and general management including vice president-finance. Mr. Ressner was an adjunct professor of finance and accounting at the North Carolina State University College of Management between 2003 and 2005. He now sits on the advisory board of the Enterprise Risk Management Institute at North Carolina State University. Mr. Ressner currently serves on the boards of directors at two public companies other than our company: Exide Technologies, a NASDAQ-listed stored electrical energy solution company, and Tekelec, a NASDAQ-listed provider of network signaling systems, and within the previous five years served on the board of Entrust, Inc., a publicly-traded information security company, Arsenal Digital Solutions, a private data storage services company, Riverstone Networks, a publicly-traded developer and manufacturer of carrier class switches, Proxim Corporation, a publicly-traded supplier of wireless broadband infrastructure, WilTel Communications Group, Inc., a publicly-traded wholesale voice and data communications carrier, and Netgear, a network equipment manufacturer. As a member of the Executive Service Corps, Mr. Ressner participates in assignments that focus on providing financial management and governance consultancy to not-for-profit organizations in the Raleigh/Durham/Chapel Hill area. Mr. Ressner was nominated for reelection in 2010 as a director due to his financial and accounting experience, and his favorable record serving as a director since 2004.

Michael S. Diament was first appointed to the board in 2004. He formerly served as portfolio manager and director of bankruptcies and restructurings from January 2001 to February 2006 for Q Investments, an investment management firm. From February 2000 until January 2001, Mr. Diament was a senior analyst for Sandell Asset Management, an investment management firm, and served as vice president of Havens Advisors, an investment management firm, from July 1998 to January 2000. He currently serves on the board of directors of Mark IV Industries, Inc., a manufacturer of engineered systems and components, Journal Register Company, a private multi-media news company, and within the previous five years he served on the board of directors of J.L. French Automotive Castings, Inc., a privately-held auto parts company, i2 Technologies, Inc., a formerly-public supply chain software and services company, and WilTel Communications Group, Inc., a publicly-traded telecommunications company. Mr. Diament was nominated for reelection in 2010 as a director due to his financial sophistication and his favorable record serving as a director since 2004.

Table of Contents

Directors Whose Terms Expire In 2011

William J. McBride was first appointed to the board in 2004. Mr. McBride is currently retired. Prior to his retirement in 1995, Mr. McBride had been a director of Value Health, Inc., a New York Stock Exchange-listed specialty managed care company which included Value Behavioral Health, one of the largest behavioral health managed care companies at the time. From 1987 to 1995, Mr. McBride served as president and chief operating officer of Value Health, Inc., overseeing all operational activities of the company and its subsidiaries. Prior to his tenure at Value Health, Mr. McBride spent 15 years in a variety of positions with INA Corporation and its successor, CIGNA Corporation, including serving as president and chief executive officer of CIGNA Healthplan, Inc. Mr. McBride currently serves on the board of directors of AmeriGroup Corporation, a managed healthcare company focused on providing services to Medicaid recipients, Evolution Benefits, Inc., a private insurance services company, Internet HealthCare Group, an early-stage healthcare technology venture fund, and Women's Health USA, Inc., a private healthcare services company. Mr. McBride was last nominated for reelection as a director in 2008, due to his experience in the managed healthcare industry and his favorable record serving as a director since 2004.

Robert M. Le Blanc, the board's lead director, was first appointed to the board in 2004. He currently serves as a managing director for Onex Corporation. Prior to joining Onex in 1999, Mr. Le Blanc worked for Berkshire Hathaway for seven years. From 1988 to 1992, Mr. Le Blanc worked for General Electric. Mr. Le Blanc also serves as a director of ResCare, Inc., a publicly-traded human service company, Center for Diagnostic Imaging, Inc., a national network of outpatient diagnostic imaging centers, Skilled Healthcare, a publicly-traded service provider to the long-term care industry, First Berkshire Hathaway Life, a publicly traded diversified insurance and investment company, Emergency Medical Services Corporation, a publicly-traded provider of emergency medical services in the United States, Cypress Holdings, Inc., an insurance holding company, The Warranty Group, a provider of warranty and service contracts, Carestream Health, Inc., a provider of medical and dental imaging systems, and Connecticut Children's Medical Center. Mr. Le Blanc was last nominated for re-election as a director in 2008, due to his financial and healthcare experience and his favorable record serving as a director since 2004.

William D. Forrest was first appointed to the board in July 2007. He is a managing partner and equity owner of Tower Three Partners, LLC, a private equity fund that invests in distressed companies requiring operational and/or financial restructuring. He served as the non-executive chairman of Cosi, Inc., a national restaurant chain which is listed on NASDAQ, from December 2006 through November 2008. He served as the executive chairman of Cosi from April 2003 until December 2006. Prior to joining Cosi, Mr. Forrest was a managing director leading the restructuring group and serving on the management committee at the international investment bank, Gleacher Partners from 2001 until 2004. Prior to his position at Gleacher Partners, he was a managing director of Catterton-Forrest LLC, where he was responsible for the acquisition and management of portfolio companies in the troubled business space. Mr. Forrest is a Certified Turnaround Professional. He began his professional career in the consulting division of Laventhol & Horvath. Throughout his career, he has served in executive management, investment banking and investor roles with organizations in a variety of industries including healthcare, manufacturing and food services. Within the previous five years he served on the board of directors of Cosi, Inc. and Restoration Hardware, Inc., a privately-held furniture retailer. Mr. Forrest was nominated for election in 2008, due to his financial experience and his favorable record serving as a director since 2007.

Directors Whose Terms Expire in 2012

René Lerer, M.D. was appointed president and chief executive officer of the company as of February 19, 2008. He was also appointed chairman of the board on February 25, 2009. Prior to being appointed president and chief executive officer, he served as president and chief operating officer of the company from October 2003 and as chief operating officer of the company from January 2003. Dr. Lerer was first appointed to the board in 2004. Prior to joining the company, Dr. Lerer co-founded Internet HealthCare Group (*"IHCG"*), an early-stage healthcare technology venture fund, and served as its president from 1999 to 2002. Prior to IHCG, Dr. Lerer was employed by Prudential Healthcare, Inc. as its chief operating officer from 1997 to 1999. Prior thereto, Dr. Lerer was employed by Value Health, Inc., a New York Stock Exchange-listed specialty managed healthcare company, and served as senior vice president operations of its pharmacy and disease management group from 1995 to 1997. Prior thereto, Dr. Lerer was employed by Value Health Sciences as senior vice president of corporate development from 1992 to 1994. Dr. Lerer is a member of the board of directors of IHCG and Digital Insurance, a private employee benefits service company. Dr. Lerer was nominated for reelection as a director last in 2009, due to his success in serving as the company's president and chief executive officer since 2008 and as president and chief operating officer since 2003, as well as his favorable record serving as a director since 2004.

Nancy L. Johnson was first elected to the board in 2007. She formerly served in the U.S. House of Representatives as a 12-term Congresswoman from the 5th District of Connecticut. She is currently a fellow at the Institute of Politics at Harvard University and since May 2007 has served as a senior policy adviser with the federal public policy group of the law firm of Baker, Donelson, Bearman, Caldwell & Berkowitz, P.C. Ms. Johnson was first elected to the House in 1982 and served on the Committee on Ways and Means for nine terms, where she chaired at various times the Oversight, Human Resources and Health Subcommittees. Prior to her election to the House of Representatives, she served in the Connecticut Senate from 1977 to 1983. She currently serves as a member of the board of directors of National Campaign to Prevent Teen Pregnancy and the Information Technology Innovation Foundation. She also currently serves on the board of the Ash Institute for Democratic Governance and Innovation at the Harvard Kennedy School, on the U.S. Health Advisory Board of Pfizer Corporation, on the United States Naval Academy board of visitors, on the board of trustees of John Marshal Law School and on the health policy fellowship advisory board of the Robert Wood Johnson Foundation. Ms. Johnson was last nominated for reelection as a director in 2009, due to her experience and expertise with government health care policy and her favorable record serving as a director since 2007.

Eran Broshy was first appointed to the board in February 2009. He currently serves as the chairman of the board of directors of inVentiv Health, Inc., a NASDAQ-listed company that delivers a broad range of customized clinical, communications, commercial and patient outcome solutions to leading global pharmaceutical and life sciences companies. Mr. Broshy led inVentiv as its chief executive officer from its initial public listing in 1999 until his retirement in June 2008. He also currently serves as a senior adviser to Providence Equity LLC, a private equity fund. Prior to joining inVentiv, he served as a partner responsible for the healthcare practice of The Boston Consulting Group (*"BCG"*) across the Americas. During his career at BCG from 1984 to 1998, Mr. Broshy consulted widely with senior executives from a number of the major global pharmaceutical manufacturers, managed care organizations and academic medical centers, and advised on a range of strategic, organizational and operational issues. He also served as president and chief executive officer of Coelacanth Corporation, a privately-held biotechnology company. Mr. Broshy currently serves on the board of directors of inVentive Health, Inc. and ikaSystems Corporation, a private software and application service provider company, and within the previous five years also served on the board of directors of Neurogen Corporation, a NASDAQ-listed biotechnology company, Correlagen Diagnostics, Inc., a private genetic testing company, and Union Street Acquisition Corp., a blank check company. He also serves on the Simon Wiesenthal Center's New York Executive Board and the MIT Visiting Committee for the Social Sciences. Mr. Broshy was nominated for election as a director in 2009, due to his experience in the healthcare industry in general and the managed healthcare industry in particular.

Table of Contents

Director Election and Terms of Office

Messrs. Ressner and Diament are currently nominated for re-election for a three-year term to extend until the 2013 annual meeting. Messrs. McBride, Le Blanc and Forrest are currently serving for a three-year term to extend until the 2011 annual meeting. Dr. Lerer, Ms. Johnson and Mr. Broshy are currently serving for a three-year term to extend until the 2012 annual meeting. In each case, the term of office will extend until the indicated annual meeting and the election and qualification of their respective successors, or their earlier death, incapacity, resignation or removal.

Arrangements Regarding the Nomination of Directors

There is no agreement or arrangement whereby any director or other individual has been nominated or will be re-nominated to serve as a director of the company, except in the case of Dr. Lerer. Under his employment agreement entered into on February 19, 2008, Dr. Lerer is to serve as a member of the board and any failure by the company to elect or re-elect him to the board is considered to give him "good reason" to terminate that agreement and receive the compensation and other benefits described under *"Executive Officers Employment Contracts and Termination of Employment and Change of Control Payments"* below.

Table of Contents

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Compensation Philosophy

Our compensation programs and policies are designed to attract, retain and reward individuals of outstanding ability in key executive positions, in order to deliver value to our shareholders. Specifically, our compensation programs have been developed using the following principles:

Pay for Performance: Our philosophy is that an individual's compensation should reflect his or her individual performance, the performance of his or her area of responsibility, and the performance of the company as a whole. Corporate strategic goals are set and formally revisited by our board on an annual basis. Each executive's performance for a year is evaluated in relation to the corporate strategic goals for the year pertaining to his or her area of responsibility. These same strategic goals serve as a framework on which all employee performance evaluations are derived.

Competitive Pay: We believe that the overall compensation package for each executive should be competitive, as determined, where available, by market-based compensation data pertinent to his or her position. In determining competitive compensation levels, we consider comparable companies. We endeavor to set base compensation at a level modestly above the average determined by pertinent market-based compensation data in order to recruit and retain appropriate personnel and to set variable pay on terms and at levels that will be materially above the average where performance is correspondingly above average. Because we believe that it is necessary to attract superior executive talent to achieve our business objectives, targeted leadership positions that will most leverage company performance are benchmarked at the 75th percentile within the group of comparable companies. We conduct an annual review of both competitive market data, as well as a comprehensive assessment of company, business unit and individual performance to ensure pay remains both competitive, as well as intricately linked to performance.

Alignment with Company Goals: Our compensation programs are designed to support both the short-term and long-term financial, operating and other goals of the company. We seek to balance the mix of long- and short-term variable compensation to create incentives for the achievement by each executive of performance goals aligned with our long- and short-term goals, to help ensure execution of such goals through achievement of specific company-wide, business unit and individual objectives associated with such long- and short-term goals.

Alignment with Shareholder Interests: We believe that senior management's compensation should include long-term incentives that encourage performance that builds long-term value for both the company and our shareholders. To that end, compensation program components balance the need to incent and reward short-term results (e.g., through our Short Term Incentive Plan ("*STIP"*)) with long-term results as reflected by the market performance over time of the company's common stock (e.g., through equity awards under our 2008 Management Incentive Plan ("*2008 MIP"*) and predecessor plans).

Role of the Management Compensation Committee

The Management Compensation Committee (the "*committee"*) of our board of directors is comprised of three (3) members of the board who are not current or former employees of the company and who the board has determined are independent for purposes of the NASDAQ listing standards. See "*Corporate Governance and Related Matters Director Independence"* above. The duties and responsibilities of the committee include: (i) establishment of our general compensation philosophy, and oversight of the development and implementation of compensation programs; (ii) review and

Table of Contents

approval of the means used for applying our corporate goals, and our specific company-wide, business unit and individual performance objectives to be used in determining the compensation of our chief executive officer, our other Named Executive Officers listed in the compensation tables which follow this "*Compensation Discussion and Analysis"* section and other members of senior management; (iii) review and approval of compensation for our chief executive officer and our other Named Executive Officers; (iv) the development of recommendations to our board with respect to our various compensation plans and programs and overseeing the activities of the individuals and committees responsible for administering those plans; and (v) oversight of regulatory compliance with respect to compensation matters. In practice, the committee specifically determines the compensation payable to the Named Executive Officers and our other executive officers with input from pertinent management personnel, independent compensation consultants and other advisers. The committee periodically (but at least annually) reviews tally sheets for each of our Named Executive Officers which detail the components of each person's total compensation.

Compensation Consultants

The committee engaged Steven Hall & Partners, a nationally recognized compensation consulting firm, to act as its independent compensation consultant and provide the committee with information supporting compensation decisions with respect to our Named Executive Officers and other executive officers and key employees for their compensation in 2009 and 2010 and to review and advise the company on its management compensation plans and programs. These consultants were engaged directly by the committee, although they periodically interact with management to gather relevant data, to implement compensation plans and programs and to assist in the preparation of the company's proxy statement and other public filings. Steven Hall & Partners does not perform any other services for the company. The committee has sole authority to determine the compensation for and to terminate Steven Hall & Partners' services. The committee annually instructs the consultants to perform a market analysis and develop competitive market data of comparable companies for all elements of compensation. Based on its market analysis, the consultants formulate a range of values within major elements of compensation, which the committee considers in making its compensation decisions. The consultants do not determine or recommend the amount or form of executive and director compensation; their role is limited to providing data and advice to the committee for its consideration. The committee also reviews and considers compensation data surveys from a number of other independent sources.

Comparable Companies and Other Market Data Assessment

Because we have few similar peer companies with which we compete, the committee annually instructs the compensation consultants to perform a broad multi-industry market analysis and develop competitive market data to support compensation decisions regarding our Named Executive Officers, other executive officers and key employees. With respect to compensation decisions taken in 2009, Steven Hall & Partners compiled broad-based market surveys confidentially completed by hundreds of companies and provided the committee with a proprietary statistical summary of this information, presented in chart form. This summary information consists of marketplace consensus median and 75^{th} percentile amounts for certain elements of compensation (e.g., base salary, total cash compensation and total remuneration) for an executive officer position comparable to that of each of the company's Named Executive Officers. The committee uses such information for the general purpose of understanding compensation practices when making compensation decisions, and for helping to judge the reasonableness of its compensation recommendations. The committee also reviewed for this purpose the public filings of the following comparable companies: AmeriGroup Corporation, Centene Corporation and Coventry Health Care, Inc. The committee also considers market survey data based on the executive officer's discipline, company size, and revenue. For all of these analyses, total

Table of Contents

remuneration is considered, including base salary, bonus (short-term incentive awards) and equity and other long-term incentive awards.

Mix of Compensation

Consistent with our compensation philosophy, our total remuneration for executive officers is designed to attract and retain appropriate talent and encourage performance that builds long-term value for both the company and its shareholders. The committee annually sets target compensation for each of the Named Executive Officers, which is allocated among a three-part program which includes base salary and benefits, bonuses under our Short-Term Incentive Plan ("*STIP"*), and equity awards. In general, base salary and bonus opportunities are determined by the company's assessment of the degree of leverage which the individual has over company performance. Bonus is awarded based on annual performance relative to pre-set company-wide and individual performance criteria. Equity awards are made by determining a target value representing a multiple of base salary, divided by a per share value yielded by the Black-Scholes-Merton option pricing model ("*Black-Scholes"*) or other valuation model for the equity instrument awarded. Each component is intended to address a goal of our compensation philosophy: base salary and benefits are designed to attract top talent; our STIP bonuses are designed to reward short-term (annual) results; and the equity component of our compensation plan is designed to reward longer term results consistent with shareholder returns and promote retention. The committee believes that this three-part program properly aligns incentives to management to maximize the sustainability of the company's performance over time.

Compensation Program Components and Rationale for our Named Executive Officers

The compensation packages for our Named Executive Officers are designed to set total compensation at levels that reflect both personal and organizational performance and results. Each of our Named Executive Officers has an employment agreement that establishes his or her base salary and bonus opportunity that was agreed upon following arm's length negotiations with the respective individual. In determining annual adjustments to base salary, annual bonus awards (short-term incentive) and annual equity awards (long-term incentive) for our Named Executive Officers, the committee considers recommendations of the chief executive officer (except in the case of his own compensation) based on his assessment of each executive's performance and results and in the context of market data provided by the committee's independent compensation consultants.

Base Salary

Base salary is intended to provide basic financial security to our Named Executive Officers, so it is not made subject to performance risk in any year. In determining the base salary for each of our Named Executive Officers, the committee considers such factors as existing contractual commitments, competitive market data, compensation opportunities perceived to be necessary to retain him or her, individual performance, the scope, complexity, difficulty and criticality of the individual executive officer's role with the company, and prior compensation. The employment agreement with Dr. Lerer entered into in February 2008, as amended, and the employment agreement with Mr. Rubin entered into in August 2008, specify an initial base salary amount subject to annual adjustment based on performance reviews. When he assumed the position of chief executive officer on February 19, 2008, Dr. Lerer's base salary was increased by 29% to $900,000 as a result of the board's recognition of the responsibilities associated with the position of chief executive officer and his negotiations with the board over his new employment agreement. His base salary was increased by 2% to $918,000 effective April 1, 2009. In connection with his hiring on August 11, 2008, Mr. Rubin's base salary was set at $400,000 based on a market assessment using comparable company data and other survey data. His base salary was also increased by 2% to $408,000 effective April 1, 2009. The employment agreement with Ms. Rohan entered into in July 2009 in connection with her hiring specifies an initial base salary

Table of Contents

of $530,000 per year, subject to annual adjustment based on her performance review. Her base salary was set based on comparable market data and negotiations with Ms. Rohan.

We also entered into employment agreements with our general counsel, Mr. Gregoire, when he joined the company in January 2005, and with the chief executive officer of our National Imaging Associates subsidiary, Ms. Blasi, when she joined the company in February 2008. Both of these employment agreements specify an initial base salary subject to annual adjustment based on performance reviews. We determined initial base salary for Mr. Gregoire and Ms. Blasi by conducting a market assessment to determine an appropriate pay range for the position, using comparable company data, comparable talent data, and other survey data as appropriate.

To determine the adjustment to base salary payable in 2009 to the Named Executive Officers, Dr. Lerer articulated the overall company strategy, and each executive created a "scorecard" for his or her respective area of responsibility that reflected the company's goals. At the end of each year, each executive completed a self-assessment based on his or her scorecard and arrived at a quantitative score for the year. Dr. Lerer then reviewed the self-assessments, and completed his own analysis of each executive's performance, and assigned a quantitative rating resulting in a recommended increase percentage in the executive's base salary. The committee reviewed Dr. Lerer's recommendation for base salary increases for 2009 and adjusted the increases based on its discretion. As a result of this process, the committee decided to increase the base salary amounts for Dr. Lerer and Mr. Rubin by 2%, Mr. Gregoire by 4% and Ms. Blasi by 2%. Based on its review of relevant data, the committee determined that these increases were generally in line with inflation, were consistent with market increases at comparable companies and reflected that all of our Named Executive Officers had met and exceeded their performance scorecards and goals.

In determining adjustments to base salary rates payable in 2010, Dr. Lerer followed the process outlined above. The committee reviewed Dr. Lerer's recommendations and adjusted the increases based on its discretion. As a result, it decided to increase the base salary rates of each of the Named Executive Officers by 3% over the rates payable in 2009.

Annual Bonuses

We have established an annual short-term incentive plan, the STIP, which is described under "*Benefit Plans and Awards Annual Incentive Plan*" below. The STIP provides cash bonuses and is available to all management, including our Named Executive Officers. The STIP has been utilized in recent years as the primary vehicle for providing management with short-term incentives. At the beginning of each year, the committee, with input from the chief executive officer and other members of management, establishes corporate performance goals for funding the overall STIP bonus pool. After the end of the year, the committee reviews the company's performance in relation to pre-established corporate performance targets, assesses the individual's performance based on qualitative performance objectives and the recommendations of the chief executive officer, and determines the amount of individual annual STIP bonus awards from the overall bonus pool established for that year. In the case of the Named Executive Officers, these individual performance objectives included the following:

Ms. Rohan: (i) overall leadership of all of the company's business segments including managed behavioral health, radiology benefits management, specialty pharmacy management and Medicaid administration; (ii) leadership of sales, operations, customer relations, new product development and provider networks; (iii) leadership of overall strategy; (iv) responsibility for overall budget development; and (v) meet budget.

Mr. Rubin: (i) overall leadership of the finance and investor relations functions; (ii) support of acquisition activities; (iii) support of cross-functional management teams to ensure that pricing,

Table of Contents

underwriting and sales strategy are aligned with financial performance targets; (iv) meet budget; and (v) ensure compliance on all regulatory requirements.

Mr. Gregoire: (i) overall leadership of the legal and compliance functions; (ii) support of review and implementation of acquisitions, customer contracting and product development; (iii) leadership for all SEC filings and disclosures; (iv) leadership of legal support for other corporate and corporate governance matters and overall legal and regulatory compliance; and (v) meet budget.

Ms. Blasi: (i) overall leadership of National Imaging Associates ("*NIA*"); (ii) leadership of NIA sales, operations, customer relations, new product development and provider networks; (iii) leadership of NIA strategy; and (iv) meet budget.

The committee's evaluation of individual performance is not tied to a mathematical formula measuring achievement of the qualitative factors described above, but rather is a subjective evaluation of overall performance.

Annual bonuses are paid in the first quarter of the year following the year to which the bonuses relate. The bonuses paid in 2010 were for work performed during 2009.

For 2009, the committee set three company performance targets for funding the overall bonus pool. The bonus pool for 2009 was funded based on the company exceeding a total company segment profit target of $208.4 million, net of $102.7 million in budgeted corporate overhead expense (40% of pool), a combined segment profit of our behavioral health segments (including commercial and public sector) of $225.4 million (25% of pool), and a combined segment profit of our radiology benefits management and specialty pharmacy benefits management segments of $77.3 million (35% of pool). The committee set these bonus pool performance targets to create incentives for management to maintain and promote growth of the company's earnings as a whole and to promote the success of each of our business segments, with an emphasis on creating a greater incentive to grow our radiology benefits management and specialty pharmacy businesses. During 2009 the company achieved 109%, 104% and 111% of these segment profit targets.

We define "*segment profit*" as profit or loss from continuing operations before stock compensation expense, depreciation and amortization, interest expense, interest income, gain on sale of assets, special charges or benefits, and income taxes. We use segment profit information for internal reporting and control purposes and consider it important in making decisions regarding the allocation of capital and other resources, risk assessment and employee compensation, among other matters. Segment profit information referred to in this proxy statement may be considered a non-GAAP financial measure. Further information regarding this measure, including the reasons management considers this information useful to investors and a reconciliation to the GAAP measure "Income from continuing operations before income taxes," is included under "*Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations*," in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on February 26, 2010, and will be included in our Quarterly Reports on Form 10-Q to be filed with the SEC as required.

We believe that segment profit is an appropriate measure of company performance for purposes of determining annual bonuses because we discuss segment profit in announcing our financial results and many shareholders and analysts use it as an important measure of overall company performance. We also believe that setting annual bonus pool performance targets based upon various segment profit measures properly aligns incentives for our executives and employees with the interests of our shareholders.

Each individual's bonus is determined based upon each individual's bonus target (which is determined as a percent of base salary), an evaluation of each individual's performance during the year, and the funding of the overall company bonus pool for the year. For 2009 the bonus targets for

Table of Contents

Dr. Lerer, Ms. Rohan, Mr. Rubin, Mr. Gregoire and Ms. Blasi are 100%, 75%, 60%, 50% and 50% of their base salary. The individual bonus awards to Dr. Lerer, Ms. Rohan, Mr. Rubin, Mr. Gregoire and Ms. Blasi described below reflected our favorable financial performance as measured by the segment profit targets described above and their positive individual qualitative performance as measured by their individual performance targets and the funding of the overall company bonus pool.

Dr. Lerer: Under the terms of the employment agreement entered into between the company and Dr. Lerer on February 19, 2008, Dr. Lerer is entitled to an annual target bonus opportunity of 100% of his base salary, with the ability to earn up to 200% of base salary at the sole discretion of the board or a duly authorized committee. We agreed to these terms in recognition of Dr. Lerer's responsibilities as chief executive officer and based on a review of comparable company market data. The applicable performance targets for each year will be fixed by the board or a duly authorized committee during the first quarter of the year after consultation with Dr. Lerer, subject to the requirement of Dr. Lerer's employment agreement that the performance targets established with respect to the target bonus must not be less favorable than the corporate performance targets applicable to other bonus-eligible executives of the company.

As a result of these factors, the committee in 2010 awarded Dr. Lerer, for the 2009 performance year, 190% of his target bonus, or $1,744,200. This bonus award was based on the degree to which the company met and exceeded its bonus pool targets and Dr. Lerer's contribution to these favorable results.

Ms. Rohan: Under the terms of her employment agreement entered into between the company and Ms. Rohan on July 28, 2009, Ms. Rohan is entitled to an annual target bonus opportunity of 37.5% of her base salary for her service in 2009 and 75% of her base salary in 2010. The committee in 2010 awarded Ms. Rohan, for the portion of 2009 that she served the company, 130% of her target bonus, or $258,375. This bonus award was based on the company meeting and exceeding its bonus pool targets and Ms. Rohan's performance against her individual performance objectives.

Mr. Rubin: Under the terms of his employment agreement entered into between the company and Mr. Rubin on August 11, 2008, Mr. Rubin is entitled to an annual target bonus opportunity of 60% of his base salary in 2009. The committee in 2010 awarded Mr. Rubin, for the 2009 performance year, 165% of his target bonus, or $403,920. This bonus award was based on the company meeting and exceeding its bonus pool targets and Mr. Rubin's performance against his individual performance objectives.

Mr. Gregoire: Under his employment agreement, Mr. Gregoire is eligible to receive an annual target bonus opportunity of at least 50% of his base salary. The committee in 2010 awarded Mr. Gregoire, for the 2009 performance year, 150% of his target bonus, or $279,980. This bonus award was based on the company meeting and exceeding its bonus pool targets and Mr. Gregoire's performance against his individual performance objectives.

Ms. Blasi: Under her employment agreement, Ms. Blasi is entitled to receive an annual target bonus opportunity of at least 50% of her base salary. The committee in 2010 awarded Ms. Blasi, for the 2009 performance year, 180% of her target bonus, or $344,250. This bonus award was based on the company meeting and exceeding its bonus pool targets and Ms. Blasi's performance against her individual performance objectives.

Table of Contents

2010 Bonus Pool Targets

For 2010, the committee has set three performance targets for funding of the overall cash bonus pool. The funding of the bonus pool is based on the company exceeding segment profit targets for the total company segment profit (40% of pool), for the combined segment profit of our behavioral health segments (including commercial and public sector) (25% of pool), and for the combined segment profit of our radiology benefits management and specialty pharmacy benefit management segments (35% of pool). The committee has set these performance targets to create incentives for management to maintain and promote growth of the company's earnings as a whole with an emphasis on creating a greater incentive to grow our radiology benefits management and specialty pharmacy businesses.

Equity Awards

We have provided our Named Executive Officers with equity awards under the 2008 MIP and the predecessor 2006 Management Incentive Plan ("*2006 MIP*") and 2003 Management Incentive Plan ("*2003 MIP*"), which are designed as long-term incentive vehicles, to promote focus on longer term goals and to build shareholder value. As described above, we target equity awards for our Named Executive Officers which, when added to base salary and annual bonus under the STIP, are targeted at a total of approximately the 75th percentile of total compensation for the comparable companies. Our policy is to grant options only at an exercise price not less than the closing price of the shares on NASDAQ on the date the option is granted, which for 2009 was the closing price reported on NASDAQ on March 4, 2009, except that Ms. Rohan's options were granted on September 1, 2009, following her commencement of employment in August 2009. Under our Policy Regarding Awards of Equity-Based Incentive Arrangements to Executive Officers and Other Employees, we typically make equity awards once annually on the third business day of March. See "*Equity Award Procedures Generally*" below.

Consideration of annual equity awards is made as part of the annual review of other compensation components, and is based on both competitive market analysis and individual and company performance assessments. With respect to the equity award made to Dr. Lerer in 2009, the terms of the award were determined by the Management Compensation Committee. The sign-on equity award made to Ms. Rohan was recommended by Dr. Lerer and approved by the committee based on market data. The equity awards to Mr. Rubin, Mr. Gregoire, Ms. Blasi and our other executive officers, are approved by the committee on the recommendation of the chief executive officer. All other equity awards are determined by the chief executive officer, although the total annual equity pool is approved by the committee and the committee can review any and all individual grants. Options granted under the 2008 MIP in 2009 have ten-year terms and vest over three years. Options and restricted stock units ("*RSUs*") also automatically vest and become immediately exercisable if the employment of our Named Executive Officers is terminated by us "without cause," or by the executive for "good reason" following a change in control of the company. See "*Compensation of Named Executive Officers on Change in Control and Other Termination of Employment*" below. This protection is provided for the Named Executive Officers in certain cases in their employment agreements and otherwise by the terms of the options and RSUs issued to them.

The committee's decisions to make equity awards to our Named Executive Officers are typically based on the following:

1) The value of the equity award is based on a percentage of the individual's base salary taking into account the person's performance in the prior year, the nature of the individual's role and his or her potential contribution to the long term success of the company, the importance of retention of and incentive for that individual, and other factors.

Table of Contents

2) The number of shares associated with the award is calculated by dividing the total value of the award by a per share value yielded by the Black-Scholes valuation for stock options and the closing price of a share of the company's common stock for RSUs.

The committee believes that determining an equity award based on each executive's base salary and performance is consistent with best practices of comparable companies and is the most appropriate basis on which to make equity awards, properly size the award, recognize past performance and create incentives for future performance.

The mix of stock options and RSUs is based on a ratio of 75% of the total equity value being comprised of the value of option grants (using the Black-Scholes valuation of an option) and 25% of the total equity value being comprised of the value of RSUs (using the closing price of a share of the company's common stock on the date of grant). We recognize that the use of stock options can both be more dilutive to shareholders and potentially create different incentives for our executive officers than the use of RSUs. Therefore, we have included RSUs in the mix of equity grants to mitigate the effect of these issues inherent with granting stock options only.

On March 4, 2009, the committee awarded under the 2008 MIP options to purchase 243,933, 60,983, 31,893 and 47,008 shares of common stock and RSU awards for 27,894, 6,974, 3,647 and 5,375 shares of common stock to Dr. Lerer, Mr. Rubin, Mr. Gregoire and Ms. Blasi, respectively. The options have an exercise price of $32.91 per share, the closing price of the common stock on the date of the awards. The options and RSUs vest as to one-third on each of March 4, 2010, 2011 and 2012. The RSU awards are subject to the performance targets that for the common stock underlying units otherwise scheduled to vest in 2010 to vest, the company must have earnings per share ("*EPS*") for 2009 of at least $1.90, but if the company does not achieve this target in 2009, these units will vest if the company achieves $1.90 of EPS in any subsequent year up to and including 2018; for the common stock underlying units otherwise scheduled to vest in 2011 to vest, the company must have EPS of at least $2.00 for 2010, but if the company does not achieve this target in 2010, these units will vest if the company achieves $2.00 of EPS in any subsequent year up to and including 2018; and for the common stock underlying units otherwise scheduled to vest in 2012 to vest, the company must have EPS of at least $2.10 for 2011, but if the company does not achieve this target in 2011, these units will vest if the company achieves $2.10 of EPS in any subsequent year up to and including 2018. The total award packages to the individuals were valued for purposes of determining the awards at $3,672,000, $918,000, $480,100 and $707,611 for Dr. Lerer, Mr. Rubin, Mr. Gregoire and Ms. Blasi. The stock options were valued by our compensation consultant for purposes of determining the awards at $11.29 per share using Black-Scholes with the following assumptions: risk-free interest rate of 3.34%, expected life of 7 years, expected volatility of 24.33%, expected dividend yield of 0%, a term of 10 years, a market value of $32.91 and an exercise price of $32.91. RSUs were valued at the $32.91 closing price of the common stock on the date of the award.

On September 1, 2009, the committee awarded under the 2008 MIP options to purchase 121,252 shares of common stock to Ms. Rohan, in connection with her hiring as president of the company. The options have an exercise price of $31.68 per share, the closing price of the common stock on the date of the award. The options vest as to one-third on each of September 1, 2010, 2011 and 2012. The award was valued for purposes of determining the award at $1,375,000. The options were valued by our compensation consultant for purposes of determining the awards at $11.34 per share using Black-Scholes with the following assumptions: risk-free interest rate of 3.33%, expected life of 7 years, expected volatility of 26.14%, expected dividend yield of 0%, a term of 10 years, a market value of $31.68 and an exercise price of $31.68.

On March 3, 2010, the committee awarded under the 2008 MIP options to purchase 172,021, 68,279, 47,784, 26,232 and 34,046 shares of common stock and RSU awards for 22,118, 8,779, 6,114, 3,373 and 4,377 shares of common stock to Dr. Lerer, Ms. Rohan, Mr. Rubin, Mr. Gregoire and

Table of Contents

Ms. Blasi, respectively. The options have an exercise price of $42.75 per share, the closing price of the common stock on the date of the awards. The options and RSUs vest as to one-third on each of March 3, 2011, 2012 and 2013. The RSU awards are subject to the performance targets that the RSUs vesting on March 3, 2011 shall not vest unless the company has EPS for the year ending December 31, 2010 of at least $2.50, but if the company does not achieve that target in 2010, the tranche will vest if the company achieves $2.50 of EPS in any subsequent year up to and including 2019; the RSUs vesting on March 3, 2012 shall not vest unless the company has EPS for the year ending December 31, 2011 of at least $2.65, but if the company does not achieve that target in 2011, the tranche will vest if the company achieves $2.65 of EPS in any subsequent year up to and including 2019; and the RSUs vesting on March 3, 2013 shall not vest unless the company has EPS for the year ending December 31, 2012 of at least $2.80, but if the company does not achieve that target in 2012, the tranche will vest if the company achieves $2.80 of EPS in any subsequent year up to and including 2019. The total award packages to the individuals were valued for purposes of determining the awards at $3,782,160, $1,501,225, $1,050,600, $576,760 and $748,553 for Dr. Lerer, Ms. Rohan, Mr. Rubin, Mr. Gregoire and Ms. Blasi. The stock options were valued by our compensation consultant for purposes of determining the awards at $16.49 per share using Black-Scholes with the following assumptions: risk-free interest rate of 3.24%, expected life of 7 years, expected volatility of 29.74%, expected dividend yield of 0%, a term of 10 years, a market value of $42.75 and an exercise price of $42.75. The RSUs were valued at the $42.75 closing price of the common stock on the date of the award.

Retirement Vehicles/Deferred Compensation

We maintain a 401(k) savings plan which permits employees to defer compensation and to which the company makes matching contributions on behalf of the Named Executive Officers on the same basis as all other participants. We have never maintained a pension plan. We also operate a Supplemental Accumulation Plan ("*SAP*"), a deferred cash compensation plan that is designed to enhance opportunities for retirement savings in the absence of any retirement programs other than our 401(k) plan, and to promote the retention of our executive officers. The SAP provides deferred compensation to assist executives with planning for retirement. The SAP includes a discretionary component funded by us which is determined on an annual basis as a fixed percentage of an executive's base salary, and a voluntary deferral component under which the participant may make contributions from base or incentive compensation. The discretionary component of the SAP is utilized to supplement an executive's 401(k) contributions, given that executives are limited by IRS maximum income deferral limitations. For a description of the SAP, see "*Benefit Plans and Awards Deferred Compensation Plan*" below. Awards are generally made in March of the following year. For 2009, each of our Named Executive Officers other than Ms. Blasi was awarded in March 2010 a company contribution of 11% of his or her base salary.

Perquisites

We have historically provided certain perquisites to each of our Named Executive Officers depending on his or her level within the company and the provisions of each person's employment agreement. Most of the perquisite benefits we provide to the Named Executive Officers are designed as protection benefits (e.g., supplementing life and disability insurance to ensure 60% of salary coverage). We believe that providing these personal protection perquisites protects the interests of the individual executives, permitting them to focus intently on the long term success of the company. For further information on the perquisites provided to each Named Executive Officer in 2009, see "*Summary Compensation Table*" below. Although in the past other perquisites have included country club dues and financial planning services for certain executives, for 2009 and forward, we decided not to provide perquisites that are not protection benefits, except in the case of Dr. Lerer's automobile allowance. We agreed in Dr. Lerer's employment agreement entered in February 2008 to provide him with an annual car allowance of $25,000. All reimbursable business expenses of the chief executive officer are reviewed

Table of Contents

and approved by the Audit Committee on a quarterly basis and are reimbursed pursuant to our business expense policies, and all such business expenses incurred by each of the other Named Executive Officers are reviewed and approved in advance of reimbursement by the chief executive officer and are reimbursed pursuant to our business expense policies.

Adjustments or Clawbacks of Compensation

Under certain circumstances, we may have the right or the duty to adjust compensation before it is paid to the Named Executive Officers or to clawback compensation after it is paid to our Named Executive Officers. Under Section 304 of the Sarbanes-Oxley Act of 2002, if we are required to prepare an accounting restatement due to a material noncompliance, as a result of misconduct, with any financial reporting requirement under the securities laws, our chief executive officer and chief financial officer must reimburse the company for any bonus or other incentive-based or equity-based compensation received by them during the 12-month period following the first public issuance or filing with the SEC (whichever first occurs) of the document embodying that financial reporting requirement and any profits realized by them from the sale of our securities during that 12-month period. We have no formal policy regarding when we might seek any such reimbursement or clawback, and we rely instead on an evaluation by the board of the circumstances giving rise to any financial restatement and an interpretation of the requirements of Section 304 in any particular case.

Under Section 12 of the 2003 MIP, the 2006 MIP and the 2008 MIP and by the terms of our equity award agreements, we have the right to declare equity awards to be forfeited or to recover any gains realized under any award under those plans, either during the term of a participant's employment or during the two year period under the 2003 MIP, or the one-year period under the 2006 MIP and the 2008 MIP, following his or her termination of employment, if the participant engages in certain types of conduct described in the plans and considered injurious to the company.

Equity Award Procedures Generally

The company has a Policy Regarding Awards of Equity-Based Incentive Arrangements to Executive Officers and Other Employees, which deals with the terms, timing and pricing of equity awards; the process for the grant and approval of awards; and the documentation for awards. The policy provides that the committee determines the number of shares covered by awards of options, restricted shares, RSUs and other types of equity awards for our Named Executive Officers and the terms of those awards. The policy provides that the committee establishes a pool of options, restricted shares and RSUs which the chief executive officer has the power to award to other executive officers and employees generally. The actual number of options, restricted shares and RSUs awarded annually to employees other than our Named Executive Officers is determined under the policy by our chief executive officer under delegated authority from the committee; awards are then made on the same date as the awards to our Named Executive Officers. Awards generally are made only once annually on the third business day in March unless otherwise determined by the committee. The purpose of this practice is to communicate and price equity awards to executive officers and employees early in the year, to encourage them to attain the company's strategic objectives during the year. In a case where an executive or other employee is newly-hired or promoted or under other special circumstances, the award is made on the first business day of the month following the event giving rise to the award.

The committee met in early February 2009 to tentatively set the percentage of base salary at which equity awards would be made. The 2009 equity awards were then approved on February 27, 2009 and awards were made on March 4, 2009, as required by the company's equity award policy. The date of the awards followed the public announcement of the company's annual financial results for 2008 on February 27, 2009. The company publicly announces its annual financial results for the preceding year within 60 days of year end, or generally no later than the end of February. Given our policy of making equity awards early in each year to incent performance during the year, we make awards on the third business day in March. This award date also ensures that the company's annual equity grants occur after the prior year results have been announced and discussed publicly and the market has had time to respond to such results.

We also grant stock options and RSUs in connection with the hiring of certain executives, as we did with Ms. Rohan in 2009, Mr. Rubin in 2008, Ms. Blasi in 2008 and Mr. Gregoire in 2005, and in connection with the signing of new or revised employment agreements with certain executives, as we did with Dr. Lerer in 2008. In the case of our executive officers, such grants are approved by the committee and, in the case of other executives and senior officers, such grants are approved by the chief executive officer under delegated authority from the committee. Under our policy, awards made in connection with new hires, promotions or the assignment of new responsibilities to an existing employee, or under other special circumstances, are made effective on the first business day of the month following the relevant event.

In most cases, our equity plans restrict the transferability of awards, permitting only transfers to certain family members and entities held by or established for the benefit of family members. All equity award recipients are prohibited from engaging in hedging transactions, where all or part of the economic risk of the award is transferred to another person.

The company recognizes compensation expense for financial statement reporting purposes under Financial Accounting Standards Board ("*FASB*") Accounting Standards Codification Topic 718, "*Stock Compensation*" ("*ASC Topic 718*") based on the grant-date values of the awards. The company recognizes substantially all of the compensation cost associated with the awards of RSUs and stock options on a straight-line basis over the specified service period, which is generally the vesting term and ranges from three to four years. Awards of RSUs have a grant date value equal to the closing market price of shares underlying the RSUs on the date of the award. Where vesting of the RSU awards is conditioned on the achievement of performance goals, the expense is accrued during the performance period and is estimated using the most probable outcome of the performance goals, and adjusted as the expected outcome changes. The Black-Scholes grant-date values of option awards are recognized as compensation expense on a straight-line basis over the vesting period. For further information on our accounting methods for equity awards, see Notes 2 and 6 to the consolidated financial statements included in the company's Annual Report on Form 10-K for the year ended December 31, 2009 filed on February 26, 2010.

Compensation of Named Executive Officers upon a Change in Control and Other Termination of Employment

In connection with his appointment as chief executive officer of the company in February 2008, we entered into a new employment agreement with Dr. Lerer. In doing so, we determined to retain many of the same severance provisions and payments in the event of his termination without cause or for good reason by him, and in the event of a change of control, as were included in his previous employment agreement with the company. We agreed that, should he be terminated by us without cause generally, or should he terminate his employment for good reason, we would provide him with severance pay equal to two times his last base salary and target bonus and provide him and his dependents with medical and other benefits through age 65. We also agreed that all vesting conditions on his outstanding equity awards would accelerate in that event, with all such vested options to remain exercisable for a period of two years. In agreeing to those provisions, we took note of the fact that severance equal to two years' base salary and bonus is a common arrangement in dealing with senior management and that two years roughly approximates the length of time that a senior executive such as him might take to find another comparable position with another company if he found himself unemployed. We also determined to provide him with a substantial incentive to remain employed with us and facilitate a change of control transaction which the board might find advantageous to the shareholders, if one should be presented. To this end, we decided to offer Mr. Lerer in connection with a change of control severance pay equal to three times his last base salary and target bonus, if he should be terminated without cause or should terminate for good reason following a change of control.

In negotiating the employment agreements with Mr. Rubin in August 2008, shortly prior to his becoming our chief financial officer, and with Ms. Rohan in July 2009, shortly prior to her becoming our president, we determined that they face significantly less employment risk than Dr. Lerer. We decided that their severance and change of control termination provisions should follow the general terms of the arrangements that we have with Mr. Gregoire, Ms. Blasi and other senior officers of the company. Under each of these arrangements, we extend to the executive, if his or her employment is terminated without cause, a continuation of his or her base salary for a period of 12 months, as well as the possibility of a pro-rated bonus for the remainder of the year in which the termination is made effective. The arrangements are consistent with those in effect for all of our other senior officers except for Dr. Lerer. For Mr. Gregoire only, this severance is payable in a lump sum upon termination, rather than over the following 12 months, and it includes an additional amount equal to his target bonus. This variance from our standard terms was negotiated by Mr. Gregoire in connection with his hiring. In agreeing to provide these severance payments, we noted that they were in line with similar severance payments offered by comparable companies.

In the case of Mr. Rubin, the employment agreement specifies that any non-renewal of the employment agreement, any reduction in base salary or bonus opportunity, a reduction in duties, or a relocation, would be considered a termination without cause. In the case of Ms. Rohan and Ms. Blasi, their employment agreements specify that any non-renewal of the employment agreement is considered a termination without cause, and any reduction in her salary or a relocation would likewise be considered a termination without cause, if she objects to any such action. In the case of Mr. Gregoire, he has the right to terminate his employment agreement for good reason if his base salary or target bonus opportunities are reduced, his duties or authorities are reduced (including if he is removed from or does not continue in the position of chief legal officer to the parent entity reporting to the SEC), his reporting responsibility to the chief executive officer is changed or he is relocated. This variance from our standard terms was also negotiated by Mr. Gregoire in connection with his hiring.

As a result of a general market survey commissioned by the committee and performed by its independent compensation consultants, we decided in late July 2006, through amendments to his employment agreement, to offer Mr. Gregoire a different severance arrangement in the event of a termination of his employment without cause or a termination by him of his employment with good reason in connection with a change of control of the company. For these purposes, good reason includes a base salary reduction not applicable to management generally, a material reduction of duties or responsibilities, or a relocation. In any such event, he is entitled to pro rata target bonus for the year in which termination occurs, and severance equal to two times his last base salary and target bonus. Also, the vesting of all stock options granted between January 2004 and March 2005 would accelerate. For Ms. Blasi, the company entered into a similar amendment to her employment agreement regarding termination without cause or for good reason in connection with a change of control, except that the severance amount is equal to 1.5 times her last base salary and target bonus, and she will have accelerated vesting of her stock options. The compensation consultant found that the length and amount of the arrangements was generally consistent with arrangements offered by most comparable companies. In negotiating the employment agreements with Mr. Rubin in August 2008 and Ms. Rohan in July 2009, we decided to extend to them the same severance arrangements as those enjoyed by Mr. Gregoire, including the stock option acceleration provisions. We believe that these severance arrangements will provide strong incentives to Ms. Rohan, Mr. Rubin, Mr. Gregoire and Ms. Blasi to remain with the company to facilitate a change of control transaction which the board finds advantageous to the shareholders, if one should be presented.

In providing these change of control termination rights to Ms. Rohan, Messrs. Rubin and Gregoire and Ms. Blasi, we noted that a change of control of the company would likely negatively impact their careers with us. At the same time, we recognized that it was important to secure their cooperation in the event that the company is sold, and it was decided that this protection was advisable to provide them with an incentive to remain with us through the sale. In formulating the definition of good reason for termination in a sale of the company, we relied on the advice of our compensation consultant. Similar change of control termination rights were provided to various other key executives of the company. In addition, under the terms of the options awarded to all employees in recent years, if within 18 months of a change of control of the company the employee is terminated without cause or the employee terminates his or her employment for good reason, as defined in the employee's employment agreement, the vesting of all options then held by the employee will be accelerated.

The committee has decided not to agree to any so-called "single triggers" or "modified single triggers" in future employment contracts with executives that require the company to pay severance and accelerate the vesting or lapse of restrictions on equity grants upon voluntary resignation of the executive in connection with a change in control of the company. The company also decided in May 2009 not to agree to contractual provisions in future employment agreements with executives requiring the company to reimburse them for excise taxes payable on a change in control of the company, except in certain circumstances where the committee believes that special accommodations need to be made to recruit a new executive to the company. In such a case, the excise tax "gross ups" will be limited to payments triggered by both a change in control and termination of employment and will be subject to a three-year sunset provision.

Arrangements under which the Named Executive Officers will be bound by non-solicitation and non-competition covenants following their termination of employment with the company are described under "*Employment Contracts and Termination of Employment and Change of Control Payments*" below.

Review of Risks and Incentives

We seek to implement compensation policies and practices that encourage the careful management of operating and financial risk. We believe that our compensation policies and practices as they relate to our executive officers and employees are currently well-aligned with this risk-management objective.

In order to manage our risk in compensation decisions and to align the incentives that we provide to our executive officers and employees with the interests of our shareholders, we provide our executive officers and employees with a diversified set of incentives. These are carefully balanced between fixed cash compensation (base salary), short-term variable cash incentives (awards under the STIP) and long-term equity incentives (awards of RSUs and market-priced stock options under the 2008 MIP). Our base salary is designed to provide basic financial security to our executive officers and other employees, with the amount set at a level designed to reflect the degree of leverage which the recipient has over company performance.

Awards of short-term bonuses under our STIP are based on a percentage of an executive officer's or other employee's base salary, to reflect the leverage that the individual has over our corporate performance and to provide an incentive appropriate to the individual's position in the company. Our overall pool available for STIP awards is based on annual company financial performance, which is reflected in our audited year-end financial statements, and individual awards are determined by measuring annual achievements against an individualized set of performance objectives. While the overall bonus pool for STIP bonuses is determined by the company's overall financial performance, the bonuses paid to individual executive officers are based on various qualitative performance criteria which we consider appropriate to the officer's or employee's unique position within the company. See *"Annual Bonuses"* above. We believe that this individualized approach serves as a factor mitigating the operating and financial risk that we face in awarding short-term cash bonuses.

In making long-term equity awards under our 2008 MIP and other plans, we have sought to carefully balance the risks and incentives posed by both RSU awards and stock options. Our policy has been to award options with a value equal to 75% of the total equity award and RSUs with a value equal to 25% of the total award. The stock option awards have a term of 10 years and vest over a three-year period. The result is that the incentive is long-term in nature, is earned over a period of years, and provides for participation in future value creation as measured by the company's stock price performance. The RSU awards are designed to provide immediate value to the recipient and to expose the recipient to the risk that the company's stock price might fall. These awards also vest over a three-year period, creating a long-term incentive in the recipient to maintain and increase the company's stock price. In addition, our RSU awards include performance targets which require the company to meet certain earnings per share measures over the three-year vesting period, so that current value cannot be realized unless the company meets certain operating performance targets. See "*Equity Awards*" above. While our stock price may be subject to periodic short-term fluctuation in response to factors other than long-term company performance, we believe that the terms of our equity awards create incentives to create real, long-term value in our stock, while avoiding risks that are reasonably likely to have a material adverse effect on the company.

Under the terms of the 2008 MIP and other equity plans and our equity award agreements, we have the right to adjust compensation before it is paid or to clawback compensation after it is paid, if the participant engages in certain types of conduct considered injurious to the company. See "*Adjustments or Clawbacks of Compensation*" above. In addition, Section 304 of the Sarbanes-Oxley Act affords the company clawback rights against the chief executive officer and chief financial officer if an accounting restatement is necessary due to misconduct. These clawback rights are designed to mitigate several risks by removing incentives for different types of negative conduct and would help assure accountability if the situations to which they apply should arise.

Loans to Executive Officers and Board Members

The committee has determined not to provide loans of any sort, including, but not limited to, relocation loans and loans to pay the exercise price of stock options, to our Named Executive Officers or members of the board of directors. No such loans are outstanding.

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code ("*IRC*") generally limits the deductibility of compensation paid each year to a publicly-held company's chief executive officer and to its three most highly paid senior executive officers, other than the chief financial officer, to $1 million per person. Excluded from the $1 million limitation is compensation that, among other things, meets pre-established performance criteria. The committee's objective is to structure our compensation programs to maximize the deductibility under Section 162(m) of compensation paid, but the committee may provide compensation that may not be tax deductible when under the circumstances it would be in our best interests to do so, and has done so in certain instances in recent years. We believe that the stock option and RSU awards made in 2009 to the Named Executive Officers met the requirements for the performance-based compensation under Section 162(m) and are thus exempt from the limitations on deductibility imposed by that section of the tax code. Of the compensation paid to Dr. Lerer under the STIP for 2009, $750,000 was not deductible under Section 162(m).

Report of Management Compensation Committee

The Management Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on that review and discussion, has recommended to the board that the Compensation Discussion and Analysis be included in this proxy statement.

The Management Compensation Committee

Michael S. Diament (Chairman)
William D. Forrest
Robert M. Le Blanc

Table of Contents

Summary Compensation Table for 2009, 2008 and 2007

The following table sets forth, for the three years ended December 31, 2009, 2008 and 2007, the compensation paid by the company to our principal executive officer, principal financial officer, and the three next most highly compensated executive officers serving at December 31, 2009 (collectively, the *"Named Executive Officers"*):

Name and Principal Position	Year	Salary	Stock Awards(1)	Option Awards(2)	Non-Equity Incentive Plan Compensation(3)	All Other Compensation	Total
		($)	($)	($)	($)	($)	($)
René Lerer, M.D	2009	913,500	917,992	2,110,300	1,744,200	176,861(4)	5,862,853
Chief Executive Officer	2008	873,708	924,988	1,695,005	1,620,000	143,637	5,257,338
	2007	685,454	885,734	2,167,777	842,914	147,876	4,729,755
Karen S. Rohan President(5)	2009	220,833		1,023,196	258,375	29,150(6)	1,531,554
Jonathan N. Rubin	2009	406,000	229,514	527,573	403,920	53,007(8)	1,620,014
Chief Financial Officer(7)	2008	125,942		806,949	88,000	13,825	1,034,716
Daniel N. Gregoire	2009	370,497	120,023	275,911	279,980	59,417(9)	1,105,828
General Counsel	2008	358,998	113,130	207,329	235,343	62,579	977,379
	2007	345,605	99,990	244,728	243,698	127,681	1,061,702
Tina Blasi Chief Executive Officer National Imaging Associates, Inc.	2009	380,625	176,891	406,673	344,250	1,875(10)	1,310,314

(1) The amounts shown in this column represent the aggregate grant date fair values of RSUs awarded in 2009, 2008 and 2007 computed in accordance with ASC Topic 718, without any discount attributable to the risk that the applicable performance targets will not be met. The amounts for 2009 were calculated based on the number of RSUs awarded multiplied by the closing price of the company's stock on the date of the award, which was $32.91 on 3/4/09. The amounts for 2008 were calculated based on the number of RSUs awarded multiplied by the closing price of the company's stock on the date of the award, which was $41.47 on 3/5/08. The amounts for 2007 were calculated based on the number of RSUs awarded multiplied by the closing price of the company's stock on the date of the award, which was $40.63 on 3/2/07. The amounts shown in this column do not include RSUs granted after 12/31/09. The numbers of RSUs awarded on 3/3/10 and the grant date fair value of the award ($42.75) to each of the Named Executive Officers on such date are as follows:

Name	RSUs Awarded	Grant Date Fair Value
René Lerer, M.D.	22,118	$ 945,545
Karen S. Rohan	8,779	$ 375,302
Jonathan N. Rubin	6,144	$ 262,656
Daniel N. Gregoire	3,373	$ 144,196
Tina Blasi	4,377	$ 187,117

(2) The amounts shown in this column represent the grant date fair values of the options awarded in 2009, 2008 and 2007 computed in accordance with ASC Topic 718. The amounts for 2009 were calculated based on a value of $8.65 per share determined using Black-Scholes with the following assumptions: risk-free interest rate of 1.64%, expected life of 4 years, expected volatility of 30.2%, expected dividend yield of 0%, a term of 10 years, a market value of $32.91 and an exercise price of $32.91. The amount for 2009 for Ms. Rohan was calculated based on a value of $8.44 per share determined using Black-Scholes with the following assumptions: risk-free interest rate of 1.86%, expected life of 4 years, expected volatility of 30.2%, expected dividend yield of 0%, a term of 10 years, a market value of $31.68 and an exercise price of $31.68. The amounts for 2008 were calculated based on a value of $8.20 per share determined using Black-Scholes with the following assumptions: risk-free interest rate of 2.8%, expected life of 4 years, expected volatility of 28.4%, expected dividend yield of 0%, a term of 10 years, a market value of $36.96 and an exercise price of $41.47. The market price and the exercise price of these options differ because the options were conditionally awarded on 3/5/08, when the closing price was $41.47, subject to shareholder approval of the 2008 MIP at the 2008 annual meeting of shareholders on 5/20/08, when the closing price was $36.96. The amount for 2008 for Mr. Rubin was calculated based on a value of $10.7082 per share determined using Black-Scholes with the following assumptions: risk-free interest rate of 2.50%, expected life of 4 years, expected volatility of 28.4%, expected dividend yield of 0%, a term of 10 years, a market value of $40.68 and an exercise price of $40.68. The amounts for 2007 were calculated based on a value of $12.02 per share determined using

Black-Scholes with the following

Table of Contents

assumptions: risk-free interest rate of 4.50%, expected life of 4 years, expected volatility of 28.4%, expected dividend yield of 0%, a term of 10 years, a market value of $40.63 and an exercise price of $40.63. The amounts shown in this column do not include stock options awarded after 12/31/09. The numbers of options awarded on 3/3/10 and the grant date fair values of the awards to each of the Named Executive Officers on such date are as follows:

Name	**Options Awarded**	**Grant Date Fair Value**
René Lerer, M.D.	172,021	$ 2,833,623
Karen S. Rohan	68,279	$ 1,125,923
Jonathan N. Rubin	47,784	$ 787,944
Daniel N. Gregoire	26,232	$ 432,564
Tina Blasi	34,046	$ 561,436

(3) The amounts shown in this column represent amounts awarded under the STIP for service during the indicated year but paid in the following year. See "*Compensation Discussion and Analysis Compensation Program Components and Rationale for our Named Executive Officers Annual Bonuses*" above for a discussion of the awards.

(4) Includes $7,350 in 401(k) contributions, a $100,980 SAP contribution in 2010 for 2009 services, $18,781 in supplemental life insurance, and $17,077 in supplemental long term disability insurance, $26,433 in gross-up payments for perquisites and $6,240 for personal use of company aircraft and car.

(5) Ms. Rohan was named president in July 2009.

(6) Consists of a $29,150 SAP contribution in 2010 for 2009 services.

(7) Mr. Rubin began serving as chief financial officer in September 2008.

(8) Includes $7,350 in 401(k) contributions, a $44,880 SAP contribution in 2010 for 2009 services and $777 in supplemental life insurance.

(9) Includes $7,350 in 401(k) contributions, a $41,064 SAP contribution in 2010 for 2009 services, $3,118 in supplemental life insurance, $4,433 in supplemental long term disability insurance and $3,452 in gross-up payments for perquisites.

(10) Includes $1,875 in 401(k) contributions.

Table of Contents

Grants of Plan-Based Awards for 2009

The following table sets forth, for the year ended December 31, 2009, information regarding grants of equity incentive plan awards and all other stock and option awards to the Named Executive Officers.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)						
Name	**Grant Date**	**Threshold**	**Target**	**Maximum(2)**	**All Other Stock Awards: Number of Shares of Stock or Units (# of units)**	**All Other Option Awards: Number of Securities Underlying Options (# of shares)**	**Exercise or Base Price of Option Awards**	**Grant Date Fair Value of Stock and Option Awards(3)(4)**
		($)	**($)**	**($)**			**($/Sh)**	**($)**
René Lerer, M.D.		0	918,000	1,836,000				
	03/04/09					243,933	32.91	2,110,300
	03/04/09				27,894			917,992
Karen S. Rohan		0	198,750	397,500				
	09/01/09					121,252	31.68	1,023,196
Jonathan N. Rubin		0	244,800	489,600				
	03/04/09					60,983	32.91	527,573
	03/04/09				6,974			229,514
Daniel N. Gregoire		0	186,654	373,307				
	03/04/09					31,893	32.91	275,911
	03/04/09				3,647			120,023
Tina Blasi		0	191,250	382,500				
	03/04/09					47,008	32.91	406,673
	03/04/09				5,375			176,891

(1) For a discussion of the operation of the STIP, see "*Compensation Discussion and Analysis Compensation Program Components and Rationale for our Named Executive Officers Annual Bonuses"* above. Actual awards made under the STIP for service in 2009 are set forth under the column "*Non-Equity Incentive Plan Compensation"* in the *"Summary Compensation Table for 2009, 2008 and 2007."*

(2) The board retains discretion to award a higher amount under the STIP if it elects to do so.

(3) The grant date fair values of options shown in this column represent the amounts used by the company for financial reporting purposes calculated in accordance with ASC Topic 718. The grant date fair values of option awards for purposes of determining awards and the assumptions used in calculating those values is described under "*Benefit Plans and Awards"* below.

(4) The grant date fair values of RSUs shown in this column represent the amounts used by the company for financial reporting purposes calculated in accordance with FASB ASC Topic 718, without any discount attributable to the risk that the applicable performance targets will not be met. The grant date fair values of the RSU awards is equal to the number of RSUs awarded multiplied by the closing price of the company's stock on the date of the award, which was $32.91 on 3/4/09 and $31.68 on 9/1/09.

Table of Contents

Benefit Plans and Awards

Annual Incentive Plan. In 2009, the executive officers were eligible to participate in the company's Short-Term Incentive Plan (*"STIP"*), which was designed to award officers (and other employees) bonuses for meeting or exceeding specific financial and other performance targets approved by the Management Compensation Committee for 2009. The target bonus award levels for the executive officers range from 50% to 100% of base salary, as generally specified in their employment agreements. Based on performance in relation to goals, the amount of bonus can range from 0% to 200% of target percentage, depending on individual performance against pre-established qualitative goals. Awards are funded from an overall company pool, the funding of which is based on the company meeting or exceeding specified financial goals. Based on the financial results attained for 2009, the STIP pool was funded at 113% of target funding levels and bonuses were paid to the executive officers on March 15, 2010. Base salary and STIP payments as a percentage of total compensation for 2009 represented 45%, 31%, 50%, 59% and 55% for Dr. Lerer, Ms. Rohan, Messrs. Rubin and Gregoire, and Ms. Blasi.

2008 Management Incentive Plan. The shareholders approved the 2008 MIP at the annual meeting of shareholders held on May 20, 2008. The 2008 MIP is administered by the Management Compensation Committee of the board and allows several types of long-term incentives including stock options, stock appreciation rights, restricted stock awards and restricted stock units ("*RSUs*"). The plan authorized awards covering a total of up to 4,500,000 shares of common stock, plus the amount of future forfeitures under the 2006 MIP, the 2003 MIP and the 2006 Director Equity Compensation Plan. The 2008 MIP also permits the grant of performance-based cash bonus awards to executives and grants of equity to directors. On March 4, 2009, the company awarded under the 2008 MIP options to purchase 243,933, 60,983, 31,893, and 47,008 shares of common stock and RSU awards for 27,894, 6,974, 3,647, and 5,375 shares of common stock to Dr. Lerer, Messrs. Rubin and Gregoire, and Ms. Blasi, respectively. The options have an exercise price of $32.91 per share, the closing price of the common stock on the date of award, and a term of 10 years. The options and RSUs vest over a three-year period. The vesting of the RSUs is subject to satisfaction of certain performance targets. See "*Compensation Discussion and Analysis Compensation Program Components and Rationale for our Named Executive Officers Equity Awards*." The stock option awards to Dr. Lerer, Messrs. Rubin and Gregoire, and Ms. Blasi were valued at $11.29 by our compensation consultant for purposes of determining the awards using Black-Scholes based on a risk free interest rate of 3.34%, an expected life of seven years, expected volatility of 24.33%, an expected dividend yield of 0%, a term of 10 years, a market value of $32.91 and an exercise price of $32.91. The RSU awards were valued at the $32.91 closing price of the common stock on the date of the award. On September 1, 2009, the company awarded under the 2008 MIP an option to purchase 121,252 shares of common stock to Ms. Rohan at an exercise price of $31.68 vesting over a three-year period. The stock option award to Ms. Rohan made on September 1, 2009 was valued at $11.34 per share by our compensation consultant for purposes of determining the award using Black-Scholes based on a risk-free interest rate of 3.33%, an expected life of 7 years, expected volatility of 26.14%, an expected dividend yield of 0%, a term of 10 years, a market value of $31.68 and an exercise price of $31.68.

Perquisites. The employment agreement entered into in February 2008 with Dr. Lerer upon assuming the role of chief executive officer provides that he is entitled to the same welfare benefits as provided to other senior level executives of the company and an annual auto allowance of $25,000. The employment agreements with Ms. Rohan, Messrs. Rubin and Gregoire and Ms. Blasi entitle them to the benefits of employment as are from time to time provided to salaried employees of the company or adopted for employees at their level of responsibility. Under the company's benefit arrangements, each of them receives supplemental life and disability insurance. The company also provides a gross-up payment to cover the tax cost to certain of the Named Executive Officers of receiving non-cash perquisites. For a description of various provisions in those employment agreements in the event of a

Table of Contents

termination of employment without cause or for good reason, see *"Employment Contracts and Termination of Employment and Change of Control Payments"* below.

For 2009 and forward, we have decided not to provide perquisites other than supplemental life and disability insurance, except in the case of Dr. Lerer's automobile allowance.

Deferred Compensation Plan. The Supplemental Accumulation Plan (the "*SAP"*) is a deferred compensation plan which is designed to promote the retention of key executives. The SAP is a calendar year based plan that is funded by the company through a fixed percentage of an executive's base salary. Annually, the Management Compensation Committee approves the percentage contribution for the executive officers. It may also be funded by the executive officers through voluntary deferrals of base and/or incentive compensation. For 2009, the Company awarded Dr. Lerer, Ms. Rohan and Messrs. Rubin and Gregoire a company contribution of 11% of base salary. Both company and voluntary contributions are paid to a trust sponsored by a third party administrator and invested in one or more mutual funds selected by the respective executive officer. Returns on each individual's account balance are based on the performance of their selected investments.

The fixed percentage amount contributed to the trust and any appreciation thereon is paid to the executive officer following termination from the company, provided that the executive officer has complied with covenants not to compete with the company during that time period and the termination was not "for cause."

The terms of the SAP provide that the amounts deposited in the trust on behalf of executive officers are to be immediately and fully vested upon a change of control of the company (as defined in the SAP document).

The company does not maintain any pension benefit plans.

Table of Contents

Outstanding Equity Awards at December 31, 2009

The following table sets forth for the Named Executive Officers the number of shares and the value of option and stock awards as at December 31, 2009.

	Option Awards					Stock Awards	
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested(1) ($)
René Lerer, M.D.	101,450			34.57	03/10/15		
	79,519			38.52	02/24/16		
	35,342		17,670(2)	38.52	02/24/16		
	120,261	60,130(3)		40.63	03/02/17		
	68,927	137,854(4)		41.47	03/05/18		
		243,933(5)		32.91	03/04/19		
						7,266(6)	295,944
						14,870(7)	605,655
						27,894(8)	1,136,123
Karen S. Rohan		121,252(9)		31.68	09/01/19		
Jonathan N. Rubin	25,120	50,238(10)		40.68	10/01/18		
		60,983(5)		32.91	03/04/19		
						6,974(8)	284,051
Daniel N. Gregoire	50,000			36.16	01/24/15		
	19,380			34.57	03/10/15		
	13,005			38.52	02/24/16		
	5,780		2,890(2)	38.52	02/24/16		
	13,577	6,788(3)		40.63	03/02/17		
	8,431	16,862(4)		41.47	03/05/18		
		31,893(5)		32.91	03/04/19		
						820(6)	33,399
						1,818(7)	74,047
						3,647(8)	148,542
Tina Blasi	10,000	20,000(11)		41.98	03/03/18		
	4,667	9,333(12)		40.04	06/02/18		
		47,008(5)		32.91	03/04/09		
						1,000(13)	40,730
						1,000(14)	40,730
						5,375(8)	218,924

(1) Market value is calculated based on the closing price of $40.73 on 12/31/09.

(2) The options were awarded on 2/24/06 and the applicable performance target for the referenced options have not been met.

(3) The options were awarded on 3/2/07 and the remaining options vest on 3/2/10.

(4)

The options were awarded on 3/5/08 and the remaining options vest as to 50% on each of 3/5/10 and 3/5/11.

(5) The options were awarded on 3/4/09 and the remaining options vest as to $33^1/_3$% on each of 3/4/10, 3/4/11 and 3/4/12.

(6) The RSU award was made on 3/2/07 and the remaining RSUs vest on 3/2/10.

(7) The RSU award was made on 3/5/08 and the remaining RSUs vest as to 50% on each of 3/5/10 and 3/5/11.

(8) The RSU award was made on 3/4/09 and vests as to $33^1/_3$% on each of 3/4/10, 3/4/11 and 3/4/12.

(9) The options were awarded on 9/1/09 and vest as to $33^1/_3$% on each of 9/1/10, 9/1/11 and 9/1/12.

(10) The options were awarded on 10/1/08 and the remaining options vest as to 50% on each of 10/1/10 and 10/1/11.

(11) The options were awarded on 3/3/08 and the remaining options vest as to 50% on each of 3/3/10 and 3/3/11.

(12) The options were awarded on 6/2/08 and the remaining options vest as to 50% on each of 6/2/10 and 6/2/11.

(13) The RSU award was made on 3/3/08 and the remaining RSUs vest as to 50% on each of 3/3/10 and 3/3/11.

(14) The RSU award was made on 6/2/08 and the remaining RSUs vest as to 50% on each of 6/2/10 and 6/2/11.

Table of Contents

Option Exercises and Stock Vested for 2009

The following table sets forth for the Named Executive Officers the number of shares acquired and the value realized upon the exercise of stock options and the vesting of stock awards during the year ended December 31, 2009.

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise**	**Value Realized on Exercise(1)**	**Number of Shares Acquired on Vesting(2)**	**Value Realized on Vesting(3)**
	(#)	**($)**	**(#)**	**($)**
René Lerer, M.D.	17,500	95,196	16,132	785,754
Karen S. Rohan				
Jonathan N. Rubin				
Daniel N. Gregoire			2,359	106,747
Tina Blasi			621	31,315

(1) The value realized on exercise of stock options is equal to the actual sale price, where options were exercised and the shares issued under those options were immediately sold, less the exercise price, multiplied by the number of shares acquired.

(2) The stock awards consist of RSUs granted on 3/5/08 which vest as to one-third on each of 3/5/09, 3/5/10 and 3/5/11, RSUs granted on 3/2/07 which vest as to one-third on each of 3/2/08, 3/2/09 and 3/2/10, RSUs granted on 2/24/06 which vest as to one-third on each of 2/24/07, 2/24/08 and 2/24/09 and restricted stock awards granted on 3/10/05 which vest as to one-quarter on each of 3/10/06, 3/10/07, 3/10/08 and 3/10/09. RSU awards vesting on 2/24/09 were reduced to the following individuals by the following share amounts in order to satisfy tax withholding requirements: Dr. Lerer 1,768 shares and Mr. Gregoire 345 shares. RSU awards vesting on 3/2/09 were reduced to the following individuals by the following share amounts for the same reason: Dr. Lerer 3,011 shares and Mr. Gregoire 257 shares. The RSU award vesting on 3/3/09 to Ms. Blasi was reduced by 205 shares for the same reason. RSU awards vesting on 3/5/09 were reduced to the following individuals by the following share amounts for the same reason: Dr. Lerer 3,081 shares and Mr. Gregoire 285 shares. The RSU award vesting on 6/2/09 to Ms. Blasi was reduced by 174 shares for the same reason.

(3) The value realized on vesting of restricted stock units is equal to the closing price of the company's common stock on the vesting date (or if the vesting date fell on a weekend, the next business day), multiplied by the number of shares affected. The values realized include shares withheld by the company to satisfy tax withholding requirements.

Table of Contents

Nonqualified Deferred Compensation

The following table sets forth for the Named Executive Officers information regarding contributions, earnings, withdrawals and balances for nonqualified deferred compensation plans for the year ended December 31, 2009 and as of that date.

Name	Executive Contributions in 2009	Company Contributions in 2009	Aggregate Earnings in 2009(1)	Aggregate Withdrawals/ Distributions	Aggregate Balance at 12/31/2009(2)
	($)	($)	($)	($)	($)
René Lerer, M.D.		99,000	121,111		422,775
Karen S. Rohan					
Jonathan N. Rubin		13,825	4,080		17,905
Daniel N. Gregoire		39,827	27,641		138,530
Tina Blasi					

(1) The amounts included in this column are not included in the individual's compensation specified in the "*Summary Compensation Table for 2009, 2008 and 2007"* above. The amounts are based on returns generated in their SAP accounts held in a separate trust and administered by a third party.

(2) The amounts included in this column do not include SAP contributions made by the company in March 2010 for service in 2009 in the following amounts: $100,980 to Dr. Lerer, $29,150 to Ms. Rohan, $44,880 to Mr. Rubin, $41,064 to Mr. Gregoire, and $0 to Ms. Blasi. These contributions are included in the "*Summary Compensation Table for 2009, 2008 and 2007"* under the column "*All Other Compensation"* and the related footnotes.

Table of Contents

EXECUTIVE OFFICERS

Executive Officers of the Company

Name	Age	Position	Year Appointed
René Lerer, M.D.	54	Chairman and Chief Executive Officer	2008
Karen S. Rohan	47	President	2009
Jonathan N. Rubin	46	Chief Financial Officer	2008
Daniel N. Gregoire			