

MAGELLAN HEALTH SERVICES INC
Form DEF 14C
November 05, 2004

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**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

SCHEDULE 14C
(Rule 14C-101)

SCHEDULE 14C INFORMATION

Information Statement Pursuant to Section 14(c) of
the Securities Exchange Act of 1934

Check the appropriate box:

- Preliminary Information Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))
- Definitive Information Statement

Magellan Health Services, Inc.

(Name of Registrant As Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required
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(1) Title of each class of securities to which transaction applies:

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

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

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MAGELLAN HEALTH SERVICES, INC.
16 Munson Road
Farmington, Connecticut 06032

November 5, 2004

Dear Stockholder,

The enclosed Information Statement is being furnished to inform you that the following equity incentive plans for management and directors of Magellan Health Services, Inc. ("*Magellan*," "*we*" or "*us*") and equity and other performance based incentive awards under employment agreements for Magellan's senior executive officers have all been approved by the requisite vote of the holders of the outstanding common stock of Magellan in connection with the completion of Magellan's reorganization in the first quarter of 2004 (and no further consent of Magellan stockholders is required):

A 2003 Management Incentive Plan (the "*MIP*"), under which restricted stock awards, stock options and other equity incentives may be issued to members of Magellan's management;

Incentive compensation arrangements, including performance-based bonus provisions under employment agreements (the "*Executive Employment Agreements*") with Magellan's current senior executive officers, Steven J. Shulman, Dr. Rene Lerer and Mark S. Demilio; and

A 2004 Director Stock Compensation Plan (the "*Director Plan*") under which restricted stock awards may be issued to Magellan's independent directors.

As detailed below, awards have been issued under the MIP and the Director Plan and performance-based provisions have been established under the Executive Employment Agreements. These actions were taken incident to the consummation of Magellan's reorganization and this document is for informational purposes only and no action by you is requested or required. **The Board of Directors is not now seeking your vote or soliciting your proxy in connection with these plans and agreements and proxies are not being requested from stockholders.**

On October 8, 2003, after a favorable creditor vote thereon, the MIP and Executive Employment Agreements were approved by the order of the United States Bankruptcy Court for the Southern District of New York (the "*Bankruptcy Court*") as part of our Third Joint Amended Plan of Reorganization (as modified, the "*Reorganization Plan*"), which became effective in accordance with its terms and conditions on January 5, 2004 (the "*Plan Effective Date*") after a favorable creditor vote thereon. Because these matters were approved as part of the Reorganization Plan, including by the Bankruptcy Court, and automatically became effective at the time of the initial listing of Magellan's Ordinary Common Stock on the Nasdaq Stock Market ("*Nasdaq*"), no stockholder approval of them was required under either Delaware corporate law or the Nasdaq rules. However, under Section 162(m) of the Internal Revenue Code of 1986 (the "*IRC*"), as amended, stockholder approval was required in order for any payments made by Magellan under the MIP and the performance-based incentives in the Executive Employment Agreements to be deductible to Magellan. In order for Magellan to qualify for these tax benefits, on the Plan Effective Date, Magellan Holdings LP, an affiliate of Onex Corporation (together with Onex Corporation, "*Onex*"), and R² Investments, LDC (together with Onex, the "*Majority Stockholders*"), which, as a result of the Reorganization Plan, together on the Plan Effective Date held shares of common stock representing approximately 68% of the voting power of the outstanding common stock of Magellan, executed written consents approving the MIP and the performance incentives in the Executive Employment Agreements in order for Magellan to qualify for these tax benefits.

The Reorganization Plan provided for the selection, with the involvement, among others, of the parties who would become the Majority Stockholders of Magellan's initial directors as of the Plan Effective Date, which included only two members of management, Steven Shulman, who the Reorganization Plan provided would be the Chief Executive Officer and Chairman of the Board of Directors, and Dr. Rene Lerer, who the Reorganization Plan provided would be the Chief Operating Officer. In connection with the selection of Magellan's initial independent directors, a director

compensation program, including an equity compensation component, was contemplated. On the Plan Effective Date, the Board of Directors approved a director compensation program applicable only to Magellan's independent directors, including the principal terms of equity compensation awards, to be effective as to the independent directors in office on January 21 and providing for the award of a number of shares determined in part by the trading price of Magellan's Ordinary Common Stock over a subsequent period. On July 27, 2004, the Board of Directors of Magellan approved the final and formal terms of the Director Plan. As this plan was not part of the Reorganization Plan, it required stockholder approval under Nasdaq rules, and, as with the MIP, as of Plan Effective Date the Majority Stockholders also executed written consents approving the principal terms of the Director Plan.

The effectiveness of the Majority Stockholder approval of the MIP, the performance incentive provisions in the Executive Employment Agreements and the Director Plan are subject by the regulations of the Securities and Exchange Commission (the "SEC") to the condition that 20 days pass after this Information Statement is first sent to stockholders.

YOUR BOARD OF DIRECTORS HAS FULLY REVIEWED AND CONSIDERED THE TERMS AND CONDITIONS OF THE MIP, THE PERFORMANCE INCENTIVE PROVISIONS IN THE EXECUTIVE EMPLOYMENT AGREEMENTS AND THE DIRECTOR PLAN AND DETERMINED THAT THEY ARE APPROPRIATE AND IN THE BEST INTERESTS OF MAGELLAN AND ITS STOCKHOLDERS, AND HAS APPROVED THEM.

In deciding to approve the MIP, the performance incentive provisions in the Executive Employment Agreements and the Director Plan, the Board of Directors gave careful consideration to a number of factors, as described in the enclosed Information Statement. For a description of the MIP, the performance incentive provisions in the Executive Employment Agreements and the Director Plan and the basis for the Board of Directors' approval, you are urged to read this Information Statement in its entirety

This Information Statement is dated November 5, 2004 and is first being mailed on or about November 6, 2004 to the holders of record of Magellan's Ordinary Common Stock, \$0.01 par value per share ("*Ordinary Common Stock*"), as of the close of business on November 2, 2004. As of such date, the number of issued and outstanding shares of Ordinary Common Stock was 26,883,016.

By Order of the Board of Directors,

/s/ MARK S. DEMILIO

Mark S. Demilio
Secretary

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED
NOT TO SEND US A PROXY**

November 5, 2004

MAGELLAN HEALTH SERVICES, INC.

INFORMATION STATEMENT

We are sending you this Information Statement to inform you that Magellan's 2004 Management Incentive Plan, the performance incentive provisions in the employment agreements of its three senior executive officers and its 2004 Director Stock Compensation Plan have been approved by the holders of a majority of the voting power of the outstanding shares of common stock of Magellan.

**WE ARE *NOT* ASKING YOU FOR A PROXY AND YOU ARE REQUESTED
NOT TO SEND US A PROXY**

No further consent of Magellan stockholders is necessary to approve the MIP, the performance incentive provisions in the Executive Employment Agreements and the Director Plan. For that reason, no proxy card has been enclosed with this Information Statement and no meeting of stockholders will be held to consider approval of these matters.

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QUESTIONS AND ANSWERS

Q. What am I being asked to approve?

A. You are not being asked to approve anything. This Information Statement is being provided to you solely for your information. In connection with consummation of Magellan's Reorganization Plan, the Majority Stockholders have already approved the MIP, the performance incentive provisions in the Executive Employment Agreements and the Director Plan and no further stockholder approval is required.

Q. Why have the MIP, the performance incentive provisions in the Executive Employment Agreements and the Director Plan already been approved?

A. As part of the Reorganization Plan, on the Plan Effective Date all of Magellan's pre-reorganization common stock was cancelled and two new classes of common stock were authorized and issued. In addition, Magellan's existing equity and other long term employee incentive plans were terminated as of the Plan Effective Date. In view of that, in connection with the formulation of the Reorganization Plan, the adoption of the MIP and incentive arrangements of the Executive Employment Agreements were considered to be appropriate to enable Magellan to move forward by providing suitable incentive compensation to management to attract, retain and motivate employees in a competitive manner. The Board of Directors and Majority Stockholders concluded that it was in the best interests of Magellan and its stockholders for compensation paid under these arrangements to qualify for deductibility under the Internal Revenue Code and to assure such qualification at the outset of the reorganization. In addition, in connection with the seating of a new Board of Directors as part of the consummation of the Reorganization Plan, the Board of Directors and Majority Stockholders believed that, in order to attract and fairly compensate appropriate independent directors and to help assure the alignment of their interests with those of the stockholders, the Director Plan should be adopted as part of Magellan's program of director compensation.

Q. What are the basic terms of the MIP, the performance incentive provisions in the Executive Employment Agreements and the Director Plan?

A. Under the MIP, restricted stock awards, stock options and other equity incentives may be issued to members of Magellan's management and other employees, the granting or vesting of any of which may be based on the achievement of performance objectives based on one or more of the business criteria described below. A total of 6,373,689 shares of Ordinary Common Stock of Magellan (approximately 10% of the shares of common stock contemplated to be issued upon consummation of the Reorganization Plan) were reserved for issuance pursuant to the MIP over a period not to exceed the ten years after January 5, 2004. The maximum number of shares of Ordinary Common Stock that may be granted to any individual participant under the MIP in any one calendar year is 2,000,000.

Messrs. Shulman, Lerer and Demilio entered into employment agreements with Magellan as of January 5, 2004 in a form provided by the Reorganization Plan and providing for them to continue in their current positions. In accordance with these agreements Mr. Shulman purchased, and each Executive was granted, under the MIP restricted shares of Ordinary Common Stock, in each case as of January 5, 2004. In addition, these employment agreements provide for cash payments to such officers related to the income taxes incurred by them in connection with such transactions. The agreements also provide for terms of annual compensation, including performance-based bonus incentives. The performance-based bonus incentives are to be based on one or more of the performance criteria set forth in the MIP.

Specifically, pursuant to the MIP and their employment agreements, as of the Plan Effective Date, options to purchase 2,891,022 shares of Ordinary Common Stock and restricted stock awards for

251,889 shares of Ordinary Common Stock were issued to Messrs. Shulman, Lerer and Demilio. In addition, on the Plan Effective Date and thereafter, the Board of Directors authorized the grant of stock options covering 1,381,400 and 65,100, respectively, additional shares to other members of management on account of their past and future services (of which 91,700 were subsequently forfeited by their recipients). As a result, 1,875,978 shares of Ordinary Common Stock remain reserved for future awards under the MIP (plus any additional shares that become available by reason of the cancellation of shares associated with previous awards, as described below).

Under the Director Plan, each of the initial independent directors in office as of January 21, 2004 became entitled to a one-time restricted stock grant of 2,719 shares of Ordinary Common Stock, based on a formula providing for a fixed grant of 2,152 shares and the grant of an additional number of shares representing \$13,333 divided by the average closing price of the shares in trading on Nasdaq for the 20 consecutive trading days following the Plan Effective Date. The plan also provides that the Board may grant one-time grants of a lesser number of shares to independent directors who subsequently join the Board (for example, upon filling vacancies) before the 2005 annual meeting of stockholders. Shares granted under the Director Plan may not be transferred until January 5, 2006 or upon earlier termination of a director's service (other than by removal for cause).

Q. When do you expect to effect the MIP, the performance incentive provisions in the Executive Employment Agreements and the Director Plan?

A. The MIP and the Executive Employment Agreements became effective on and as of the Plan Effective Date (January 5, 2004), subject, however, to the shareholder approval of the performance-related elements as required for federal income tax purposes becoming effective. Pursuant to SEC regulations, that shareholder approval, based on the consent given by the Majority Stockholders, will become effective 20 days after this Information statement is sent to stockholders. The Director Plan became effective as of January 21, 2004, also subject, however, to the shareholder approval required by Nasdaq's listing standards becoming effective. That shareholder approval, based on the consent to the formal Director Plan given by the Majority Stockholders, will also become effective 20 days after this Information Statement is sent to stockholders.

Q. Who can I call with questions?

A. Please call Melissa L. Rose, Vice President, Investor Relations, at (410) 953-1218.

PRINCIPAL PROVISIONS OF THE MIP

Purpose

The purpose of the MIP is to promote the interests of Magellan and its stockholders by aiding us in attracting and retaining officers and key employees who are responsible for our success and growth by providing such persons an opportunity to acquire a proprietary interest in Magellan's long-term success. As a result of Magellan's Reorganization Plan, no employee continued to be entitled to any options, restricted stock awards or similar benefits under any other incentive plan or other arrangement of Magellan, other than as might be provided under the MIP.

In particular, the MIP was an integral part of Magellan's Reorganization Plan, intended to provide continuity in, and appropriate incentives for, the management team that had led Magellan through its reorganization and was going to implement its post-reorganization business strategies and plans. The MIP's terms were developed with the approval of various parties in interest in the reorganization proceedings, including parties representing the Majority Stockholders, and were approved by the Bankruptcy Court in confirming the Reorganization Plan after it was approved by creditors. Their terms were also approved by the Board of Directors of Magellan that came into office in accordance with the Reorganization Plan at the time the plan was consummated, members of which had participated in the development of the compensation terms. No further approval of the MIP or Executive Employment Agreements was, accordingly, required as a matter of corporate, bankruptcy, or securities law. However, in order for Magellan to qualify to deduct the costs it would incur relating to these compensation arrangements for federal income tax purposes, separate stockholder approval of the MIP and the performance incentives contained in the Executive Employment Agreements was required under Section 162(m) of the Internal Revenue Code. In order to assure these tax benefits for Magellan, the Majority Stockholders on the day of the consummation of the Reorganization Plan provided the necessary approvals, which action is discussed in this Information Statement.

In addition to awards under the MIP, it is anticipated that Magellan will adopt a 2004 short-term incentive compensation plan comparable to the short term incentive plan in effect prior to the Plan Effective Date. See "COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS Benefit Plans Annual Incentive Plan", below.

Number of Shares

The MIP provides for the issuance of up to 6,373,689 shares of Ordinary Common Stock (representing approximately 10% of the shares of common stock to be outstanding upon completion of the Reorganization Plan), subject to adjustment as determined by Magellan's Management Compensation Committee or another director committee appointed by the Board of Directors (the "*Committee*") in the event of any merger, consolidation, reorganization, recapitalization, stock dividend, stock split, reverse stock split, split up, spin off, combination of shares, exchange of shares, dividend in kind or other similar corporate transactions or events that affect Magellan's corporate structure or stock or would result in any substantial dilution or enlargement of the rights granted under the MIP.

Shares of Ordinary Common Stock subject to awards under the MIP that are not used or are cancelled, terminated or forfeited because the terms and conditions of the awards are not met, because the award terminates without delivery of any shares, or because the award is settled in cash may again be used for awards under the MIP. Shares of Ordinary Common Stock used by a participant in the MIP as full or partial payment of the purchase price relating to an award, or to satisfy tax obligations relating to an award, will also be available for awards under the MIP. Adjustments as to the number, price or kind of a share of Ordinary Common Stock or other consideration available for awards may also be made in connection with acquisitions or other changes in capitalization occurring after the date of any grant or if there is a change in laws or other circumstances that would result in any substantial

dilution or enlargement of the rights available for participants or otherwise warrants equitable adjustment. The shares of Ordinary Common Stock that may be issued under the MIP may be authorized but unissued shares, treasury shares or shares acquired on the open market or otherwise.

The maximum number of shares of Ordinary Common Stock that may be granted or measured to any individual participant under the MIP in any one calendar year is 2,000,000.

Administration of MIP

The MIP is administered by the Committee. The members of the Committee are appointed from time to time by the Board of Directors. Under Magellan's Bylaws, all members of the Committee must be independent directors. In addition, under the MIP, at least two members of the Committee must be "Non-Employee Directors" within the meaning of Rule 16b-3(b)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and "outside directors" within the meaning of Section 162(m) of the IRC. The Committee has the authority, among other things, to:

establish rules for the administration of the MIP;

select the officers and key employees to whom awards are granted;

determine the types of awards to be granted and the number of shares of Ordinary Common Stock covered by such awards;
and

set the terms and conditions of such awards.

Determinations and interpretations with respect to the MIP are in the sole discretion of the Committee. Its determinations and interpretations are binding on all interested parties. The Committee may delegate to one or more of its members or officers of Magellan the Committee's powers and duties under the MIP.

Eligibility

Those officers and key employees of Magellan and its subsidiaries and affiliates as the Committee determines to be responsible for Magellan's success and future growth and profitability are eligible to be selected by the Committee to receive awards under the MIP. Ninety-six officers and other employees currently participate in the MIP.

Types of Awards

The MIP permits grants of:

stock options, including "incentive stock options" meeting the requirements of Section 422 of the IRC and stock options that do not meet such requirements;

stock appreciation rights;

restricted stock awards;

stock units (each of stock options, stock appreciation rights, restricted stock awards and stock units, a "Benefit" and together, "Benefits" under the MIP); and

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any combination of the foregoing.

Any Benefits granted under the MIP may be performance-based awards. This means that the grant of any of these awards may represent "performance-based compensation" within the meaning of Section 162(m) of the IRC.

Stock Options

The Committee may grant "incentive stock options" meeting the requirements of Section 422 of the IRC and stock options that do not meet such requirements. The Committee may also, in its discretion, grant stock appreciation rights, including a concurrent grant of stock appreciation rights in tandem with any stock option grant (see "Stock Appreciation Rights" discussed below). The exercise price of any option granted under the MIP will be set by the Committee. Stock options will be exercisable at such times as the Committee determines and will be subject to such terms and conditions, including vesting, as the Committee determines.

The option exercise price may be paid in cash, or in the Committee's discretion by delivery of Ordinary Common Stock, or by exercise notice with a copy of irrevocable instructions to a broker to deliver the amount of sale or loan proceeds to pay the exercise price as long as such transaction does not constitute an impermissible loan to an executive officer under the Sarbanes-Oxley Act. The Committee may prescribe any other method of paying the exercise price that it determines to be consistent with applicable law, including, without limitation, the cashless exercise of a Stock Option where the number of shares of Ordinary Common Stock due to the participant upon exercise of the Stock Option is reduced by a number of shares with a fair market value equal to the exercise price. No shares of Ordinary Common Stock, however, may be surrendered in payment of the exercise price if originally issued to the participant upon exercise of an option or other Benefit within six months of the date of the current exercise.

The Committee will determine when stock options granted under the MIP may be exercised. No stock option may be exercised more than ten years after the date it is granted.

The aggregate fair market value of the shares of Ordinary Common Stock (determined at the date of grant) for which an incentive stock option may become exercisable in any calendar year as an incentive stock option may not exceed \$100,000. An acceleration of the exercisability of such options upon a "change in control" of Magellan, as may be provided in the discretion of the Committee in option agreements issued under the MIP, may result in more than \$100,000 of incentive stock options becoming exercisable during a single calendar year. If any incentive option fails to qualify as an incentive stock option because of the failure to satisfy the \$100,000 limit, such options will be treated as non-qualified (non-incentive) stock options.

Stock Appreciation Rights

The Committee may grant stock appreciation rights exercisable at such times and subject to such conditions or restrictions as the Committee may determine. Upon exercise of a stock appreciation right by a holder, the holder is entitled to receive the excess of the fair market value or other specified valuation of one share of Ordinary Common Stock on the date of exercise over the fair market value of one share of Ordinary Common Stock on the date of grant (or other grant specified by the Committee). If a stock appreciation right is granted in tandem with or in substitution for a stock option, the fair market value will be based on the fair market value on the date the stock option is granted.

The payment may be made in cash or shares of Ordinary Common Stock, or a combination thereof, as determined by the Committee.

The Committee will determine when stock appreciation rights granted under the MIP may be exercised. No stock appreciation right may be exercised more than ten years after the date it is granted.

Restricted Stock Awards

The Committee may grant restricted stock awards subject to such restrictions and terms and conditions as the Committee deems appropriate. Upon receipt of a restricted stock award, the holder is

entitled to receive a specified number of shares of Ordinary Common Stock in exchange for payment of a specified purchase price or for no payment, as the Committee shall determine. Any purchase price payable for shares of Ordinary Common Stock subject to a restricted stock award may be paid in any manner authorized by the Committee.

Restricted stock awards may be made in consideration for services provided or to be provided to Magellan. Restricted stock awards may be subject to restrictions on transfer, the right of Magellan to reacquire the shares for a payment specified in the award or for no payment, and may grant or withhold the right of the holder to receive dividends and to vote the shares granted.

Stock Units

The Committee may grant stock units subject to such restrictions and terms and conditions as the Committee may impose. A "stock unit" is a notional account representing one share of Ordinary Common Stock. A stock unit will have a value equal to the fair market value of one share of Ordinary Common Stock and may include, if so determined by the Committee, the value of any dividends or other rights or property received by stockholders after the date of grant of the stock unit. Holders of stock units have the right, subject to any restrictions imposed by the Committee, to receive shares of Ordinary Common Stock (or a cash payment equal to the fair market value of such shares) at some future date.

The Committee may, in its discretion, grant dividend equivalent rights with respect to such stock units and establish any vesting requirements, transfer restrictions and forfeiture provisions. The Committee may also determine to accelerate the vesting of stock units.

Performance Awards

A performance-based award will entitle the holder to receive payments upon the achievement of specified hurdle rates and/or growth rates in one or more of the following business criteria that apply to individual participants, one or more business units, or Magellan as a whole, either individually or in combination: net earnings, earnings per share, sales, operating income, earnings before interest and taxes ("EBIT"), earnings before interest, taxes, depreciation and amortization ("EBITDA"); working capital targets, market price per share, total return to stockholders, return on equity, return on capital and cash flows. The Executive Employment Agreements provide that the same criteria shall be used in applying the incentive provisions of such agreements.

The Committee will determine the terms and conditions of a performance award, including the performance goals to be achieved during the performance period, the length of the performance period and the amount and form of payment of the performance award. A performance award may be settled in cash, shares of Ordinary Common Stock or a combination of the two.

Certain Terms and Conditions

Subject to the provisions of the MIP, the Committee may amend or waive the terms and conditions of an outstanding Benefit.

We may require participants receiving Benefits to pay any tax withholding amounts due before delivering shares of Ordinary Common Stock under the MIP. Alternatively, we may permit participants receiving or exercising Benefits, subject to the discretion of the Committee and upon such terms and conditions as it may impose, to direct us, in lieu of cash to withhold taxes payable from any other amounts due or to become due to the participant. The Committee may also permit a participant to pay taxes due in connection with a Benefit by electing to have us withhold shares of Ordinary Common Stock having a fair market value equal to the taxes owed, calculated at minimum statutory withholding rates to satisfy federal and state tax obligations. Fair market value will be the closing price of Ordinary

Common Stock on the date of calculation (or on the last preceding date if not traded on that date) if the Ordinary Common Stock is readily tradable on a national securities exchange or other market system. If the Ordinary Common Stock is not readily tradable, fair market value will be determined by the Committee in good faith.

Awards under the MIP may be subject to any other provisions the Committee determines are appropriate, including provisions relating to forfeiture of or restriction on resale of Ordinary Common Stock acquired under any Benefit or any other provision necessary to comply with law or an understanding or condition relating to a participant's service to us.

Awards Already Granted Under the MIP

To date, the only kinds of awards that have been granted under the MIP are restricted stock awards and stock options (none of which are incentive stock options). Information regarding the awards granted is provided below under the heading "New Plan Benefits"

Limitations On Transfer And Resale Of Shares

Except as discussed below, no Benefit (other than unrestricted stock awards or vested restricted stock awards) may be transferred or assigned by the participant except in the event of the participant's death, and may only be exercised during the participant's lifetime, by the participant. If determined by the Committee, a participant may, in the manner established by the Committee, transfer awards (other than incentive stock options) to certain immediate family members or trusts for the benefit of such persons or other entities owned by such persons. In the event of the death of the participant, if determined by the Committee at the time of grant, stock options and stock appreciation rights may be exercised thereafter for some specified period of time by the executor or administrator of the estate of the deceased participant or the person or persons to whom the deceased participant's rights under the stock option or stock appreciation right passes by will or law.

The resale of shares of Ordinary Common Stock acquired upon exercise or receipt of awards generally is not automatically restricted by the terms of the MIP, though in many cases restricted stock awards contain resale restrictions. All shares of Ordinary Common Stock or other securities delivered under the MIP pursuant to any award or the exercise thereof shall be subject to such restrictions as the Committee may deem advisable under the MIP, applicable federal or state securities laws and regulatory requirements.

Unless sold pursuant to a Registration Statement filed by Magellan under the Securities Act of 1933, as amended (the "*Securities Act*"), generally recipients who are officers or directors of Magellan will, in order to resell any shares of Ordinary Common Stock acquired by them under the MIP, be required to observe the resale limitations of Rule 144 of the Securities Act. Magellan plans to file a Registration Statement registering under the Securities Act the issuance to participants in the MIP of shares purchased upon the exercise of options or otherwise purchased under the MIP, and shares of restricted stock already issued to Magellan's senior executive officers under the MIP are expected to also be registered for resale by such officers along with such registration. However, executive officers and directors are also subject to the share ownership reporting requirements and short-swing trading provisions of Section 16 of the Exchange Act. In addition, Magellan has adopted a "Stock Trading Policy" that restricts transactions by directors, officers and employees in Magellan securities, including providing that, in the case of directors, executive officers and certain other personnel, buying or selling of Ordinary Common Stock is permitted only during certain "window periods," generally following the release of quarterly or annual reports. The MIP prohibits transactions in shares awarded under the MIP that does not comply with this policy.

Amendment Or Termination Of The MIP

Unless earlier discontinued or terminated by the Committee, no awards may be granted under the MIP after January 4, 2014. The MIP permits the Committee to amend, alter, suspend, discontinue or terminate the MIP at any time, except that stockholder approval of a majority of the voting power of Magellan's Ordinary Common Stock and Multi-Vote Common Stock, voting together as a single class, is required if the amendment will (i) increase the total number of shares of Ordinary Common Stock that may be issued through options under the MIP, (ii) increase the maximum number of shares that may be awarded to any participant under the MIP, (iii) change the types of business criteria on which performance-based awards are based, or (iv) modify the requirements as to eligibility for participation under the MIP. In addition, Nasdaq rules also require such stockholder approval for any "material amendment."

Additional Information

The MIP is not subject to any provisions of the Employee Retirement Income Security Act of 1974, as amended, and is not qualified under Section 401(a) of the IRC.

The foregoing is only a summary of certain provisions of the MIP and is qualified in its entirety by reference to the text of the MIP, which is attached hereto as Annex A.

PRINCIPAL PROVISIONS OF THE PERFORMANCE INCENTIVES IN THE EXECUTIVE EMPLOYMENT AGREEMENTS

Magellan's senior executive officers before January 5, 2004 (Steven J. Shulman, Dr. Rene Lerer and Mark S. Demilio) entered into employment agreements with Magellan as January 5, 2004 in the form provided by the Reorganization Plan and providing for them to continue in their current positions. These employment agreements provided for the purchase by Mr. Shulman pursuant to the MIP of certain restricted shares of Ordinary Common Stock and for the grant to each such officer pursuant to the MIP of certain restricted shares of Ordinary Common Stock, all as of January 5, 2004, and for certain cash payments to such officers related to the income taxes incurred by them in connection with such transactions. See "BENEFITS UNDER THE NEW PLAN" below.

The Executive Employment Agreements also provide the annual base salaries for the senior executives and performance-based target bonus opportunities of 100% of base salary for Mr. Shulman, 75% for Mr. Lerer and 60% for Mr. Demilio (each, the "*Target Bonus*"). The applicable performance targets for each year are fixed by the Board of Directors or a duly authorized committee thereof during the first quarter of the year after consultation with executive (the "*Performance Targets*"); provided that (i) the Performance Targets established with respect to the Target Bonus may not be less favorable than the corporate performance targets applicable to other bonus-eligible executives of Magellan and (ii) the other terms and conditions applicable to the Target Bonus may not be less favorable than those established for other bonus-eligible executives of Magellan. The performance criteria upon which the Performance Targets are based must be one or more of the performance criteria in the MIP. The executives will earn the applicable portion of the Target Bonus based on the achievement of the Performance Targets, as follows:

<u>% Achievement of Performance Targets</u>	<u>% of Target Bonus Earned</u>
80%	0%
100%	100%
120% (Mr. Shulman only)	200% (Mr. Shulman only)

The portion of Target Bonus earned by the executive must be determined on a straight line interpolated basis for Performance Target achievement between the percentages set forth above.

The Board of Directors or a duly authorized committee thereof may, in its sole discretion, authorize Magellan to pay to the executive additional bonus amounts. Payments of any annual bonus must be made no later than the March 31 of the year following the year in which the bonus is earned (e.g., by March 31, 2005 for the bonus earned for 2004). The Target Bonus or applicable percentage thereof, if any, for a given year will be earned on December 31 of the applicable year and only if the executive's services continue at December 31 of such year, except in the case of death, in which case executive's estate or designated beneficiary shall be entitled to receive a pro rata portion of his Target Bonus for the year, or in the case of disability of the executive (unless the executive is entitled to long-term disability benefits), termination of his employment by the company without cause or resignation with good reason by the executive, in which case executive shall be entitled to a pro rata portion of his Target Bonus for the year plus two times his Target Bonus or, in the case of resignation by the executive for good reason in connection with a change of control of the Magellan, including at any time within a three year period following a change in control, three times his Target Bonus.

Additional Information

The foregoing is only a discussion of the incentive provisions of the Executive Employment Agreements. The full text of the Executive Employment Agreements, including terms other than the performance incentives are reproduced as Exhibits 2.11, 2.12 and 2.13 to Magellan's Current Report on Form 8-K/A filed with the SEC on January 7, 2004, and a discussion thereof may be found below under the heading "Compensation of Directors and Executive Officers".

PRINCIPAL PROVISIONS OF THE DIRECTOR PLAN

Purpose

The purpose of the Director Plan is to serve as part of an appropriate and efficient package of compensation arrangements intended to attract, retain and fairly compensate individuals with the appropriate skills and qualifications to serve as our directors while increasing participating directors' stock ownership in Magellan and thereby further aligning their interests and those of our stockholders.

The Reorganization Plan provided for the composition of the initial Board of Directors of Magellan upon consummation of its reorganization and specifically provided that a majority of the Board members be independent directors. The initial Board members were selected by parties in interest in the reorganization proceeding, which included the Majority Stockholders. In order to help assure commonality of interest between directors and stockholders, an equity component of the director compensation arrangements was contemplated. On the date the Reorganization Plan became effective, when the initial Board of Directors was seated, it approved a compensation program for the independent Directors, including the principal terms of the equity compensation aspects, as described below. These terms were formalized in the Director Plan, which was approved by the Board on April 29, 2004. As an arrangement incident to the consummation of the Reorganization Plan and the seating of the new Board of Directors, consent of the Majority Stockholders to the principal terms of the Director Plan was given contemporaneously with the Board's initial action on the plan, as of January 5, 2004, satisfying the requirements of Nasdaq's listing standards for shareholder approval (applicable in this case because the Director Plan was adopted at the same time as the listing of Magellan's Ordinary Common Stock upon the consummation of the Reorganization Plan, rather than preceding consummation and a term of the Reorganization Plan as in the case of the MIP).

Number of Shares

The Director Plan provides for one-time grants to eligible directors as of January 21, 2004 of 2,719 shares of Ordinary Common Stock, based on a formula providing for a fixed grant of 2,152 shares and the additional number of shares that equal \$13,333 divided by the average closing price of the shares in

trading on the Nasdaq for the 20 consecutive trading days following the Plan Effective Date. A total of 13,595 shares of Ordinary Common Stock have been issued under the Director Plan as of the date hereof. The Director Plan is only applicable to grants made before the 2005 Annual Meeting of Stockholders of Magellan and, except in circumstances where there is a change in the Board's composition before such time, no further issuances under the plan are contemplated. The Director Plan limits the aggregate number of shares of Ordinary Common Stock that may be issued under the plan to 20,000, subject to adjustment as determined by the Board of Directors in the event of any recapitalization, stock split, stock dividend, merger or consolidation in which Magellan is the surviving corporation or similar transaction.

Administration of Director Plan

The Director Plan is administered by the Board of Directors in its discretion.

Eligibility

Those directors of Magellan commencing service on the Board as of the Plan Effective Date or elected as directors of Magellan after that date and before our 2005 annual meeting of stockholders and who are not members of management and not associated with Onex are eligible to be selected by the Board of Directors to receive awards under the Director Plan. Five persons currently participate in the Director Plan.

Types of Awards

The Director Plan permits the granting of awards of Ordinary Common Stock subject to certain restrictions on transfer and forfeiture of the shares granted.

Limitations On Transfer And Resale Of Shares

Until January 5, 2006 or the earlier of the participant's death or the termination of the director's service as a director, other than in the case of a termination by reason of a removal of the director from office for cause (as provided in the Magellan certificate of incorporation as in effect on the time), the shares awarded under the Director Plan may not be sold or otherwise disposed of (except by operation of law as provided below), without the prior, written consent of the Board of Directors.

Unless sold pursuant to a Registration Statement filed by Magellan under the Securities Act, Directors of Magellan will, in order to resell any shares of Ordinary Common Stock acquired by them under the Director Plan, be required to observe the resale limitations of Rule 144 of the Securities Act. Directors will also be subject to the share ownership reporting requirements and short-swing trading provisions of Section 16 of the Exchange Act. In addition, Magellan's "Stock Trading Policy" restricts the buying or selling of Ordinary Common Stock by directors to certain "window periods" following the issuance or quarterly and annual reports.

Additional Information

The Director Plan is not subject to any provisions of the Employee Retirement Income Security Act of 1974 and is not qualified under Section 401(a) of the IRC

Amendment Or Termination Of The Director Plan

The Board of Directors may amend or terminate the Director Plan at any time.

Additional Information

The foregoing is only a summary of certain provisions of the Director Plan and is qualified in its entirety by reference to the text of the Director Plan, which is attached hereto as Annex B.

CERTAIN FEDERAL INCOME TAX MATTERS

Due to the complexity of the applicable provisions of the IRC, only general tax principles affecting awards which may be granted under the MIP and the Director Plan are described below. The general tax principles discussed below are subject to changes that may be brought about by future legislation or by regulations and administrative rulings, which may be applied on a retroactive basis. Participants receiving Benefits under the MIP or Ordinary Common Stock under the Director Plan may be subject to state or local income taxes.

Management Incentive Plan

Incentive Stock Options.

Options granted under the MIP may be "incentive stock options" within the meaning of Section 422 of the IRC. To qualify as an incentive stock option, an option must meet certain conditions specified in the IRC. We believe that under currently applicable provisions of the IRC, as a general rule:

At the time an incentive stock option is granted, the optionholder will not recognize any taxable income.

At the time of exercise of the option, no income will be realized by the optionholder for purposes of the regular income tax.

If Ordinary Common Stock received upon exercise of an incentive stock option is sold or otherwise disposed of more than two years from the date the option was granted and more than one year after the transfer of shares of Ordinary Common Stock to the optionholder upon the exercise of the option, then:

- (a) The difference between the option exercise price paid and the sale price paid to the optionholder for the shares will result in long-term capital gain or loss to the optionholder.
- (b) No deduction will be allowed to us for federal income tax purposes in connection with the grant or exercise of the option.

If Ordinary Common Stock is sold or otherwise disposed of before the two-year holding period described above is satisfied (a "*Disqualifying Disposition*"), then:

- (a) The optionholder will recognize ordinary income at the time of the sale or other disposition in an amount equal to the lesser of (i) the difference between the option exercise price and the fair market value of the shares at the time the option was exercised and (ii) the difference between the option exercise price and the amount realized upon the sale or other disposition of the shares. Additionally, the optionholder will recognize short-term or long-term capital gain, depending upon whether the holding period for the shares is more or less than one year, to the extent of any excess of the amount realized upon the sale or other disposition of the shares over the fair market value of the shares upon exercise of the option.
- (b) Magellan will be allowed a tax deduction at the time and in the amount of the ordinary income recognized by the optionholder if and to the extent the amount satisfies the general rules concerning deductibility of compensation. Magellan may also be required to withhold income tax in the amount of ordinary income recognized by the optionholder and to report the amount to the Internal Revenue Service.

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- (c) Special rules may apply to optionholders who are subject to Section 16(b) of the Exchange Act. Such optionholders should consult their own tax counsel regarding these special rules.
- (d) Different rules apply to optionholders who are subject to the alternative minimum tax. For example, the amount by which the fair market value of the stock acquired by exercising an incentive stock option exceeds the exercise price is considered a "preference" and included in the calculation of alternative minimum tax. An optionholder granted incentive stock options subject to the alternative minimum tax should consult his or her own tax counsel regarding the effect of the AMT.

The MIP provides that in lieu of cash an optionholder may, with the approval of the Committee, exercise his or her option by tendering shares of Magellan stock that the optionholder owns. Upon such an exercise, the optionholder generally will recognize no gain or loss with respect to the tendered shares (except possibly for purposes of the alternative minimum tax). However, if the shares tendered as payment of the option exercise price were themselves acquired upon exercise of an incentive stock option, then to avoid gain or loss the optionholder must have held the tendered shares for at least two years from the date the option for the tendered shares was granted and at least one year after the transfer of the tendered shares to the optionholder upon the exercise of the option. No income will be realized by the optionholder upon the receipt of additional shares of Ordinary Common Stock as a result of exercising the newer option. The optionholder's basis for the number of shares acquired will be the same as the basis in the tendered shares, and additional shares acquired by the optionholder will upon exercise of the newer option have a zero basis (or if the amount, if any, actually paid for such shares).

Non-Incentive Stock Options.

Options may also be granted under the MIP that do not qualify as incentive stock options under Section 422 of the IRC. All our options granted to date are not incentive stock options. We believe that under currently applicable provisions of the IRC, as a general rule:

At the time a non-incentive option is granted, the optionholder will not recognize any taxable income.

Upon the exercise of the option, the optionholder will recognize ordinary income in the amount by which the fair market value of the Ordinary Common Stock at the time of exercise exceeds the option exercise price.

If the optionholder pays the option exercise price by tendering other shares of Ordinary Common Stock then owned by the optionholder, the optionholder will recognize ordinary income in an amount equal to the excess of the fair market value of the shares received upon exercise of the option over the fair market value of the shares tendered by the optionholder as payment of the option exercise price.

Magellan will be allowed an income tax deduction in the amount that, and for the taxable year of the optionholder in which the optionholder recognizes ordinary income, to the extent such amount satisfies the general rules concerning deductibility of compensation. Magellan will report the amount of such income to the Internal Revenue Service and withhold or otherwise collect income tax upon the amount as required by the IRC.

If the optionholder pays the option exercise price in cash, the optionholder's tax basis in the shares received will be equal to the sum of the option exercise price plus the amount that the optionholder is required to recognize as income as a result of the exercise of the option. If the optionholder pays the option exercise price by tendering other shares of Ordinary Common Stock then owned by the optionholder, the optionholder will not recognize gain or loss on the

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tendered shares, but the optionholder's original tax basis for such number of acquired shares equal to the number of shares tendered as payment will be the same as the optionholder's adjusted tax basis for the tendered shares. Any additional shares acquired upon exercise of the option will have a tax basis equal to the sum of the amount paid in cash, if any, plus any amount that the optionholder is required to recognize as income as a result of the exercise of the option.

When an optionholder sells shares acquired by the exercise of a non-incentive option, the difference between the amount received and the adjusted tax basis of the shares will be gain or loss. Such gain will be long-term or short-term capital gain, depending upon whether the holding period for such shares is more or less than one year.

The holding period for shares acquired for capital gains purposes is generally measured from the time the option is exercised. However, if an option is exercised by tendering shares, the holding period for the acquired shares having the same basis as tendered shares will include the period during which the tendered shares were held.

Special rules may apply to optionholders who are subject to Section 16(b) of the Exchange Act.

The MIP provides that the Committee, subject to its discretion, applicable law and such terms and conditions as it may adopt, may permit an optionholder to satisfy the tax obligation resulting from exercise of a non-incentive option, in lieu of cash, by (i) electing to have us withhold a portion of the shares of Ordinary Common Stock deliverable upon exercise of an option with a fair market value equal to the amount of the tax obligation or (ii) delivering to us such shares already owned by the optionholder with a fair market value equal to the amount of the tax obligation. The election must be made on or before the date that the amount of tax to be withheld is determined. Shares of Ordinary Common Stock withheld by us may be treated as if first issued to the optionholder upon exercise of the option, resulting in gain as described above, and then resold to us, which may result in additional gain or loss.

Stock Appreciation Rights.

The tax consequences of the grant of a stock appreciation right are generally as follows: At the time a stock appreciation right is granted, an optionholder will not recognize any taxable income. At the time of exercise of a stock appreciation right, the optionholder will recognize ordinary income equal to the cash or the fair market value of the shares of Ordinary Common Stock received at that time. Generally, the optionholder will have a basis in any shares received equal to the fair market value at the time the optionholder recognizes ordinary income as a result of exercising the stock appreciation right.

Any additional gain or loss recognized on a subsequent sale or exchange of the shares will qualify as a capital gain or loss. The holding period for shares acquired by exercising a stock appreciation right, for purposes of determining whether any capital gain or loss on their subsequent sale is long-term or short-term, depending upon whether the holding period is more or less than one year, will begin at the time of the exercise of the stock appreciation right.

Subject to the general rules concerning deductibility of compensation, Magellan will be allowed an income tax deduction in the amount that, and for the taxable year of the holder in which the holder of a stock appreciation right recognizes ordinary income upon the exercise of a stock appreciation right.

Special rules may apply to holders of stock appreciation rights whose trading in shares is restricted by Section 16(b) of the Exchange Act.

Restricted Stock Awards.

The tax consequences of the grant and vesting of restricted stock awards are generally as follows. Ordinary Common Stock issued in connection with a restricted stock award is subject to a substantial risk of forfeiture and as such is not subject to taxation on the date restricted stock is granted, unless the holder makes an election under Section 83(b) of the IRC.

At the end of the restricted period, the holder of a restricted stock award will be able to sell, exchange or otherwise dispose of the Ordinary Common Stock issued in connection with the award. If the holder has not made a Section 83(b) election as described below, the holder will recognize ordinary income equal to the fair market value of the Ordinary Common Stock at the time the restrictions lapse. The holder will have a basis in the Ordinary Common Stock received equal to its fair market value at the time the holder recognizes ordinary income as a result of the lapse of the restrictions. Any additional gain recognized on a subsequent sale or exchange of the Ordinary Common Stock will not be ordinary income but will qualify as a capital gain. The holding period for shares acquired in connection with a restricted stock award, for purposes of determining whether any capital gain or loss on their subsequent sale is long-term or short-term, depending upon whether the holding period is more or less than one year, will begin when the holder recognizes ordinary income.

Section 83(b) of the IRC also provides that a holder may elect, not later than 30 days after the date the restricted stock award is originally made, to include as ordinary income the fair market value of the Ordinary Common Stock at the time of transfer of such shares. In that case, the holder's basis in the Ordinary Common Stock will equal its fair market value at such time. Any future appreciation in the fair market value of the Ordinary Common Stock will be a capital gain as described above. If the Ordinary Common Stock subsequently is forfeited under the terms of the restricted stock award, the holder will not be allowed an ordinary income tax deduction with respect to such forfeiture.

Subject to the general rules concerning deductibility of compensation, Magellan will be allowed an income tax deduction in the amount that, and for the taxable year of the holder in which the holder recognizes ordinary income in connection with a restricted stock award.

Dividends, if any, received by the holder before the end of the restricted period will be taxed as ordinary income to the holder and also will be deductible by us subject to the foregoing general rules concerning deductibility of compensation.

Performance Awards and Restricted Stock Units.

The tax consequences of the grant and any payment with respect to a performance award or stock unit (collectively referred to in this document as "*deferred awards*") are as follows. At the time a deferred award is granted, the holder will not recognize any taxable income. At the time a deferred award matures (*i.e.*, is paid), the holder will recognize ordinary income equal to the cash or fair market value of the Ordinary Common Stock received by the holder at that time. The holder will have a basis in any shares received equal to the fair market value of the shares at the time the holder recognizes ordinary income as a result of the maturity of a deferred award. Any additional gain recognized on a subsequent sale or exchange of the shares will not be compensation but will qualify as a capital gain. The holding period for shares acquired upon maturity of a deferred award, for purposes of determining whether any capital gain or loss on their subsequent sale is long-term or short-term, depending upon whether the holding period is more or less than one year, shall begin upon the maturity of the deferred award.

Subject to the general rules concerning deductibility of compensation, Magellan will be allowed an income tax deduction in the amount that, and for the taxable year of the holder in which the holder recognizes ordinary income upon the maturity of a deferred award.

Special rules apply holders of deferred awards whose trading in shares is restricted by Section 16(b) of the Exchange Act.

Change In Control.

Payments or other benefits resulting from Benefits, including acceleration of the exercisability of options and the lapse of restrictions with respect to restricted stock awards granted under the MIP, if a result of "change in control" provisions in award agreements or other arrangements, may be compensatory payments that, when made to certain defined individuals (such as Magellan's executive officers), may be deemed to be "parachute payments" within the meaning of Section 280G of the IRC. Section 280G provides that, if parachute payments to an individual equal or exceed three times the individual's base amount (as described below), the excess of the parachute payments over the base amount (the "excess parachute payments") will not be deductible by us and will be subject to a 20% excise tax payable by the individual. In addition, under the Executive Employment Agreements, the Company is obligated to make additional cash payments to "gross up" the Executives for any such excise tax under Section 280G so that they will receive the same benefit from their awards as if such excise tax were not applicable, which gross up payments would also be nondeductible to the Company as excess parachute payments. As used in Section 280G, base amount is the individual's average annual compensation over the five taxable years preceding the taxable year in which change in control occurs. It should also be noted that excess parachute payments generally reduce the \$1,000,000 deduction limitation under Section 162(m) of the IRC.

Director Plan

The tax consequences of the grant of restricted stock awards on the terms provided by the Director Plan are generally as follows. Ordinary Common Stock issued in connection with a restricted stock award is treated as compensation for services rendered and the holder will recognize ordinary income equal to the fair market value of the Ordinary Common Stock at the time of grant. The holder will have a basis in the Ordinary Common Stock received equal to the amount of ordinary income so recognized. Any additional gain recognized on a subsequent sale or exchange of the Ordinary Common Stock will not be ordinary income but will qualify as a capital gain. The holding period for shares acquired in connection with a restricted stock award, for purposes of determining whether any capital gain or loss on their subsequent sale is long-term or short-term, depending upon whether the holding period is more or less than one year, will begin when the holder recognizes ordinary income.

Subject to the general rules concerning deductibility of compensation, Magellan will be allowed an income tax deduction in the amount that, and for the taxable year of the holder in which the holder recognizes ordinary income in connection with a restricted stock award.

Dividends, if any, received by the holder before the end of the restricted period will be taxed as ordinary income to the holder and also will be deductible by us subject to the foregoing general rules concerning deductibility of compensation.

Possible Impact of New Tax Legislation

In October of this year, the Congress enacted and the President signed the American Jobs Creation Act of 2004 (the "Jobs Act"), which, among other things, places numerous requirements on deferred compensation arrangements. Although both the MIP and the Director Plan are designed as incentive and not deferred compensation plans, some Awards under the Plan may be considered to involve deferred compensation arrangements that are subject to the Jobs Act's requirements. As a result, the Jobs Act may modify the tax treatment of existing and future awards under the MIP and may require conforming changes in the Plan and/or Awards, possibly including Awards already made under the Plan. The general tax principles described above do not reflect the requirements of the Act and the regulations to be promulgated thereunder. Failure of deferred compensation arrangements to comply with these new requirements can subject the recipient of the deferred compensation (but not the Company) to income tax at any earlier time than provided by pre-existing tax law and/or to significant tax penalties. In particular, the Jobs Act appears to cover stock options granted to participants which have an exercise price less than fair market value on the date of grant and which were not fully vested on or before December 31, 2004. Depending on what further guidance is issued from the Treasury Department regarding options subject to the Jobs Act, the terms of such options may have to be significantly modified, or replacement of such options with different Awards or arrangement may be appropriate, in order to comply with the new deferred compensation rules so as to avoid the penalty taxes provided by the Act. It is anticipated that some guidance on the relevant issues will be issued by the Treasury Department before the end of 2004 and that some transition period will be provided during which the MIP or Awards outstanding under the MIP may be altered or replaced with alternative incentive arrangements so as to conform to the requirements of the Act without the incurrence of a tax or penalty.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT(1)

Security Ownership of Management

Ordinary Common Stock

The following table sets forth as of October 31, 2004 information concerning the beneficial ownership of Ordinary Common Stock by Magellan's: (i) current directors, (ii) chief executive officer during the last completed fiscal year and the four most highly compensated executive officers, other than the chief executive officer, who were serving as of the end of the last completed fiscal year (collectively, the "Named Executive Officers") and (iii) current directors and executive officers as a group.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)(2)	Percent of Class(3)
Steve Shulman(4)	167,926	*
René Lerer, M.D.(5)	50,378	*
Robert M. LeBlanc(6)	5,166	*
Mark L. Hilson(6)	4,583	*
Saul E. Burian(7)	2,719	*
Michael Diament(7)	2,719	*
Michael P. Ressler(7)	2,719	*
William J. McBride(7)	2,719	*
Robert Haft(7, 8)	85,573	*
Mark Demilio(9)	33,649	*
Henry T. Harbin, M.D.(10)	206	*
Megan Arthur(11)	6	*
All directors and executive officers as a group(12 persons)(12)	358,395	1.3%

*

Less than 1.0 percent of total outstanding.

(1)

Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, Magellan 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)

Shares shown as beneficially owned do not include shares that may be acquired upon the exercise of stock options issued under the MIP, as no such options held by the indicated individuals are exercisable within 60 days of October 31, 2004.

(3)

Based on an aggregate of 26,883,016 shares of Ordinary Common Stock issued and outstanding as of October 31, 2004 plus, in determining percentage ownership, shares that are considered to be beneficially owned as a result of the ability to exercise warrants that are exercisable by the individuals involved within 60 days plus the number of shares of Ordinary Common Stock issuable in respect of the conversion into shares of Ordinary Common Stock of shares of the outstanding Multi-Vote Common Stock on such date, which are so convertible at any time.

(4)

Represents 83,963 shares of restricted stock granted to Mr. Shulman under the MIP, and an additional 83,963 shares purchased by Mr. Shulman under the MIP, as stipulated in his employment agreement. Mr. Shulman exercises sole voting power in respect of such 167,926 shares in accordance with the MIP, but may not dispose of such shares until vested in accordance therewith.

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- (5) Represents restricted stock granted to Dr. Lerer under the MIP as to which Dr. Lerer exercises sole voting power, in accordance with the MIP, but which he may not dispose of until vested in accordance therewith.
- (6) Represents the shares of Ordinary Common Stock considered beneficially owned by Messrs. Hilson and LeBlanc by reason of pecuniary interests held by them in shares of Multi-Vote Common Stock owned by Onex. Excludes the remaining shares of Multi-Vote Common Stock owned by Onex, of which Messrs. Hilson and LeBlanc could be deemed beneficial owners by virtue of their positions as executives of Onex but as to which they disclaim beneficial ownership. See below.
- (7) Represents 2,719 shares granted to directors who are neither employees of Magellan nor affiliated with Onex as additional compensation for their services on behalf of Magellan pursuant to the Director Plan, as to which such directors exercise sole voting power but which they may not dispose of until January 5, 2006 or the earlier termination as service as directors (other than upon removal for cause).
- (8) Robert Haft is the Principal Manager of Morgan Noble LLC, which owns 82,854 shares of Ordinary Common Stock. Mr. Haft maintains a 95 percent economic interest in Morgan Noble LLC, and his spouse has an in the remaining 5 percent economic interest of Morgan Noble LLC. Mr. Haft maintains voting and dispositive power with respect to these shares.
- (9) Represents 33,585 shares of restricted stock granted to Mr. Demilio under the MIP, as stipulated in his employment agreement, as to which Mr. Demilio exercises sole voting power, but which he may not dispose of until vested in accordance therewith, plus 32 shares acquired by him as part of the Reorganization Plan in respect of pre-reorganization shares of common stock owned by him plus 32 additional shares which Mr. Demilio has the right to purchase pursuant to the immediately exercisable warrants he received under the Reorganization Plan in respect of shares of pre-reorganization share of common stock owned by him.
- (10) Although a Named Executive Officer, Dr. Harbin ceased as of the Plan Effective Date to serve as Chairman of the Board of Directors. On the Plan Effective Date, the shares of Magellan's previously authorized common stock owned by Dr. Harbin were converted in accordance with the Reorganization Plan into 103 shares of Ordinary Common Stock and warrants to purchase another 103 shares of Ordinary Common Stock.
- (11) Although a Named Executive Officer, as of July 2, 2004, Ms. Arthur resigned as an officer of and terminated her employment by Magellan. In connection therewith, she forfeited the options for shares of Ordinary Common Stock that had been issued to her under the MIP. On the Plan Effective Date, the shares of Magellan's previously authorized common stock owned by Ms. Arthur were converted in accordance with the Reorganization Plan into 6 shares of Ordinary Common Stock and warrants to purchase another 6 shares of Ordinary Common Stock.
- (12) Excludes Dr. Harbin and Ms. Arthur, neither of whom is a director or executive officer of Magellan currently. Includes the shares listed above plus 16 shares and immediately exercisable warrants to purchase another 16 shares acquired by an executive officer as part of the Reorganization Plan in respect of pre-reorganization shares of common stock owned by such executive officer. See note 3 regarding the calculation of the shares outstanding or considered outstanding for purposes of determining the percentage of the class of Ordinary Common Shares beneficially owned by such directors and officers as a group.

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Multi-Vote Common Stock

The following table sets forth information as of October 31, 2004 concerning the beneficial ownership of Multi-Vote Common Stock by Magellan's: (i) current directors, (ii) Named Executive Officers and (iii) current directors and executive officers as a group.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)(2)	Percent of Class (3)
Steve Shulman		
René Lerer, M.D.		
Robert M. LeBlanc(4)	5,166	*
Mark L. Hilson(4)	4,583	*
Saul E. Burian		
Michael Diament		
Michael P. Ressner		
William J. McBride		
Robert Haft		
Mark Demilio		
Henry T. Harbin, M.D.		
Megan Arthur		
All directors and executive officers as a group (12 persons)(5)	9,749	*

*
Less than 1.0 percent of total outstanding.

(1) Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, Magellan 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) No options to purchase Multi-Vote Common Stock have been granted.

(3) Based on an aggregate of 8,487,750 shares of Multi-Vote Common Stock issued and outstanding as of October 31, 2004.

(4) Represents the shares of Multi-Vote Common Stock considered beneficially owned by Messrs. Hilson and LeBlanc by reason of pecuniary interests held by them in shares of Multi-Vote Common Stock owned by Onex. Excludes the remaining shares of Multi-Vote Common Stock owned by Onex, of which Messrs. Hilson and LeBlanc could be deemed beneficial owners by virtue of their positions as executives of Onex but as to which they disclaim beneficial ownership. See below.

(5) Excludes Dr. Harbin and Ms. Arthur, neither of whom is a director or executive officer of Magellan currently.

Security Ownership of Certain Beneficial Owners

The following table sets forth certain information as of October 31, 2004 (except as otherwise noted) with respect to any person known by Magellan to be the beneficial owner of more than five percent of the outstanding Ordinary Common Stock or Multi-Vote Common Stock:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class(1)
Multi-Vote Common Stock	Magellan Holdings L.P. 712 Fifth Avenue New York, NY 10019	8,487,750	100.0%
Ordinary Common Stock	Magellan Holdings L.P.(2) 712 Fifth Avenue New York, NY 10019	8,487,750	24.0%
Ordinary Common Stock	Amalgamated Gadget LP(3) 301 Commerce Street Suite 2975 Fort Worth, TX 76102	2,459,431	9.1%
Ordinary Common Stock	Paul Tudor Jones(4) c/o Tudor Investment Corporation 1275 King Street Greenwich, CT 06831	2,457,283	9.1%
Ordinary Common Stock	Daniel S. Loeb/Third Point Management Co LLC(5) 360 Madison Avenue 24 th Floor New York, NY 10017	2,338,790	8.7%

- (1) The information regarding the beneficial ownership of Common Stock by such individual or entity is included herein in reliance on its report filed with the SEC, except that the percentage of Common Stock beneficially owned is based upon Magellan's calculations made in reliance upon the number of shares of Common Stock reported to be beneficially owned by such person or entity in such report (including shares which may be acquired within 60 days) and 26,883,016 shares of Ordinary Common Stock and 8,487,750 shares of Multi-Vote Common Stock issued and outstanding as of October 31, 2004.
- (2) Based upon information set forth in a Schedule 13D filed with the SEC on January 16, 2004 and a Form 4 filed with the SEC on July 1, 2004. Shares of Ordinary Common Stock are issuable upon conversion of shares of Multi-Vote Common Stock. Onex Corporation is the general partner of Onex Partners GP, Inc. ("*Partners GP*"), which is the general partner of Onex Partners GP LP ("*Partners GP LP*"), which is the general partner of Onex Partners LP ("*Partners*"), which is the general partner of Magellan Holdings L.P. ("*Holdings*"). All of the shares beneficially owned by Holdings may be deemed beneficially owned by each of Partners, Partners GP LP, Partners GP and Onex Corporation. Mr. Gerald W. Schwartz is the Chairman of the Board of Directors, President and Chief Executive Officer of Onex Corporation. Mr. Schwartz, as with the entities above (collectively, the "*Reporting Persons*"), may be deemed a beneficial owner of the shares of the Ordinary Common Stock beneficially owned by the other Reporting Persons, but disclaims beneficial ownership of such shares. These converted shares were added to the amount of currently issued and outstanding Ordinary Common Stock noted above in (1) in order to determine the percent of class beneficially owned by Holdings. Holdings shares voting and dispositive power of all shares with the other Reporting Persons.
- (3) Based upon information set forth in a Schedule 13G filed with the SEC on January 8, 2004. Amalgamated Gadget LP has sole voting and dispositive power of all shares.
- (4) Based upon information set forth in a Schedule 13G filed with the SEC on January 12, 2004. Amount includes 181,003 shares owned directly by Tudor Proprietary Trading, LLC ("*TPT*"), 10,582 shares owned by The Altar Rock Fund LP ("*Altar Rock*"), 1,932,805 shares owned by The Raptor Global Portfolio, Ltd. ("*Raptor Portfolio*") and 332,893 shares owned by The Tudor BVI

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Global Portfolio, Ltd. ("*BVI Portfolio*"). Tudor Investment Corporation ("*TIC*") is the sole general partner of Altar Rock and provides investment advisory services to Raptor Portfolio and BVI Portfolio. As such, TIC may be deemed to be a beneficial