Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2016

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No. 1-6639

MAGELLAN HEALTH, INC.

(Exact name of registrant as specified in its charter)

Delaware	**58-1076937**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4800 Scottsdale Rd, Suite 4400 Scottsdale, Arizona	**85251**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(602) 572-6050**

Securities registered pursuant to Section 12(b) of the Act: **None.**

Title of Each Class	Name of Each Exchange on which Registered
Ordinary Common Stock, par value $0.01 per share	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: **None.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the Ordinary Common Stock ("common stock") held by non-affiliates of the registrant based on the closing price on June 30, 2016 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $1.6 billion.

The number of shares of Magellan Health, Inc.'s common stock outstanding as of February 22, 2017 was 23,599,396.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the 2016 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

MAGELLAN HEALTH, INC.

REPORT ON FORM 10-K

For the Fiscal Year Ended December 31, 2016

Table of Contents

PART I

Cautionary Statement Concerning Forward-Looking Statements

This Form 10-K includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Examples of forward-looking statements include, but are not limited to, statements the Company (as defined below) makes regarding our future operating results and liquidity needs. Although the Company believes that its plans, intentions and expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such plans, intentions or expectations will be achieved. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements are set forth under the heading "Risk Factors" in Item 1A and elsewhere in this Form 10-K. When used in this Form 10-K, the words "estimate," "anticipate," "expect," "believe," "should" and similar expressions are intended to be forward-looking statements.

Any forward-looking statement made by the Company in this Form 10-K speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for the Company to predict all of them. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

You should also be aware that while the Company from time to time communicates with securities analysts, the Company does not disclose to them any material non-public information, internal forecasts or other confidential business information. Therefore, to the extent that reports issued by securities analysts contain projections, forecasts or opinions, those reports are not the Company's responsibility and are not endorsed by the Company. You should not assume that the Company agrees with any statement or report issued by any analyst, irrespective of the content of the statement or report.

Item 1. Business

Magellan Health, Inc. ("Magellan) was incorporated in 1969 under the laws of the State of Delaware. The Company is engaged in the healthcare management business. Through 2005, the Company predominantly operated in the managed behavioral healthcare business. As a result of certain acquisitions and material growth since 2005, the Company expanded into integrated healthcare management, and is focused on managing the fastest growing, most complex areas of health, including special populations, complete pharmacy benefits and other specialty areas of healthcare.

Magellan's executive offices are located at 4800 Scottsdale Road, Suite 4400, Scottsdale, Arizona 85251, and its telephone number at that location is (602) 572-6050. References in this report to the "Company" include Magellan and its subsidiaries.

Business Overview

The Company is engaged in the healthcare management business, and is focused on managing the fastest growing, most complex areas of health, including special populations, complete pharmacy benefits and other specialty areas of healthcare. The Company develops innovative solutions that combine advanced analytics, agile technology and clinical excellence to drive better decision making, positively impact health outcomes and optimize the cost of care for the members we serve. The Company provides services to health plans and other managed care organizations ("MCOs"), employers, labor unions, various military and governmental agencies and third party administrators ("TPAs").

Healthcare

The Healthcare segment ("Healthcare") includes the Company's: (i) management of behavioral healthcare services and employee assistance program ("EAP") services, (ii) management of other specialty areas including diagnostic imaging and musculoskeletal management, and (iii) the integrated management of physical, behavioral and

pharmaceutical healthcare for special populations, delivered through Magellan Complete Care ("MCC"). These special populations include individuals with serious mental illness ("SMI"), dual eligibles, long-term services and supports and other populations with unique and often complex healthcare needs.

The Company's coordination and management of these healthcare services are provided through its comprehensive network of medical and behavioral health professionals, clinics, hospitals and ancillary service providers. This network of credentialed and privileged providers is integrated with clinical and quality improvement programs to improve access to care and enhance the healthcare experience for individuals in need of care, while at the same time making the cost of these services more affordable for our customers. The Company generally does not directly provide or own any provider of treatment services, although it does employ licensed behavioral health counselors to deliver non-medical counseling under certain government contracts.

The Healthcare segment's commercial division serves a variety of customers, with services, inclusive of special population management, provided under contracts with health plans and accountable care organizations for some or all of their commercial, Medicaid and Medicare members, as well as with employers. The government division contracts with local, state and federal governmental agencies to provide services to recipients under Medicaid, Medicare and other government programs.

The Company provides its management services primarily through: (i) risk-based products, where the Company assumes all or a substantial portion of the responsibility for the cost of providing treatment services in exchange for a fixed per member per month fee and (ii) administrative services only ("ASO") products, where the Company provides services such as utilization review, claims administration and/or provider network management, but does not assume responsibility for the cost of the treatment services.

Pharmacy Management

The Pharmacy Management segment ("Pharmacy Management") comprises products and solutions that provide clinical and financial management of pharmaceuticals paid under medical and pharmacy benefit programs. Pharmacy Management's services include: (i) pharmacy benefit management ("PBM") services; (ii) pharmacy benefit administration ("PBA") for state Medicaid and other government sponsored programs; (iii) pharmaceutical dispensing operations; (iv) clinical and formulary management programs; (v) medical pharmacy management programs; and (vi) programs for the integrated management of specialty drugs across both the medical and pharmacy benefit that treat complex conditions, regardless of site of service, method of delivery, or benefit reimbursement.

Pharmacy Management's services are provided under contracts with health plans, employers, MCOs, state Medicaid programs, Medicare Part D and other government agencies, and encompass risk-based and fee-for-service ("FFS") arrangements. In addition, Pharmacy Management has subcontract arrangements to provide PBM services for certain Healthcare customers.

Corporate

This segment of the Company is comprised primarily of amounts not allocated to the Healthcare and Pharmacy Management segments that are largely associated with costs related to being a publicly traded company. In order to better represent the operations of the Company's segments, effective January 1, 2016, the Company began allocating operational and corporate support costs to the Healthcare and Pharmacy Management segments. These costs, which were historically reported in the Corporate segment, include operational support functions such as sales and marketing and information technology, as well as corporate support functions such as executive, finance and human resources. Prior period balances have been reclassified to reflect this change.

See Note 10—"Business Segment Information" to the consolidated financial statements for certain segment financial data relating to our business set forth elsewhere herein.

Acquisition of Armed Forces Services Corporation

Pursuant to the May 15, 2016 share purchase agreement (the "AFSC Agreement") with Armed Forces Services Corporation ("AFSC"), on July 1, 2016 the Company acquired all of the outstanding equity interests of AFSC (the

"AFSC Acquisition"). AFSC has extensive experience providing and managing behavioral health and specialty services to various agencies of the federal government, including all five branches of the U.S. Armed Forces.

As consideration for the AFSC Acquisition, the Company paid $117.5 million in cash, subject to working capital adjustments. There are additional potential contingent payments up to a maximum aggregate amount of $10 million. The potential contingent payments are based on the retention of certain core business by AFSC.

The Company reports the results of operations of AFSC within its Healthcare segment.

For further discussion, see Note 3—"Acquisitions" to the consolidated financial statements set forth elsewhere herein.

Acquisition of Veridicus Holdings, LLC

Pursuant to the November 19, 2016 purchase agreement (the "Veridicus Agreement") with Veridicus Holdings, LLC ("Veridicus") and Veridicus Health, LLC, on December 13, 2016 the Company acquired all of the outstanding equity interests of Veridicus (the "Veridicus Acquisition"). Veridicus is a PBM with a unique set of clinical services and capabilities.

As consideration for the Veridicus Acquisition, the Company paid $72.5 million in cash, subject to working capital adjustments.

The Company reports the results of operations of Veridicus within its Pharmacy Management segment.

For further discussion, see Note 3—"Acquisitions" to the consolidated financial statements set forth elsewhere herein.

Acquisition of The Management Group, LLC

Pursuant to the February 9, 2016 purchase agreement (the "TMG Agreement") with The Management Group, LLC ("TMG"), on February 29, 2016 the Company acquired all of the outstanding equity interests of TMG. TMG is a company with 30 years of expertise in community-based long-term care services and supports.

As consideration for the transaction, the Company paid a base price of $14.8 million in cash, including net receipts of $0.2 million for working capital adjustments. In addition to the base purchase price, the TMG agreement provides for potential contingent payments up to a maximum aggregate of $15.0 million. The potential future payments are contingent upon the Company being awarded additional managed long-term services and supports contracts.

The Company reports the results of operations of TMG within its Healthcare segment.

For further discussion, see Note 3—"Acquisitions" to the consolidated financial statements set forth elsewhere herein.

Industry

According to the Centers for Medicare and Medicaid Services ("CMS"), total U.S. healthcare spending was projected to have increased 4.8 percent to nearly $3.4 trillion in 2016, representing approximately 18.1 percent of the gross domestic product. With the uncertain economic environment, rising healthcare costs, increased fiscal pressures on federal and state governments and the uncertainty around the full implementation of healthcare reform, healthcare spending will continue to be one of the greatest pressing issues for the American public and government agencies. The rapidly evolving clinical and technological environment demands the expertise of specialized healthcare management services to provide both high-quality and affordable care.

Over the last several years, the Company has transformed itself into a healthcare management business that is focused on managing the fastest growing, most complex areas of health, including special populations, complete pharmacy benefits and other specialty areas of healthcare.

Business Strategy

The Company is engaged in the healthcare management business, and is focused on managing the fastest growing, most complex areas of health, including special populations, complete pharmacy benefits and other specialty areas of health. The Company develops innovative solutions that combine advanced analytics, agile technology and clinical excellence to drive better decision making, positively impact health outcomes and optimize the cost of care for the members it serves. The Company currently provides managed healthcare services, which include the integrated management of physical, behavioral and pharmaceutical healthcare for special populations, and the management of behavioral healthcare and other specialty areas, as well as pharmacy management services. The Company's strategy is to expand its integrated management programs for special populations, expand its pharmacy management business and further grow its other existing behavioral healthcare and other specialty business. The Company believes that certain of its clients may prefer to consolidate outsourced vendors, and that as a vendor offering multiple outsourced products, it will have a competitive advantage in the market. The Company seeks to grow its business through the following initiatives:

Expanding integrated management services provided to special populations through Magellan Complete Care. The Company, through Magellan Complete Care, seeks to expand its focus on the clinically integrated management of complex populations including individuals with SMI, dual-eligibles, those eligible for long-term services and supports, and other unique, high-cost populations. These programs holistically manage the behavioral and physical healthcare, including drug spend, of special populations and utilize the Company's unique expertise to improve health outcomes and lower costs. The Company believes its significant Medicaid, behavioral health and pharmacy experience will enable it to further develop and market programs to manage these special populations. The Company is developing independent special population management capabilities and may enter into partnerships, joint ventures or acquisitions that facilitate this effort. The Company believes it is positioned to grow its membership and revenues in the integrated care management of special populations over the long term.

Expanding the Pharmacy Management business. The Company has operated in both the specialty pharmaceutical management and Medicaid pharmacy benefits management businesses for several years and acquired a commercial PBM company in 2013, and additional pharmacy companies in 2014, 2015 and 2016. The Company has integrated these businesses, leveraging their strength and assets, and has built out its commercial PBM capabilities in order to expand its presence in the pharmaceutical marketplace. The Pharmacy Management business comprises products and solutions that provide clinical and financial management of pharmaceuticals paid under medical and pharmacy management programs. Pharmacy Management is a full service PBM that provides a comprehensive suite of solutions, including pharmacy benefit management; pharmacy benefit administration for state Medicaid and other government sponsored programs; pharmaceutical dispensing operations; clinical and formulary management programs; medical pharmacy management programs; and programs for the integrated management of specialty drugs across both the medical and pharmacy benefit that treat complex conditions, regardless of site of service, method of delivery, or benefit reimbursement. These services are available individually, in combination, or in a fully integrated manner. The Company is marketing its pharmacy management services to existing and new health plans, employers, managed care organizations, state governments, Medicare Part D, and other government agencies, exchanges, brokers and consultants. In addition, the Company will continue to upsell its pharmacy products to its existing customers and market its pharmacy solutions to the Healthcare customer base.

Continued growth in our other existing behavioral healthcare and other specialty business. The Company has operated in both the commercial and public sectors of managed behavioral healthcare by ensuring the delivery of quality outcomes and appropriate care through its unique behavioral healthcare expertise in managing clinical care, provider networks, claims and customer service. The Company seeks to distinguish itself in the marketplace through a focus on clinical excellence, provider partnerships, product and service innovation, and consumer engagement. In addition, the Company focuses on continually developing and providing innovative and cost effective solutions to its customers, and expanding into new markets.

Within its Healthcare segment, the commercial division is focused on providing managed behavioral services that seek to provide a superior outsourced behavioral health management alternative to its health plan, employer and government customers. The Company has expanded its product offerings including population health solutions for Autism Spectrum Disorders, caregivers, managed long term care, seriously mentally ill, suicide prevention, child welfare programs and computerized cognitive behavioral therapy. The commercial division also encompasses the management of specialty services in which the Company's strategy is to deliver innovative and clinically appropriate management

programs that create value for its clients through the reduction in the number of inappropriate services and by ensuring the delivery of appropriate services through quality providers. The Company continues to expand its product portfolio beyond diagnostic imaging with customer-focused solutions in new areas of medical management including radiation oncology therapy management, cardiac management, obstetrical ultrasound management, musculoskeletal management and other relevant areas. Through the government division of its Healthcare segment, the Company seeks to help federal, state and local governments deal with their fiscal pressures resulting from increasing Medicaid enrollment and rising behavioral healthcare costs. Across the Healthcare segment, the Company intends to continue marketing both its risk-based and ASO products, as well as new products, to its existing customer base and new customers, expand membership with current customers, upsell additional products to existing customers, and to cross-sell services to its Pharmacy Management segment customer base.

Customer Contracts

The Company's contracts with customers typically have terms of one to three years, and in certain cases contain renewal provisions (at the customer's option) for successive terms of between one and two years (unless terminated earlier). Substantially all of these contracts may be immediately terminated with cause and many of the Company's contracts are terminable without cause by the customer or the Company either upon the giving of requisite notice and the passage of a specified period of time (typically between 60 and 180 days) or upon the occurrence of other specified events. In addition, the Company's contracts with federal, state and local governmental agencies generally are conditioned on legislative appropriations. These contracts generally can be terminated or modified by the customer if such appropriations are not made. The Company's contracts for managed healthcare and specialty solutions services generally provide for payment of a per member per month fee to the Company. See "Risk Factors—Risk-Based Products" and "—Reliance on Customer Contracts."

The Company provides behavioral healthcare management and other related services to members in the state of Florida pursuant to contracts with the State of Florida (the "Florida Contracts"). The Florida Contracts generated net revenues that exceeded, in aggregate, ten percent of net revenues for the consolidated Company for the years ended December 31, 2015 and 2016, respectively. Through December 31, 2015, the Company provided behavioral healthcare management and other related services to members in the state of Iowa pursuant to contracts with the State of Iowa (the "Iowa Contracts"). The Iowa Contracts generated net revenues that exceeded, in the aggregate, ten percent of net revenues for the consolidated Company for the year ended December 31, 2015. The Iowa Contracts terminated on December 31, 2015.

The Company also has significant concentrations of business with various counties in the State of Pennsylvania (the "Pennsylvania Counties") which are part of the Pennsylvania Medicaid Program, with members under its contract with CMS, and with various agencies and departments of the United States federal government. See further discussion related to these significant customers in "Risk Factors—Reliance on Customer Contracts." In addition, see "Risk Factors—Dependence on Government Spending" for discussion of risks to the Company related to government contracts.

Provider Network

The Company's managed behavioral healthcare services, integrated healthcare services and EAP treatment services are provided by a contracted network of third-party providers, including physicians, psychiatrists, psychologists, other behavioral and physical health professionals, psychiatric hospitals, general medical facilities with psychiatric beds, residential treatment centers and other treatment facilities. The number and type of providers in a particular area depend upon customer preference, site, geographic concentration and demographic composition of the beneficiary population in that area. The Company's network consists of approximately 175,000 healthcare providers, including facility locations, providing various levels of care nationwide. The Company's network providers are almost exclusively independent contractors located throughout the local areas in which the Company's customers' beneficiary populations reside. Outpatient network providers work out of their own offices, although the Company's personnel are available to assist them with consultation and other needs.

Non-facility network providers include both individual practitioners, as well as individuals who are members of group practices or other licensed centers or programs. Non-facility network providers typically execute standard contracts with the Company under which they are generally paid on a fee-for-service basis.

Third-party network facilities include inpatient psychiatric and substance abuse hospitals, intensive outpatient facilities, partial hospitalization facilities, community health centers and other community-based facilities, rehabilitative and support facilities and other intermediate care and alternative care facilities or programs. This variety of facilities enables the Company to offer patients a full continuum of care and to refer patients to the most appropriate facility or program within that continuum. Typically, the Company contracts with facilities on a per diem or fee-for-service basis and, in some limited cases, on a "case rate" or capitated basis. The contracts between the Company and inpatient and other facilities typically are for one-year terms and are terminable by the Company or the facility upon 30 to 120 days notice.

The Company's radiology benefits management ("RBM") services are provided by a network of providers including diagnostic imaging centers, radiology departments of hospitals that provide advanced imaging services on an outpatient basis, and individual physicians or physician groups that own advanced imaging equipment and specialize in certain specific areas of care. Certain providers belong to the Company's network, while others are members of networks belonging to the Company's customers. These providers are paid on a fee-for-service basis.

Competition

The Company's business is highly competitive. The Company competes with other healthcare organizations as well as with insurance companies, including health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs"), TPAs, independent practitioner associations ("IPAs"), multi-disciplinary medical groups, PBMs, healthcare information technology companies, and other specialty healthcare and managed care companies. Many of the Company's competitors, particularly certain insurance companies, HMOs, technology companies, and PBMs are significantly larger and have greater financial, marketing and other resources than the Company, and some of the Company's competitors provide a broader range of services. The Company competes based upon quality and reliability of its services, a focus on clinical excellence, product and service innovation and proven expertise across its business lines. The Company may also encounter competition in the future from new market entrants. In addition, some of the Company's customers that are managed care companies may seek to provide specialty managed healthcare services directly to their subscribers, rather than by contracting with the Company for such services. Because of these factors, the Company does not expect to be able to rely to a significant degree on price increases to achieve revenue growth, and expects to continue experiencing pricing pressures.

Insurance

The Company maintains a program of insurance coverage for a broad range of risks in its business. The Company has renewed its general, professional and managed care liability insurance policies with unaffiliated insurers for a one-year period from June 17, 2016 to June 17, 2017. The general liability policy is written on an "occurrence" basis, subject to a $0.05 million per claim un-aggregated self-insured retention. The professional liability and managed care errors and omissions liability policies are written on a "claims-made" basis, subject to a $1.0 million per claim ($10.0 million per class action claim) un-aggregated self-insured retention for managed care errors and omissions liability, and a $0.05 million per claim un-aggregated self-insured retention for professional liability.

The Company maintains a separate general and professional liability insurance policy with an unaffiliated insurer for its specialty pharmaceutical dispensing operations. The specialty pharmaceutical dispensing operations insurance policy has a one-year term for the period June 17, 2016 to June 17, 2017. The general liability policy is written on an "occurrence" basis and the professional liability policy is written on a "claims-made" basis, subject to a $0.05 million per claim and $0.25 million aggregated self-insured retention.

The Company is responsible for claims within its self-insured retentions, and for portions of claims reported after the expiration date of the policies if they are not renewed, or if policy limits are exceeded. The Company also purchases excess liability coverage in an amount that management believes to be reasonable for the size and profile of the organization.

See "Risk Factors—Professional Liability and Other Insurance," for a discussion of the risks associated with the Company's insurance coverage.

Regulation

General

The Company's operations are subject to extensive and evolving state and federal laws and regulation in the jurisdictions in which we do business. This includes applicable federal and state laws and regulations in connection with its role in providing pharmacy benefit management; behavioral health benefit management; radiology benefit management; utilization review; customer employee benefit plan services; pharmacy; healthcare services; Medicaid; Medicare; health insurance, and laws and regulations impacting its federal government contracts. The Company believes its operations are structured to comply in all material respects with applicable laws and regulations and that it has obtained all licenses and approvals that are material to the operation of its business. However, regulation of the healthcare industry is constantly evolving, with new legislative enactments and regulatory initiatives at the state and federal levels being implemented on a regular basis. Consequently, it is possible that a court or regulatory agency may take a position under existing or future laws or regulations, or as a result of a change in the interpretation thereof that such laws or regulations apply to the Company in a different manner than the Company believes such laws or regulations apply. In addition, existing laws and regulations may be repealed or modified. Such changes may require significant alterations to the Company's business operations in order to comply with such laws or regulations, or interpretations thereof. Expansion of the Company's business to cover additional geographic areas, to serve different types of customers, to provide new services or to commence new operations could also subject the Company to additional licensure requirements and/or regulation. Failure to comply with applicable regulatory requirements could have a material adverse effect on the Company.

State Licensure and Regulation

The Company is subject to certain state laws and regulations governing the licensing of insurance companies, HMOs, PPOs, TPAs, PBMs, pharmacies and companies engaged in utilization review. In addition, the Company is subject to state laws and regulations concerning the licensing of healthcare professionals, including restrictions on business corporations from providing, controlling or exercising excessive influence over healthcare services through the direct employment of physicians, psychiatrists or, in certain states, psychologists and other healthcare professionals. These laws and regulations vary considerably among states, and the Company may be subject to different types of laws and regulations depending on the specific regulatory approach adopted by each state to regulate the managed care and pharmaceutical management businesses and the provision of healthcare treatment services.

Further, certain regulatory agencies having jurisdiction over the Company possess discretionary powers when issuing or renewing licenses or granting approval of proposed actions such as mergers, a change in ownership, and certain intra-corporate transactions. One or multiple agencies may require as a condition of such license or approval that the Company cease or modify certain of its operations or modify the way it operates in order to comply with applicable regulatory requirements or policies. In addition, the time necessary to obtain a license or approval varies from state to state, and difficulties in obtaining a necessary license or approval may result in delays in the Company's plans to expand operations in a particular state and, in some cases, lost business opportunities.

The Company has sought and obtained licenses as a utilization review agent, single service HMO, TPA, PBM, Pharmacy, PPO, HMO and Health Insurance Company in one or more jurisdictions. Numerous states in which the Company does business have adopted regulations governing entities engaging in utilization review. Utilization review regulations typically impose requirements with respect to the qualifications of personnel reviewing proposed treatment, timeliness and notice of the review of proposed treatment and other matters. Many states also license TPA activities. These regulations typically impose requirements regarding claims processing and payments and the handling of customer funds. Some states require TPA licensure for PBM entities as a way to regulate the PBM lines of business.

Other states regulate PBMs through a PBM specific license. The Company has obtained these licenses as required to support the PBM business. Certain insurance licenses are required for the Company to pursue Medicare Part D business; this is discussed further in the pharmacy section of this document. In some cases, single purpose HMO licenses are required for the Company to take risk on business in that state. Some states require PPO or other network licenses to offer a network of providers in the state. Almost all states require licensure for pharmacies dispensing or shipping medications into the state. The Company has obtained all of these necessary licenses.

To the extent that the Company operates or is deemed to operate in some states as an insurance company, HMO, PPO or similar entity, it may be required to comply with certain laws and regulations that, among other things, may require the Company to maintain certain types of assets and minimum levels of deposits, capital, surplus, reserves or net worth. Being licensed as an insurance company, HMO or similar entity could also subject the Company to regulations governing reporting and disclosure, coverage, mandated benefits, rate setting, grievances and appeals, prompt pay laws and other traditional insurance regulatory requirements.

Regulators in a few states have adopted policies that require HMOs or, in some instances, insurance companies, to contract directly with licensed healthcare providers, entities or provider groups, such as IPAs, for the provision of treatment services, rather than with unlicensed intermediary companies. In such states, the Company's customary model of contracting directly is modified so that, for example, the IPAs (rather than the Company) contract directly with the HMO or insurance company, as appropriate, for the provision of treatment services.

The National Association of Insurance Commissioners ("NAIC") has developed a "health organizations risk-based capital" formula, designed specifically for managed care organizations, that establishes a minimum amount of capital necessary for a managed care organization to support its overall operations, allowing consideration for the organization's size and risk profile. The NAIC also adopted a model regulation in the area of health plan standards, which could be adopted by individual states in whole or in part, and could result in the Company being required to meet additional or new standards in connection with its existing operations. Certain states, for example, have adopted regulations based on the NAIC initiative, and as a result, the Company has been subject to certain minimum capital requirements in those states. Certain other states, such as Maryland, Texas, New York, Florida and New Jersey, have also adopted their own regulatory initiatives that subject entities, such as certain of the Company's subsidiaries, to regulation under state insurance laws. This includes, but is not limited to, requiring adherence to specific financial solvency standards. State insurance laws and regulations may limit the Company's ability to pay dividends, make certain investments and repay certain indebtedness.

Regulators may impose operational restrictions on entities granted licenses to operate as insurance companies or HMOs. For example, the California Department of Managed Health Care has imposed certain restrictions on the ability of the Company's California subsidiaries to fund the Company's operations in other states, to guarantee or cosign for the Company's financial obligations, or to pledge or hypothecate the stock of these subsidiaries and on the Company's ability to make certain operational changes with respect to these subsidiaries. In addition, regulators of certain of the Company's subsidiaries may exercise certain discretionary rights under regulations including, without limitation, increasing its supervision of such entities or requiring additional restricted cash or other security.

Failure to obtain and maintain required licenses typically also constitutes an event of default under the Company's contracts with its customers. The loss of business from one or more of the Company's major customers as a result of an event of default or otherwise could have a material adverse effect on the Company. Licensure requirements may increase the Company's cost of doing business in the event that compliance requires the Company to retain additional personnel to meet the regulatory requirements and to take other required actions and make necessary filings. Although compliance with licensure regulations has not had a material adverse effect on the Company, there can be no assurance that specific laws or regulations adopted in the future would not have such a result.

The provision of healthcare treatment services by physicians, psychiatrists, psychologists, pharmacists and other providers is subject to state regulation with respect to the licensing of healthcare professionals. The Company believes that the healthcare professionals, who provide healthcare treatment on behalf of or under contracts with the Company, and the case managers and other personnel of the health services business, are in compliance with the applicable state licensing requirements and current interpretations thereof. Regulations imposed upon healthcare providers include but are not limited to, provisions relating to the conduct of, and ethical considerations involved in, the practice of medicine, psychiatry, psychology, social work and related behavioral healthcare professions, radiology, pharmacy, privacy, accreditation, government healthcare program participation requirements, reimbursements for patient services, Medicare, Medicaid, federal and state laws governing fraud, waste and abuse and, in certain cases, the common law or statutory duty to warn others of danger or to prevent patient self-injury or the statutory duties to report matters of abuse or neglect of individuals. However, there can be no assurance that changes in such requirements or interpretations thereof will not adversely affect the Company's existing operations or limit expansion.

In California, the Company's employee assistance programs are regulated by the California Department of Managed Health Care. This subjects the Company to regulations governing reporting and disclosure, coverage, mandated

benefits, grievances and appeals and other traditional insurance regulatory requirements. With respect to the Company's employee assistance crisis intervention program, additional licensing of clinicians who provide telephonic assessment or stabilization services to individuals who are calling from out-of-state may be required if such assessment or stabilization services are deemed by regulatory agencies to be treatment provided in the state of such individual's residence. The Company believes that any such additional licenses could be obtained.

The laws of some states limit the ability of a business corporation to directly provide, control or exercise excessive influence over healthcare services through the direct employment of physicians, psychiatrists, psychologists, or other healthcare professionals, who are providing direct clinical services. In addition, the laws of some states prohibit physicians, psychiatrists, psychologists, or other healthcare professionals from splitting fees with other persons or entities. These laws and their interpretations vary from state to state and enforcement by the courts and regulatory authorities may vary from state to state and may change over time. The Company believes that its operations as currently conducted are in compliance with the applicable laws. However, there can be no assurance that the Company's existing operations and its contractual arrangements with physicians, psychiatrists, psychologists and other healthcare professionals will not be successfully challenged under state laws prohibiting fee splitting or the practice of a profession by an unlicensed entity, or that the enforceability of such contractual arrangements will not be limited. The Company believes that it could, if necessary, restructure its operations to comply with changes in the interpretation or enforcement of such laws and regulations, and that such restructuring would not have a material adverse effect on its operations.

The Company has a group practice providing case management services to certain customers. The clinicians in the practice are licensed where they are practicing and the Company believes it has complied with all applicable state laws in the establishment and operation of the business.

Employee Retirement Income Security Act ("ERISA")

Certain of the Company's services are subject to the provisions of ERISA. ERISA governs certain aspects of the relationship between employer-sponsored healthcare benefit plans and certain providers of services to such plans through a series of complex laws and regulations that are subject to periodic interpretation by the Internal Revenue Service ("IRS") and the U.S. Department of Labor ("DOL"). In some circumstances, and under certain customer contracts, the Company may be expressly named as a "fiduciary" under ERISA, or be deemed to have assumed duties that make it an ERISA fiduciary, and thus be required to carry out its operations in a manner that complies with ERISA in all material respects. In other circumstances, particularly in the administration of pharmacy benefits, the Company does not believe that its services are subject to the fiduciary obligations and requirements of ERISA. In addition, the DOL has not yet finalized guidance regarding whether discounts and other forms of remuneration from pharmaceutical manufacturers are required to be reported to ERISA-governed plans in connection with ERISA reporting requirements.

Numerous states require the licensing or certification of entities performing TPA activities; however, certain federal courts have held that such licensing requirements are preempted by ERISA. ERISA preempts state laws that mandate employee benefit structures or their administration, as well as those that provide alternative enforcement mechanisms. The Company believes that its TPA activities performed for its self-insured employee benefit plan customers are exempt from otherwise applicable state licensing or registration requirements based upon federal preemption under ERISA and have relied on this general principle in determining not to seek licenses for certain of the Company's activities in some states. Existing case law is not uniform on the applicability of ERISA preemption with respect to state regulation of PBM or TPA activities. In some states, the Company has licensed its self-funded pharmacy related business as a TPA or PBM after a review of state regulatory requirements and case law. There can be no assurance that additional licenses will not be required with respect to utilization review or TPA activities in certain states.

Some of the state regulatory requirements described herein may be preempted in whole or in part by ERISA, which provides for comprehensive federal regulation of employee benefit plans. However, the scope of ERISA preemption is uncertain and is subject to conflicting court rulings. As a result, the Company could be subject to overlapping federal and state regulatory requirements with respect to certain of its operations and may need to implement compliance programs that satisfy multiple regulatory regimes. The Company believes that it is in compliance with ERISA and that such compliance does not currently have a material adverse effect on its operations. However, there can be no assurance that continuing ERISA compliance efforts or any future changes to ERISA will not have a material adverse effect on the Company.

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and Other Privacy Regulation

HIPAA requires the Secretary of the Department of Health and Human Services ("DHHS") to adopt standards relating to the transmission, privacy and security of health information by healthcare providers and healthcare plans. Confidentiality and patient privacy requirements are particularly strict in the Company's behavioral managed care business. Oversight responsibilities for HIPAA compliance are handled by the Company's Corporate Compliance Department. The Company believes it is currently in compliance with the provisions of HIPAA.

The Health Information Technology for Economic and Clinical Health Act ("HITECH Act"), passed as part of the American Recovery and Reinvestment Act of 2009, represented a significant expansion of the HIPAA privacy and security laws. The Company believes it is currently in compliance with the provisions of the HITECH Act and the associated regulations, including the January 2013 "Modifications to the HIPAA Privacy, Security, Enforcement and Breach Notification Rules under the Health Information Technology for Economic and Clinical Health Act" Rule. The Company believes that it can comply with any future changes or updates in these laws and regulations; however, there can be no assurance that compliance with such future laws and regulations would not have a material adverse effect on its operations.

HIPAA generally does not preempt state law. Therefore, because many states have privacy laws that either provide more stringent privacy protections than those imposed by HIPAA, the Company must address privacy issues under those state laws as well. The Company believes it is in compliance with all applicable state laws governing privacy and security.

In addition to HIPAA and the HITECH Act, the Company is also subject to federal laws and regulations governing patient records involving substance abuse treatment, as well as other federal privacy laws and regulations. The Company believes that it is currently in compliance with these applicable laws and regulations.

Fraud, Waste and Abuse Laws

The Company is subject to federal and state laws and regulations protecting against fraud, waste and abuse. Fraud, waste and abuse prohibitions cover a wide range of activities, including kickbacks and other inducements for referral of members or the coverage of products, billing for unnecessary services by a healthcare provider and improper marketing. Companies involved in public healthcare programs such as Medicare and Medicaid are required to maintain compliance programs to detect and deter fraud, waste and abuse, and are often subject to audits. The regulations and contractual requirements applicable to the Company in relation to these programs are complex and subject to change.

The federal healthcare Anti-Kickback Statute (the "Anti-Kickback Statute") prohibits, among other things, an entity from paying or receiving, subject to certain exceptions and "safe harbors," any remuneration, directly or indirectly, to induce the referral of individuals covered by federally funded healthcare programs, or the purchase, or the arranging for or recommending of the purchase, of items or services for which payment may be made in whole, or in part, under Medicare, Medicaid, TRICARE or other federally funded healthcare programs. Sanctions for violating the Anti-Kickback Statute may include imprisonment, criminal and civil fines and exclusion from participation in the federally funded healthcare programs. The Anti-Kickback Statute has been interpreted broadly by courts, the Office of Inspector General ("OIG"), the DHHS and other administrative bodies.

It also is a crime under the Public Contracts Anti-Kickback Statute, for any person to knowingly and willfully offer or provide any remuneration to a prime contractor to the United States, including a contractor servicing federally funded health programs, in order to obtain favorable treatment in a subcontract. Violators of this law also may be subject to civil monetary penalties. There have been a series of substantial civil and criminal investigations and settlements, at the state and federal level, by pharmacy benefit managers over the last several years in connection with alleged kickback schemes.

The federal civil monetary penalty ("CMP") statute provides for civil monetary penalties for any person who provides something of value to a beneficiary covered under a federal healthcare program, such as Medicare or Medicaid, in order to influence the beneficiary's choice of a provider. For example, our HMO and specialty pharmacy business are subject to the CMP statute.

ERISA, to which certain of our customers' services are subject, generally prohibits any person from providing to a plan fiduciary a remuneration in order to affect the fiduciary's selection of or decisions with respect to service providers. Unlike the federal healthcare Anti-Kickback Statute, ERISA regulations do not provide specific safe harbors and its application may be unclear.

The Federal Civil False Claims Act imposes civil penalties for knowingly making or causing to be made false claims with respect to governmental programs, such as Medicare and Medicaid, for services not rendered, or for misrepresenting actual services rendered, in order to obtain higher reimbursement. Private individuals may bring *qui tam* or whistleblower suits under the Federal Civil False Claims Act, which authorizes the payment of a portion of any recovery to the individual bringing suit. Further, pursuant to the Patient Protection and Affordable Care Act ("ACA"), a violation of the Anti-Kickback Statute is also a per se violation of the Federal Civil False Claims Act. The Federal Civil False Claims Act generally provides for the imposition of civil penalties and for treble damages, resulting in the possibility of substantial financial penalties for small billing discrepancies. Criminal provisions that are similar to the Federal Civil False Claims Act provide that a corporation may be fined if it is convicted of presenting to any federal agency a claim or making a statement that it knows to be false, fictitious or fraudulent. Even in situations where the Company does not directly provide services to beneficiaries of federally funded health programs and, accordingly, does not directly submit claims to the federal government, it is possible that the Company could nevertheless become involved in a situation where false claim issues are raised based on allegations that it caused or assisted a government contractor in making a false claim.

The Company is subject to certain provisions of the Deficit Reduction Act of 2005 (the "Act"). The Act requires entities that receive $5 million or more in annual Medicaid payments to establish written policies that provide detailed information about the Federal Civil False Claims Act and the remedies thereunder, as well as any state laws pertaining to civil or criminal penalties for false claims and statements, the "whistleblower" protections afforded under such laws, and the role of such laws in preventing and detecting fraud, waste and abuse. On July 21, 2010, the President of the United States signed into law *The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank").* Under the law, those with independent knowledge of a financial fraud committed by a business required to report to the U.S. Securities and Exchange Commission ("SEC") or the U.S. Commodity Futures Trading Commission ("CFTC") may be entitled to a percentage of the money recovered. Included in Dodd-Frank are provisions which protect employees of publicly traded companies from retaliation for reporting securities fraud, fraud against shareholders and violation of the SEC rules/regulations. Dodd-Frank also amends the Sarbanes-Oxley Act ("SOX") and Federal Civil False Claims Act to expand their whistleblower protections. On May 25, 2011, the SEC adopted final rules (the "Rules") for the expanded whistleblower program established by Dodd-Frank. The Company believes it is in substantial compliance with all of these laws.

Many states have laws and/or regulations similar to the federal fraud, waste and abuse laws described above. Sanctions for violating these laws may include injunction, imprisonment, criminal and civil fines and exclusion from participation in the state Medicaid programs. The Company has a corporate compliance and ethics program, policies and procedures and internal controls in place designed to ensure that the Company conducts business appropriately, and the Company believes it is in substantial compliance with the legal requirements imposed by all of these laws and regulations. However, there can be no assurance that the Company will not be subject to scrutiny or challenge under such laws or regulations and that any such challenge would not have a material adverse effect on the Company's business, results of operations, financial condition or cash flows.

Mental Health Parity

In October 2008, the United States Congress passed the Paul Wellstone and Pete Domenici Mental Health Parity Act of 2008 ("MHPAEA") establishing parity in financial requirements (e.g., co-pays, deductibles, etc.) and treatment limitations (e.g., limits on the number of visits) between mental health and substance abuse benefits and medical/surgical benefits for health plan members. This law does not require coverage for mental health or substance abuse disorders, but if coverage is provided it must be provided at parity. No specific disorders are mandated for coverage; health plans are able to define mental health and substance abuse to determine what they are going to cover. Under the ACA, non-grandfathered individual and small group plans (both on and off of the Health Insurance Exchange) are required to provide mental health and substance use disorder benefits as essential health benefits. These mandated benefits under the ACA must be provided at parity in these plans. Under the ACA, grandfathered individual plans are required to comply with parity if they offer behavioral health benefits. Grandfathered small group plans are exempt from requirements to provide essential health benefits and parity requirements. State mandated benefits laws are not

preempted. The law applies to ERISA plans, Medicaid managed care plans and State Children's Health Insurance Program ("SCHIP") plans. On February 2, 2010, the Department of the Treasury, the Department of Labor and the Department of Health and Human Services issued Interim Final Rules interpreting the MHPAEA ("IFR"). The IFR applies to ERISA plans and insured business. A State Medicaid Director Letter was issued in January 2013 discussing applicability of parity to Medicaid managed care plans, SCHIP plans and Alternative Benefit (Benchmark) Plans. On November 13, 2013 the Department of the Treasury, the Department of Labor and the Department of Health and Human Services issued Final Rules on the MHPAEA ("Final Rules"). The Health Insurance Exchange regulations provide that plans offered on the exchange must offer behavioral health benefits that are compliant with federal parity law. The IFR included some concepts not included under the statute including the requirement to conduct the parity review at the category level within the plan, introducing the concept of non-quantitative treatment limitations, and prohibiting separate but equal deductibles. The Final Rules affirmed the content of the IFR with a few changes and some additional clarifications on the regulator's intent. The Company believes it is in compliance with the requirements of the IFR and the Final Rules. In March 2016, CMS promulgated a final rule on the application of parity to Medicaid Managed Care Plans, CHIP, and alternative benefit plans. Compliance with this rule is required on or after October 2, 2017. On December 7, 2016, the Congress adopted the Twenty-First Century Cures Act, which codified some concepts in the Final Rules. The Company's risk contracts do allow for repricing to occur effective the same date that any legislation/regulation becomes effective if that legislation/regulation is projected to have a material effect on cost of care.

Health Care Reform

The ACA is a broad and sweeping piece of legislation creating numerous changes in the healthcare regulatory environment. To date, numerous regulations implementing provisions of the ACA have been released in addition to many requests for information, frequently asked questions and other informational notices. Some of these regulations, most notably the Medical Loss Ratio regulations, the Internal Claims and Appeals and External Review Processes Regulations, and Health Insurance Exchanges have an impact on the Company and its business. Others, such as the regulation on dependent coverage to age 26 and coverage of preventative health services, could impact the nature of the members that we serve and the utilization rates. Medicaid expansion under the ACA has had some impact on the Company's Medicaid business. The Company has customers that are participating in the state and federal Health Insurance Exchanges. The Company has taken necessary steps to support our customers in their administration of these plans.

The ACA also contains provisions related to fees that impact the Company's direct public sector contracts and provisions regarding the non-deductibility of those fees. Our state public sector customers have made rate adjustments to cover the direct costs of these fees and a majority of the impact from non-deductibility of such fees for federal income tax purposes. There may be some impact due to taxes paid for non-renewing customers where the timing and amount of recoupment of these additional costs is uncertain. There can be no guarantees regarding this adjustment from our state public sector customers and these taxes and fees may have a material impact on the Company.

Efforts to repeal the ACA, in whole or in part, are underway in the United States Congress. On January 20, 2017, the President issued an executive order to seek the prompt repeal of the ACA. The Company does not anticipate that changes to the ACA will have a material impact on its business.

Federal and State Medicaid Laws and Regulations

The Company directly contracts with various states to provide Medicaid services to states. In addition, the Company directly contracts with various states to provide Medicaid managed care services to state Medicaid beneficiaries. As such, it is subject to certain federal and state laws and regulations affecting Medicaid as well as state contractual requirements. In addition to state regulation, certain Medicaid contracts require the Company to maintain Medicare Advantage special needs plan status, which is regulated by CMS. The Company believes it is in compliance with these laws, regulations and contractual requirements.

The Company also is a sub-contractor to health plans that provide Medicaid managed care services to state Medicaid beneficiaries. In the Company's capacity as a subcontractor with these health plans, the Company is indirectly subject to certain federal and state laws and regulations as well as contractual requirements pertaining to the operation of this business. If a state or a health plan customer determines that the Company has not performed satisfactorily as a subcontractor, the state or the health plan customer may require the Company to cease these activities or responsibilities under the subcontract. While the Company believes that it provides satisfactory levels of service under its respective

subcontracts, the Company can give no assurances that a state or health plan will not terminate the Company's business relationships insofar as they pertain to these services.

On May 6, 2016, CMS published final regulations that significantly modified the existing federal Medicaid Managed Care and the SCHIP regulations. According to the issuing agency, the goals of the revised rule are to "support State efforts to advance delivery system reform and improve the quality of care; to strengthen the beneficiary experience of care and key beneficiary protections; to strengthen program integrity by improving accountability and transparency; and to align key Medicaid and CHIP managed care requirements with other health coverage programs." The Company believes that it will be able to materially comply with all applicable provisions.

In connection with its PBM business, the Company negotiates rebates with and provides services for drug manufacturers. The manufacturers are subject to Medicaid "best price" regulations requiring essentially that the manufacturer provide its deepest level of discounts to the Medicaid program. In some instances, the government has challenged a manufacturer's calculation of best price and we cannot be certain what effect, if any, the outcome of any such investigation or proceeding will have on our ability to negotiate favorable terms.

Medicare Laws and Regulations

The Company is contracted with CMS as a Medicare Advantage Organization ("MAO") and Prescription Drug Plan ("PDP") to provide health services and prescription drug benefits to Medicare beneficiaries. The regulations and contractual requirements applicable to the Company and other participants in Medicare programs are complex and subject to change. CMS regularly audits its contractors' performance to determine compliance with contracts and CMS regulations, and to assess the quality of services provided to Medicare beneficiaries. The Company believes it substantially complies with all applicable federal laws, regulations and contractual requirements. However, CMS penalties for noncompliance include premium refunds, prohibiting a company from continuing to market and/or enroll members in the company's Medicare products, exclusion from participation in federally funded healthcare programs and other sanctions.

The Company is also subcontractor to health plans that are MAOs and PDPs. In the Company's capacity as a subcontractor with these health plans, the Company administers benefits to Medicare beneficiaries and is indirectly subject to certain federal laws and regulations as well as contractual requirements pertaining to the operation of this business. If the CMS or a health plan customer determines that the Company has not performed satisfactorily as a subcontractor, CMS or the health plan customer may require the Company to cease these activities or responsibilities under the subcontract. While the Company believes that it provides satisfactory levels of service under its respective subcontracts, the Company can give no assurances that CMS or a health plan will not terminate the Company's business relationships insofar as they pertain to these services.

CMS requires Part D Plans to report all price concessions received for PBM services. The applicable CMS guidance requires Part D Plans to contractually require the right to audit their PBMs as well as require full transparency as to manufacturer rebates and administrative fees paid for drugs or services provided in connection with the sponsor's plan, including the portion of such rebates retained by the PBM. Additionally, CMS requires Part D Plans to ensure through their contractual arrangements with first tier, downstream and related entities (which would include PBMs) that CMS has access to such entities' books and records pertaining to services performed in connection with Part D Plans. The CMS regulations also suggests that Part D Plans should contractually require their first tier, downstream and related entities to comply with certain elements of the Part D Plan's compliance program. The Company has not experienced, and does not anticipate, that such disclosure and auditing requirements, to the extent required by its Part D Plan partners, will have a materially adverse effect on the Company's business.

The Company expects CMS and the U.S. Congress to continue to closely scrutinize each component of the Medicare program, modify the terms and requirements of the program and possibly seek to modify private insurers' role. Therefore, it is not possible to predict the outcome of any Congressional or regulatory activity, either of which could have a material adverse effect on the Company.

Other Federal and State Laws and Regulations

Federal Laws and Regulations affecting Procurement. The Company is subject to certain federal laws and regulations in connection with its contracts with the federal government. These laws and regulations affect how the

Company conducts business with its federal agency customers and may impose added costs on its business. The Company's failure to comply with federal procurement laws and regulations could cause it to lose business, incur additional costs and subject it to a variety of civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, harm to reputation, suspension of payments, fines, and suspension or debarment from doing business with federal government agencies. The Company believes that it is in substantial compliance with all applicable laws and regulations and that such compliance does not currently have a material adverse effect on its operations.

The Company also provides services to various state Medicaid programs. Services procurement related to Medicaid programs is governed in part by federal regulations because the federal government provides a substantial amount of funding for the services. The Company's state customers risk loss of federal funding if the Company is not in compliance with federal regulations. The Company's non-compliance may also lead to unanticipated, negative financial consequences including corrective action plans or contract default risks. The Company believes it is in substantial compliance with various federal regulations and in compliance with contract provisions relating to the services provided by a commercial organization.

Federal PBM Transparency Laws. Pursuant to the ACA, companies may participate in state and federally run health insurance exchanges. The Company has contracted to provide services to certain health insurance exchange products offered by insurers and may be subject to certain financial transparency and disclosure requirements. The ACA mandates that pharmacy benefit managers provide financial transparency and reporting in connection with Medicare Part D plans, as well as plans offered through exchanges. In the event that the Company is determined to be subject to these requirements, the Company does not anticipate that such requirements will have a materially adverse effect on the Company's business.

FDA Regulation. The U.S. Food and Drug Administration ("FDA") generally has authority to regulate drug promotional activities that are performed "by or on behalf of" a drug manufacturer. The Company provides certain consulting and related services to drug manufacturers and there can be no assurance that the FDA will not attempt to assert jurisdiction over certain aspects of the Company's activities. The impact of future FDA regulation could materially adversely affect the Company's business, results of operations, financial condition or cash flows.

State PBM Regulation. States continue to introduce broad legislation to regulate PBM activities. This legislation encompasses some of the services offered by the pharmaceutical management business of the Company. Legislation in this area is varied and encompasses licensing, audit provisions, submission of claims data to state all payor claims databases, potential fiduciary duties, pass through of cost savings and disclosure obligations, including the disclosure of information regarding the company's maximum allowable cost pricing with pharmacies. In some circumstances, claims or inquiries against PBMs have been asserted under state consumer protection laws, which exist in most states. The Company has obtained licenses as necessary to support current business and future opportunities. The various state laws do not appear to have a material adverse effect on the Company's pharmaceutical management business. However, the Company can give no assurance that these and other states will not enact legislation with more adverse consequences in the near future; nor can the Company be certain that future regulations or interpretations of existing laws will not adversely affect its business.

State Legislation Affecting Plan or Benefit Design. Some states have enacted legislation that prohibits certain types of managed care plan sponsors from implementing certain restrictive formulary and network design features, and many states have legislation regulating various aspects of managed care plans, including provisions relating to pharmacy benefits. Other states mandate coverage of certain benefits or conditions and require health plan coverage of specific drugs, if deemed medically necessary by the prescribing physician. Such legislation does not generally apply to the Company directly, but may apply to certain clients of the Company, such as HMOs and health insurers. These types of laws would generally have an adverse effect on the ability of a PBM to reduce cost for its plan sponsor customers.

Prompt Pay Laws. Under Medicare Part D and some state laws, the Company or customer may be required to pay network pharmacies within certain time periods and/or by electronic transfer instead of by check. The shorter time periods may negatively impact our cash flow. We cannot predict whether additional states will enact some form of prompt pay legislation.

Legislation and Regulation Affecting Drug Prices. Specialty pharmaceutical manufacturers generally report various price metrics to the federal government, including "average sales price" ("ASP"), "average manufacturer price"

("AMP") and "best price" ("BP"). The Company does not calculate these price metrics, but the Company notes that the ASP, AMP and BP methodologies may create incentives for some drug manufacturers to reduce the levels of discounts or rebates available to purchasers, including the Company, or their clients with respect to specialty drugs. Any changes in the guidance affecting pharmaceutical manufacturer price metric calculations could materially adversely affect the Company's business.

Additionally, most of the Company's pharmacy benefit management and dispensing contracts with its customers use "average wholesale price" ("AWP") as a benchmark for establishing pricing. At least one major third party publisher of AWP pricing data has ceased to publish such data in the past few years, and there can be no guarantee that AWP will continue to be an available pricing metric in the future. The discontinuance of AWP reporting by one data source has not had a material adverse effect on the Company's results of operations and the Company expects that were AWP data to no longer be available, other equitable pricing measures would be available to avoid a material adverse impact on the Company's business. Separately, on a monthly basis CMS publishes the National Average Drug Acquisition Cost ("NADAC"), a data set that purports to provide the average acquisition cost of retail drugs based on a nationwide voluntary survey of retail pharmacies. At this time, the Company does not anticipate that NADAC will materially adversely impact its operations, but it is too early to speculate what impact, if any, such a reimbursement shift might have in pharmacy reimbursement and/or costs in the future.

Regulations Affecting the Company's Pharmacies. The Company owns five pharmacies that provide services primarily to members of certain of the Company's health plan customers. The activities undertaken by the Company's pharmacies subject the pharmacies to state and federal statutes and regulations governing, among other things, the licensure and operation of mail order and nonresident pharmacies, repackaging of drug products, stocking of prescription drug products and dispensing of prescription drug products, including controlled substances. The Company's pharmacy facilities are located in Florida, Utah and New York and are duly licensed to conduct business in those states. Many states, however, require out-of-state mail order pharmacies to register with or be licensed by the state board of pharmacy or similar governing body when pharmaceuticals are delivered by mail into the state, and some states require that an out-of-state pharmacy employ a pharmacist that is licensed in the state into which pharmaceuticals are shipped. The Company holds mail order and nonresident pharmacy licenses where required. The Company also maintains Medicare and Medicaid provider licenses where required for the pharmacies to provide services to these plans. In some states the Company is not able to obtain Medicaid licenses to dispense because those states require that the pharmacy have a physical location in the state to participate in the Medicaid network.

Regulation of Controlled Substances. The Company's pharmacies must register with the United States Drug Enforcement Administration (the "DEA") and individual state controlled substance authorities in order to dispense controlled substances. Federal law requires the Company to comply with the DEA's security, recordkeeping, inventory control and labeling standards in order to dispense controlled substances. State controlled substance law requires registration and compliance with state pharmacy licensure, registration or permit standards promulgated by the state pharmacy licensing authority.

Employees of the Registrant

At December 31, 2016, the Company had approximately 9,700 full-time and part-time employees. The Company believes it has satisfactory relations with its employees.

Available Information

The Company makes its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and Section 16 filings available, free of charge, on the Company's website at *www.magellanhealth.com* as soon as practicable after the Company has electronically filed such material with, or furnished it to, the SEC. The information on the Company's website is not part of or incorporated by reference in this report on Form 10-K.

Item 1A. Risk Factors

Reliance on Customer Contracts—The Company's inability to renew, extend or replace expiring or terminated contracts could adversely affect the Company's liquidity, profitability and financial condition.

Substantially all of the Company's net revenue is derived from contracts that may be terminated immediately with cause and many, including some of the Company's most significant contracts, are terminable without cause by the customer upon notice and the passage of a specified period of time (typically between 60 and 180 days), or upon the occurrence of certain other specified events. The Company's ten largest customers accounted for approximately 52.2 percent, 50.0 percent and 43.9 percent of the Company's net revenue in the years ended December 31, 2014, 2015 and 2016, respectively. Loss of all of these contracts or customers would, and loss of any one of these contracts or customers could, materially reduce the Company's net revenue and have a material adverse effect on the Company's liquidity, profitability and financial condition. See Note 2—"Summary of Significant Accounting Policies—Significant Customers" to the consolidated financial statements set forth elsewhere herein for a discussion of the Company's significant customers.

Integration of Companies Acquired by Magellan—The Company's profitability could be adversely affected if the integration of companies acquired by Magellan is not completed in a timely and effective manner.

One of the Company's growth strategies is to make strategic acquisitions which are complementary to its existing operations. After Magellan closes on an acquisition, it must integrate the acquired company into Magellan's policies, procedures and systems. Failure to effectively integrate an acquired business or the failure of the acquired business to perform as anticipated could result in excessive costs being incurred, a delay in obtaining targeted synergies, decreased customer performance (which could result in contract penalties and/or terminations), increased employee turnover, and lost sales opportunities. Finally, difficulties assimilating acquired operations and services could result in the diversion of capital and management's attention away from other business issues and opportunities.

Changes in the Medical Managed Care Carve-Out Industry—Certain changes in the business practices of this industry could negatively impact the Company's resources, profitability and results of operations.

A portion of the Company's Healthcare and Pharmacy Management segments' net revenues are derived from customers in the medical managed healthcare industry, including managed care companies, health insurers and other health plans. Some types of changes in this industry's business practices could negatively impact the Company. For example, if the Company's managed care customers seek to provide services directly to their subscribers, instead of contracting with the Company for such services, the Company could be adversely affected. In this regard, certain of the Company's major customers in the past have not renewed all or part of their contracts with the Company, and instead provided managed healthcare services directly to their subscribers. In addition, the Company has a significant number of contracts with Blue Cross Blue Shield plans and other regional health plans. Consolidation of the healthcare industry through acquisitions and mergers could potentially result in the loss of contracts for the Company. Any of these changes could reduce the Company's net revenue, and adversely affect the Company's profitability and financial condition.

Changes in the Contracting Model for Medicaid Contracts—Certain changes in the contracting model used by states for managed healthcare services contracts relating to Medicaid lives could negatively impact the Company's resources, profitability and results of operations.

A portion of the Company's Healthcare segment net revenue is derived from direct contracts that it has with state or county governments for the provision of services to Medicaid enrollees. Certain states have recently contracted with managed care companies to manage both the behavioral and physical medical care of their Medicaid enrollees. If other governmental entities change the method for contracting for Medicaid business to a fully integrated model, the Company will attempt to subcontract with the managed care organizations to provide behavioral healthcare management for such Medicaid business; however, there is no assurance that the Company would be able to secure such arrangements. Alternatively, the Company may choose to pursue licensure as a health plan to bid on this integrated business. Accordingly, if such a change in the contracting model were to occur, it is possible that the Company could lose current contracted revenues, as well as be unable to bid on potential new business opportunities, thus negatively impacting the Company's profitability and financial condition.

Risk-Based Products—Because the Company provides services at a fixed fee, if the Company is unable to maintain historical margins, or is unable to accurately predict and control healthcare costs, the Company's profitability could decline.

The Company derives its net revenue primarily from arrangements under which the Company assumes responsibility for costs of treatment in exchange for a fixed fee. The Company refers to such arrangements as "risk-based contracts" or "risk-based products," which include EAP services. These arrangements provided 67.8 percent, 58.8 percent and 49.1 percent of the Company's net revenue in the years ended December 31, 2014, 2015 and 2016, respectively.

The profitability of the Company's risk contracts could be reduced if the Company is unable to maintain its historical margins. The competitive environment for the Company's risk products could result in pricing pressures which cause the Company to reduce its rates. In addition, customer demands or expectations as to margin levels could cause the Company to reduce its rates. A reduction in risk rates which are not accompanied by a reduction in services covered or expected underlying care trend could result in a decrease in the Company's operating margins.

Profitability of the Company's risk contracts could also be reduced if the Company is unable to accurately estimate the rate of service utilization by members or the cost of such services when the Company prices its services. The Company's assumptions of utilization and costs when the Company prices its services may not ultimately reflect actual utilization rates and costs, many aspects of which are beyond the Company's control. If the cost of services provided to members under a contract together with the administrative costs exceeds the aggregate fees received by the Company under such contract, the Company will incur a loss on the contract.

The Company's profitability could also be reduced if the Company is required to make adjustments to estimates made in reporting historical financial results regarding cost of care, reflected in the Company's financial statements as medical claims payable. Medical claims payable includes reserves for incurred but not reported ("IBNR") claims, which are claims for covered services rendered by the Company's providers which have not yet been submitted to the Company for payment. The Company estimates and reserves for IBNR claims based on past claims payment experience, including the average interval between the date services are rendered and the date the claims are received and between the date services are rendered and the date claims are paid, enrollment data, utilization statistics, adjudication decisions, authorized healthcare services and other factors. This data is incorporated into contract-specific reserve models. The estimates for submitted claims and IBNR claims are made on an accrual basis and adjusted in future periods as required. If such risk-based products are not correctly underwritten, the Company's profitability and financial condition could be adversely affected.

Factors that affect the Company's ability to price the Company's services, or accurately make estimates of IBNR claims and other expenses for which the Company creates reserves may include differences between the Company's assumptions and actual results arising from, among other things:

- changes in the delivery system;
- changes in utilization patterns;
- changes in the number of members seeking treatment;
- unforeseen fluctuations in claims backlogs;
- unforeseen increases in the costs of the services;
- the occurrence of catastrophes;
- regulatory changes; and
- changes in benefit plan design.

Some of these factors could impact the ability of the Company to manage and control the medical costs to the extent assumed in the pricing of its services.

If the Company's membership in risk-based business continues to grow (which is a major focus of the Company's strategy), the Company's exposure to potential losses from risk-based products will also increase.

Expansion of Risk-Based Products—Because the Company intends to continue its expansion into clinically integrated management of special populations eligible for Medicaid and Medicare including individuals with SMI, and other unique high-cost populations, if the Company is unable to accurately underwrite the healthcare cost risk for this new business and control associated costs, the Company's profitability could decline.

The Company believes that it can leverage its information systems, call center, claims and network infrastructure as well as its financial strength and underwriting expertise to facilitate the development of risk product offerings to states that include behavioral healthcare and physical medical care for their special Medicaid and dual eligible populations, particularly individuals with SMI. As the Company expands into new markets, the Company will incur start-up costs to develop and grow this business. The Company's profitability may be negatively impacted until such time that sufficient business is generated to offset these start-up costs.

Furthermore, as the Company expands into new markets, there is an increased risk associated with the underwriting and implementation for this business. Profitability of any such business could be adversely affected if the Company is unable to accurately estimate the rate of service utilization or the cost of such services when the Company prices its services. The Company's assumptions of utilization and costs when the Company prices its services may not ultimately reflect actual utilization rates and costs, many aspects of which are beyond the Company's control. If the cost of services provided to members under a contract together with the administrative costs exceeds the aggregate fees received by the Company under such contract, the Company will incur a loss on the contract.

The Company may partner with managed care organizations to create joint ventures in some states. Conflicts or disagreements between the Company and any joint venture partner may negatively impact the benefits to be achieved by the relevant joint venture or may ultimately threaten the ability of any such joint venture to continue. The Company is also subject to additional risks and uncertainties because the Company may be dependent upon, and subject to, liability, losses or reputational damage relating to systems, controls and personnel that are not entirely under the Company's control.

Provider Agreements—Failure to maintain or to secure cost-effective healthcare provider contracts may result in a loss of membership or higher medical costs.

The Company's profitability depends, to an extent, upon the ability to contract favorably with certain healthcare providers. The Company may be unable to enter into agreements with providers in new markets on a timely basis or under favorable terms. If the Company is unable to retain its current provider contracts or enter into new provider contracts timely or on favorable terms, the Company's profitability could be reduced. The Company cannot provide any assurance that it will be able to continue to renew its existing provider contracts or enter into new contracts.

Pharmacy Management—Loss of Relationship with Providers—If we lose our relationship, or our relationship otherwise changes in an unfavorable manner, with one or more key pharmacy providers or if significant changes occur within the pharmacy provider marketplace, or if other issues arise with respect to our pharmacy networks, our business could be adversely affected.

Our operations are dependent to a significant extent on our ability to obtain discounts on prescription purchases from retail pharmacies that can be utilized by our clients and their members. Our contracts with retail pharmacies, which are non-exclusive, are generally terminable by either party on short notice. If one or more of our top pharmacy chains elects to terminate its relationship with us, or if we are only able to continue our relationship on terms less favorable to us, access to retail pharmacies by our clients and their health plan members, and consequently our business, results of operations, financial condition or cash flows could be adversely affected.

Pharmacy Management—Loss of Relationship with Vendors—Our specialty pharmacies, pharmacy claims processing, and mail processing are dependent on our relationships with a limited number of vendors and suppliers and the loss of any of these relationships could significantly impact our ability to sustain our financial performance.

We acquire a substantial percentage of our specialty pharmacies prescription drug supply from a limited number of suppliers. Our agreements with these suppliers may be short-term and cancelable by either party without cause with a relatively short time-frame of prior notice. These agreements may limit our ability to provide services for competing drugs during the term of the agreement and allow the supplier to dispense through channels other than us. Further, certain of these agreements allow pricing and other terms of these relationships to be periodically adjusted for changing market conditions or required service levels. A termination or modification to any of these relationships could have an adverse effect on our business, financial condition and results of operations. An additional risk related to supply is that many products dispensed by our specialty pharmacy business are manufactured with ingredients that are susceptible to supply shortages. If any products we dispense are in short supply for long periods of time, this could result in a material adverse effect on our business, financial condition and results of operations. Further, we source from a limited number of vendors certain aspects of our pharmacy claims and mail processing capabilities. An interruption of service, termination or modification to the terms to any of these agreements may adversely affect our business and financial condition.

Pharmacy Management—Loss of Relationship with Manufacturers—If we lose relationships with one or more key pharmaceutical manufacturers or third party rebate administrators or if rebate payments we receive from pharmaceutical manufacturers and rebate processing service providers decline, our business, results of operations, financial condition or cash flows could be adversely affected.

We receive fees from our clients for administering rebate programs with pharmaceutical manufacturers based on the use of selected drugs by members of health plans sponsored by our clients, as well as fees for other programs and services. Our business, results of operations, financial condition or cash flows could be adversely affected if:

- we lose relationships with one or more key pharmaceutical manufacturers or third party rebate administrators;
- we are unable to renew or finalize rebate contracts with one or more key pharmaceutical manufacturers in the future, or are unable to negotiate interim arrangements;
- rebates decline due to the failure of our health plan sponsors to meet market share or other thresholds;
- legal restrictions are imposed on the ability of pharmaceutical manufacturers to offer rebates or purchase our programs or services;
- pharmaceutical manufacturers choose not to offer rebates or purchase our programs or services; or
- rebates decline due to contract branded products losing their patients.

Fluctuation in Operating Results—The Company experiences fluctuations in quarterly operating results and, as a consequence, the Company may fail to meet or exceed market expectations, which could cause the Company's stock price to decline.

The Company's quarterly operating results have varied in the past and may fluctuate significantly in the future due to seasonal and other factors, including:

- changes in utilization levels by enrolled members of the Company's risk-based contracts, including seasonal utilization patterns (for example, members generally tend to seek services less during the third and fourth quarters of the year than in the first and second quarters of the year);
- performance-based contractual adjustments to net revenue, reflecting utilization results or other performance measures;
- changes in estimates for contractual adjustments under commercial contracts;

- retrospective membership adjustments;
- the timing of implementation of new contracts, enrollment changes and contract terminations;
- pricing adjustments upon contract renewals;
- the timing of acquisitions;
- changes in estimates regarding medical costs and IBNR claims;
- the timing of recognition of pharmacy revenues, including rebates and Medicare Part D; and
- changes in estimates of contingent consideration.

These factors may affect the Company's quarterly and annual net revenue, expenses and profitability in the future and, accordingly, the Company may fail to meet market expectations, which could cause the Company's stock price to decline.

Dependence on Government Spending—The Company can be adversely affected by changes in federal, state and local healthcare policies, programs, funding and enrollments.

A portion of the Company's net revenues are derived, directly or indirectly, from governmental agencies, including state Medicaid programs. Contract rates vary from state to state, are subject to periodic negotiation and may limit the Company's ability to maintain or increase rates. The Company is unable to predict the impact on the Company's operations of future regulations or legislation affecting Medicaid programs, or the healthcare industry in general. Future regulations or legislation may have a material adverse effect on the Company. Moreover, any reduction in government spending for such programs could also have a material adverse effect on the Company (See "Reliance on Customer Contracts"). In addition, the Company's contracts with federal, state and local governmental agencies, under both direct contract and subcontract arrangements, generally are conditioned upon financial appropriations by one or more governmental agencies, especially in the case of state Medicaid programs. These contracts generally can be terminated or modified by the customer if such appropriations are not made. The Company faces increased risks in this regard as state budgets have come under increasing pressure due to the recent economic downturn. Finally, some of the Company's contracts with federal, state and local governmental agencies, under both direct contract and subcontract arrangements, require the Company to perform additional services if federal, state or local laws or regulations imposed after the contract is signed so require, in exchange for additional compensation, to be negotiated by the parties in good faith. Government and other third-party payors generally seek to impose lower contract rates and to renegotiate reduced contract rates with service providers in a trend toward cost control.

Restrictive Covenants in the Company's Debt Instruments—Restrictions imposed by the Company's debt agreements limit the Company's operating and financial flexibility. These restrictions may adversely affect the Company's ability to finance the Company's future operations or capital needs or engage in other business activities that may be in the Company's interest.

On July 23, 2014, the Company entered into a $500.0 million Credit Agreement with various lenders that provided for Magellan Rx Management, Inc. (a wholly owned subsidiary of Magellan Health, Inc.) to borrow up to $250.0 million of revolving loans, with a sublimit of up to $70.0 million for the issuance of letters of credit for the account of the Company, and a term loan in an original aggregate principal amount of $250.0 million (the "2014 Credit Facility"). On December 2, 2015, the Company entered into an amendment to the 2014 Credit Facility under which Magellan Pharmacy Services, Inc. (a wholly owned subsidiary of Magellan Health, Inc.) became a party to the $500.0 million Credit Agreement as the borrower and assumed all of the obligations of Magellan Rx Management, Inc. The 2014 Credit Facility is guaranteed by substantially all of the non-regulated subsidiaries of the Company and will mature on July 23, 2019, but the Company holds an option to extend the 2014 Credit Facility for an additional one year period.

On June 27, 2016, the Company entered into a $200.0 million Credit Agreement with various lenders that provides for a $200.0 million term loan (the "2016 Term Loan") to Magellan Pharmacy Services, Inc. (the "2016 Credit

Facility"). The 2016 Credit Facility is guaranteed by substantially all of the non-regulated subsidiaries of the Company and will mature on December 29, 2017.

The 2014 Credit Facility and 2016 Credit Facility (collectively the "Credit Facilities") contain a number of covenants.

These covenants limit management's discretion in operating the Company's business by restricting or limiting the Company's ability, among other things, to:

- incur or guarantee additional indebtedness or issue preferred or redeemable stock;
- pay dividends and make other distributions;
- repurchase equity interests;
- make certain advances, investments and loans;
- enter into sale and leaseback transactions;
- create liens;
- sell and otherwise dispose of assets;
- acquire, merge or consolidate with another company; and
- enter into some types of transactions with affiliates.

These restrictions could adversely affect the Company's ability to finance future operations or capital needs or engage in other business activities that may be in the Company's interest. The Credit Facilities also require the Company to comply with specified financial ratios and tests. Failure to do so, unless waived by the lenders under the Credit Facilities, pursuant to its terms, would result in an event of default. The Credit Facilities are guaranteed by most of the Company's subsidiaries and are secured by most of the Company's assets and the Company's subsidiaries' assets.

Required Assurances of Financial Resources—The Company's liquidity, financial condition, prospects and profitability can be adversely affected by present or future state regulations and contractual requirements that the Company provide financial assurance of the Company's ability to meet the Company's obligations.

Some of the Company's contracts and certain state regulations require the Company or certain of the Company's subsidiaries to maintain specified cash reserves or letters of credit and/or to maintain certain minimum tangible net equity in certain of the Company's subsidiaries as assurance that the Company has financial resources to meet the Company's contractual obligations. Many of these state regulations also restrict the investment activity of certain of the Company's subsidiaries. Some state regulations also restrict the ability of certain of the Company's subsidiaries to pay dividends to Magellan. Additional state regulations could be promulgated that would increase the cash or other security the Company would be required to maintain. In addition, the Company's customers may require additional restricted cash or other security with respect to the Company's obligations under the Company's contracts, including the Company's obligation to pay IBNR claims and other medical claims not yet processed and paid. In addition, certain of the Company's contracts and state regulations limit the profits that the Company may earn on risk-based business. The Company's liquidity, financial condition, prospects and profitability could be adversely affected by the effects of such regulations and contractual provisions. See Note 2—"Summary of Significant Accounting Policies—Restricted Assets" to the consolidated financial statements set forth elsewhere herein for a discussion of the Company's restricted assets.

Competition—The competitive environment in the managed healthcare industry may limit the Company's ability to maintain or increase the Company's rates, which would limit or adversely affect the Company's profitability, and any failure in the Company's ability to respond adequately may adversely affect the Company's ability to maintain contracts or obtain new contracts.

The Company's business is highly competitive. The Company competes with other healthcare organizations as well as with insurance companies, including HMOs, PPOs, TPAs, IPAs, multi-disciplinary medical groups, PBMs, specialty pharmacy companies, RBM companies and other specialty healthcare and managed care companies. Many of the Company's competitors, particularly certain insurance companies, HMOs and PBMs are significantly larger and have greater financial, marketing and other resources than the Company, which can create downward pressure on prices through economies of scale. The entrance or expansion of these larger companies in the managed healthcare industry (including the Company's customers who have in-sourced or who may choose to in-source healthcare services) could increase the competitive pressures the Company faces and could limit the Company's ability to maintain or increase the Company's rates. If this happens, the Company's profitability could be adversely affected. In addition, if the Company does not adequately respond to these competitive pressures, it could cause the Company to not be able to maintain its current contracts or to not be able to obtain new contracts.

Possible Impact of Federal Healthcare Reform Law—can significantly impact the Company's revenues or profitability.

The ACA is a comprehensive piece of legislation intended to make significant changes to the healthcare system in the United States. The ACA contains various effective dates extending through 2020. Numerous regulations have been promulgated related to the ACA with hundreds more expected in the future.

Significant provisions in the ACA include requiring individuals to purchase health insurance, minimum medical loss ratios for health insurance issuers, significant changes to the Medicare and Medicaid programs and many other changes that affect healthcare insurance and managed care. See "Regulation" above for more information. Therefore, it is uncertain at this time what the financial impact of healthcare reform will be to the Company. The Company cannot predict the effect of this legislation or other legislation that may be adopted by the United States Congress or by the states, and such legislation, if implemented, could have an adverse effect on the Company.

The ACA also contains provisions related to fees that impact the Company's direct public sector contracts and provisions regarding the non-deductibility of those fees. We believe that our state public sector customers will make rate adjustments to cover the direct costs of these fees and a majority of the impact from non-deductibility of such fees for federal income tax purposes. There may be some impact due to taxes paid for non-renewing customers where the timing and amount of recoupment of these additional costs is uncertain. There can be no guarantees regarding this adjustment from our state public sector customers and these taxes and fees may have a material impact on the Company.

Possible Impact of Federal Mental Health Parity—can significantly impact the Company's revenues or profitability.

In October 2008, the United States Congress passed the Paul Wellstone and Pete Dominici Mental Health Parity Act of 2008 ("MHPAEA") establishing parity in financial requirements (e.g. co-pays, deductibles, etc.) and treatment limitations (e.g., limits on the number of visits) between mental health and substance abuse benefits and medical/surgical benefits for health plan members. This law does not require coverage for mental health or substance abuse disorders but if coverage is provided it must be provided at parity. No specific disorders are mandated for coverage; health plans are able to define mental health and substance abuse to determine what they are going to cover. Under the ACA non-grandfathered individual and small group plans (both on and off of the exchange) are required to provide mental health and substance use disorder benefits as essential health benefits. These mandated benefits under the ACA must be provided at parity in these plans. Under the ACA, grandfathered individual plans are required to comply with parity if they offer behavioral health benefits. Grandfathered small group plans are exempt from requirements to provide essential health benefits and parity requirements. State mandated benefits laws are not preempted. The law applies to ERISA plans, Medicaid managed care plans and SCHIP plans. On February 2, 2010, the Department of the Treasury, the Department of Labor and the Department of Health and Human Services issued Interim Final Rules interpreting the MHPAEA ("IFR"). The IFR applies to ERISA plans and insured business. A State Medicaid Director Letter was issued in January 2013 discussing applicability of parity to Medicaid managed care plans, SCHIP plans and Alternative Benefit (Benchmark) Plans. It is possible that some states will change their behavioral health plan benefits or management techniques as a result of this letter. On November 13, 2013 the Department of the Treasury, the Department of Labor and

the Department of Health and Human Services issued Final Rules on the MHPAEA ("Final Rules"). The IFR included some concepts not included under the statute including the requirement to conduct the parity review at the category level within the plan, introducing the concept of non-quantitative treatment limitations, and prohibiting separate but equal deductibles. While some of the regulatory requirements in the IFR were not anticipated, the Company believes it is in compliance with the requirements of the IFR. The Company does not anticipate any significant impacts from the Final Rules however it is still reviewing and assessing the Final Rules with customers. The Company's risk contracts do allow for repricing to occur effective the same date that any legislation/regulation becomes effective if that legislation/regulation is projected to have a material effect on cost of care.

Government Regulation—The Company is subject to substantial government regulation and scrutiny, which increase the Company's costs of doing business and could adversely affect the Company's profitability.

The managed healthcare industry is subject to extensive and evolving federal and state regulation. Such laws and regulations cover, but are not limited to, matters such as licensure, accreditation, government healthcare program participation requirements, information privacy and security, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. The Company's pharmaceutical management business is also the subject of substantial federal and state governmental regulation and scrutiny. Government investigations and allegations have become more frequent concerning possible violations of fraud and abuse and false claims statutes and regulations by healthcare organizations. Violators may be excluded from participating in government healthcare programs, subject to fines or penalties or required to repay amounts received from the government for previously billed services. A violation of such laws and regulations may have a material adverse effect on the Company.

The Company is subject to certain state laws and regulations and federal laws as a result of the Company's role in management of customers' employee benefit plans.

Regulatory issues may also affect the Company's operations including, but not limited to:

- additional state licenses that may be required to conduct the Company's businesses, including utilization review, PBM, pharmacy, HMO and TPA activities;
- limits imposed by state authorities upon corporations' control or excessive influence over managed healthcare services through the direct employment of physicians, psychiatrists, psychologists or other professionals, and prohibiting fee splitting;
- laws that impose financial terms and requirements on the Company due to the Company's assumption of risk under contracts with licensed insurance companies or HMOs;
- laws in certain states that impose an obligation to contract with any healthcare provider willing to meet the terms of the Company's contracts with similar providers;
- compliance with HIPAA (including the federal HITECH Act, which strengthens and expands HIPAA) and other federal and state laws impacting the confidentiality of member information;
- state legislation regulating PBMs or imposing fiduciary status on PBMs;
- pharmacy laws and regulation;
- legislation imposing benefit plan design restrictions, which limit how our clients can design their drug benefit plans; and
- network pharmacy access laws, including "any willing provider" and "due process" legislation, that affect aspects of our pharmacy network contracts.

The imposition of additional licensing and other regulatory requirements may, among other things, increase the Company's equity requirements, increase the cost of doing business or force significant changes in the Company's operations to comply with these requirements.

The costs associated with compliance with government regulation as discussed above may adversely affect the Company's financial condition and results of operation.

Medicare Part D—The Company's participation in Medicare Part D is subject to government regulation and failure to comply with regulatory requirements could adversely impact the Company's profitability.

There are many uncertainties about the financial and regulatory risks of participating in the Medicare Part D program, and we can give no assurance these risks will not materially adversely impact the Company's results. Certain of the Company's subsidiaries have been approved by CMS to offer Medicare Part D prescription drug plans to individual beneficiaries and employer groups. Such subsidiaries are required to comply with Medicare Part D laws and regulations and, because CMS requires that Medicare Part D sponsors be licensed as risk-bearing entities, also with applicable state laws and regulations regarding the business of insurance. The Company also provides services in support of our clients' Medicare Part D plans and must be able to deliver such services in a manner that complies with applicable regulatory requirements. We have made substantial investments in both human resources and the technology required to administer Medicare Part D benefits. The adoption of new or more complex regulatory requirements or changes in the interpretation of existing regulatory requirements associated with Medicare Part D may require us to incur significant costs or otherwise impact our ability to earn a profit on such business. In addition, the Company's receipt of federal funds made available through the Medicare Part D program is subject to compliance with the laws and regulations governing the federal government's payment for healthcare goods and services, including the federal anti-kickback law and false claims acts. If we fail to comply materially with applicable regulatory or contractual requirements, whether identified through CMS or other government audits, client audits, or otherwise, we may be subject to certain sanctions, penalties, or other remedies, including, but not limited to, suspension of marketing or enrollment activities, restrictions on expanding our service area, civil monetary penalties or other monetary amounts, termination of our contract(s) with CMS or Part D clients, and exclusion from federal healthcare programs.

The Company faces risks related to unauthorized disclosure of sensitive or confidential member and other information.

As part of its normal operations, the Company collects, processes and retains confidential member information making the Company subject to various federal and state laws and rules regarding the use and disclosure of confidential member information, including HIPAA. The Company also maintains other confidential information related to its business and operations. Despite appropriate security measures, the Company may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. Noncompliance with any privacy or security laws and regulations or any security breach, whether by the Company or by its vendors, could result in enforcement actions, material fines and penalties and could also subject the Company to litigation.

Cyber-Security—The Company faces risks related to a breach or failure in our operational security systems or infrastructure, or those of third parties with which we do business.

Our business requires us to securely store, process and transmit confidential, proprietary and other information in our operations. Security breaches may arise from computer hackers penetrating our systems to obtain personal information for financial gain, attempting to cause harm to our operations, or intending to obtain competitive information. Our systems are also subject to the attack of viruses, worms, and other malicious software programs. We maintain a comprehensive system of preventive and detective controls through our security programs; however, our prevention and detection controls may not prevent or identify all such attacks. A breach or failure in our operational security systems may adversely impact the Company's financial condition and results of operations.

The Company faces additional regulatory risks associated with its Pharmacy Management segment which could subject it to additional regulatory scrutiny and liability and which could adversely affect the profitability of the Pharmacy Management segment in the future.

Various aspects of the Company's Pharmacy Management segment are governed by federal and state laws and regulations. Pharmaceutical management services are provided by the Company to Medicaid and Medicare plans as well as commercial insurance plans. There has been enhanced scrutiny on federal programs and the Company must remain vigilant in ensuring compliance with the requirements of these programs. In addition, there are provisions of the ACA which may impact the Company's business. For example, the ACA imposes new transparency requirements on PBMs,

and CMS issued a final rule implementing these requirements in April 2012. PBMs have also increasingly become the target of federal and state litigation over alleged practices relating to prescription drug switching, soliciting, and receiving unlawful remuneration, handling rebates, and fiduciary duties, among others. Significant sanctions may be imposed for violations of these laws and compliance programs are a significant operational requirement of the Company's business. There are significant uncertainties involving the application of many of these legal requirements to the Company. Accordingly, the Company may be required to incur additional administrative and compliance expenses in determining the applicable requirements and in adapting its compliance practices, or modifying its business practices, in order to satisfy changing interpretations and regulatory policies. In addition, there are numerous proposed healthcare laws and regulations at the federal and state levels, many of which, if adopted, could adversely affect the Company's business. See "Regulation" above.

Risks Related to Realization of Goodwill and Intangible Assets—The Company's profitability could be adversely affected if the value of intangible assets is not fully realized.

The Company's total assets at December 31, 2016 reflect goodwill of approximately $742.1 million, representing approximately 30.4 percent of total assets. The Company completed its annual impairment analysis of goodwill as of October 1, 2016, noting that no impairment was identified.

At December 31, 2016, identifiable intangible assets (customer lists, contracts and provider networks) totaled approximately $186.2 million. Intangible assets are generally amortized over their estimated useful lives, which range from approximately one to eighteen years. The amortization periods used may differ from those used by other entities. In addition, the Company may be required to shorten the amortization period for intangible assets in future periods based on changes in the Company's business. There can be no assurance that such goodwill or intangible assets will be realizable.

The Company evaluates, on a regular basis, whether for any reason the carrying value of the Company's intangible assets and other long-lived assets may no longer be completely recoverable, in which case a charge to earnings for impairment losses could become necessary. When events or changes in circumstances occur that indicate the carrying amount of long-lived assets may not be recoverable, the Company assesses the recoverability of long-lived assets other than goodwill by determining whether the carrying value of such assets will be recovered through the future cash flows expected from the use of the asset and its eventual disposition.

Any event or change in circumstances leading to a future determination requiring write-off of a significant portion of unamortized intangible assets or goodwill would adversely affect the Company's profitability.

Claims for Professional Liability—Pending or future actions or claims for professional liability (including any associated judgments, settlements, legal fees and other costs) could require the Company to make significant cash expenditures and consume significant management time and resources, which could have a material adverse effect on the Company's profitability and financial condition.

The Company's operating activities entail significant risks of liability. In recent years, participants in the healthcare industry generally, as well as the managed healthcare industry, have become subject to an increasing number of lawsuits. From time to time, the Company is subject to various actions and claims of professional liability alleging negligence in performing utilization review and other managed healthcare activities, as well as for the acts or omissions of the Company's employees, including employed physicians and other clinicians, network providers, pharmacists, or others. In the normal course of business, the Company receives reports relating to deaths and other serious incidents involving patients whose care is being managed by the Company. Such incidents occasionally give rise to malpractice, professional negligence and other related actions and claims against the Company, the Company's employees or the Company's network providers. The Company is also subject to actions and claims for the costs of services for which payment was denied. Many of these actions and claims seek substantial damages and require the Company to incur significant fees and costs related to the Company's defense and consume significant management time and resources. While the Company maintains professional liability insurance, there can be no assurance that future actions or claims for professional liability (including any judgments, settlements or costs associated therewith) will not have a material adverse effect on the Company's profitability and financial condition.

Professional Liability and Other Insurance—Claims brought against the Company that exceed the scope of the Company's liability coverage or denial of coverage could materially and adversely affect the Company's profitability and financial condition.

The Company maintains a program of insurance coverage against a broad range of risks in the Company's business. As part of this program of insurance, the Company carries professional liability insurance, subject to certain deductibles and self-insured retentions. The Company also is sometimes required by customer contracts to post surety bonds with respect to the Company's potential liability on professional responsibility claims that may be asserted in connection with services the Company provides. As of December 31, 2016, the Company had approximately $73.9 million of such bonds outstanding. The Company's insurance may not be sufficient to cover any judgments, settlements or costs relating to present or future claims, suits or complaints. Upon expiration of the Company's insurance policies, sufficient insurance may not be available on favorable terms, if at all. To the extent the Company's customers are entitled to indemnification under their contracts with the Company relating to liabilities they incur arising from the operation of the Company's programs, such indemnification may not be covered under the Company's insurance policies. To the extent that certain actions and claims seek punitive and compensatory damages arising from the Company's alleged intentional misconduct, such damages, if awarded, may not be covered, in whole or in part, by the Company's insurance policies. If the Company is unable to secure adequate insurance in the future, or if the insurance the Company carries is not sufficient to cover any judgments, settlements or costs relating to any present or future actions or claims, such judgments, settlements or costs may have a material adverse effect on the Company's profitability and financial condition. If the Company is unable to obtain needed surety bonds in adequate amounts or make alternative arrangements to satisfy the requirements for such bonds, the Company may no longer be able to operate in those states, which would have a material adverse effect on the Company.

Class Action Suits and Other Legal Proceedings—The Company is subject to class action and other lawsuits that could result in material liabilities to the Company or cause the Company to incur material costs, to change the Company's operating procedures in ways that increase costs or to comply with additional regulatory requirements.

Managed healthcare companies and PBM companies have been targeted as defendants in national class action lawsuits regarding their business practices. The Company has in the past been subject to such national class actions as defendants and is also subject to or a party to other class actions, lawsuits and legal proceedings in conducting the Company's business. In addition, certain of the Company's customers are parties to pending class action lawsuits regarding the customers' business practices for which the customers could seek indemnification from the Company. These lawsuits may take years to resolve and cause the Company to incur substantial litigation expense, and the outcomes could have a material adverse effect on the Company's profitability and financial condition. In addition to potential damage awards, depending upon the outcomes of such cases, these lawsuits may cause or force changes in practices of the Company's industry and may also cause additional regulation of the industry through new federal or state laws or new applications of existing laws or regulations. Such changes could increase the Company's operating costs.

Negative Publicity—The Company may be subject to negative publicity which may adversely affect the Company's business, financial position, results of operations or cash flows.

From time to time, the managed healthcare industry has received negative publicity. This publicity has led to increased legislation, regulation, review of industry practices and private litigation. These factors may adversely affect the Company's ability to market our services, require the Company to change its services, or increase the overall regulatory burden under which the Company operates. Any of these factors may increase the costs of doing business and adversely affect the Company's business, financial position, results of operations or cash flows.

Government Investigations—The Company may be subjected to additional regulatory requirements and to investigations or regulatory action by governmental agencies, each of which may have a material adverse effect on the Company's business, financial condition and results of operations.

From time to time, the Company receives notifications from and engages in discussions with various government agencies concerning the Company's businesses and operations. As a result of these contacts with regulators, the Company may, as appropriate, be required to implement changes to the Company's operations, revise the Company's filings with such agencies and/or seek additional licenses to conduct the Company's business. The Company's inability to comply with the various regulatory requirements may have a material adverse effect on the Company's business.

In addition, the Company may become subject to regulatory investigations relating to the Company's business, which may result in litigation or regulatory action. A subsequent legal liability or a significant regulatory action against the Company could have a material adverse effect on the Company's business, financial condition and results of operations. Moreover, even if the Company ultimately prevails in the litigation, regulatory action or investigation, such litigation, regulatory action or investigation could have a material adverse effect on the Company's business, financial condition and results of operations.

Investment Portfolio—The value of the Company's investments is influenced by varying economic and market conditions, and a decrease in value may result in a loss charged to income.

All of the Company's investments are classified as "available-for-sale" and are carried at fair value. The Company's available-for-sale investment securities were $305.3 million and represented 12.5 percent of the Company's total assets at December 31, 2016.

The current economic environment and recent volatility of securities markets increase the difficulty of assessing investment impairment and the same influences tend to increase the risk of potential impairment of these assets. The Company believes it has adequately reviewed its investment securities for impairment and that its investment securities are carried at fair value. However, over time, the economic and market environment may provide additional insight regarding the fair value of certain securities, which could change the Company's judgment regarding impairment. This could result in realized losses relating to other-than-temporary declines being charged against future income. Given the current market conditions and the significant judgments involved, there is a risk that declines in fair value may occur and material other-than-temporary impairments may be charged to income in future periods, resulting in realized losses. In addition, if it became necessary for the Company to liquidate its investment portfolio on an accelerated basis, it could have an adverse effect on the Company's results of operations.

Adverse Economic Conditions—The state of the national economy and adverse changes in economic conditions could adversely affect the Company's business and results of operations.

The state of the economy has negatively affected state budgets and could adversely affect the Company's reimbursement from state Medicaid programs in its Healthcare segment. The state of the economy and adverse economic conditions could also adversely affect the Company's customers in the Healthcare and Pharmacy Management segments resulting in increased pressures on the Company's operating margins. In addition, economic conditions may result in decreased membership in the Healthcare and Pharmacy Management segments, thereby adversely affecting the revenues to the Company from such customers as well as the Company's operating profitability.

Adverse economic conditions in the debt markets may affect the Company's ability to refinance the Company's existing Credit Facilities upon their maturities on acceptable terms, or at all.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company currently leases approximately one million square feet of office space comprising 58 offices in 29 states and the District of Columbia with terms expiring between March 31, 2017 and January 31, 2025. The Company's principal executive offices are located in Scottsdale, Arizona, which lease expires in October 2019. The Company believes that its current facilities are suitable for and adequate to support the level of its present operations.

Item 3. Legal Proceedings

The Company's operating activities entail significant risks of liability. From time to time, the Company is subject to various actions and claims arising from the acts or omissions of its employees, network providers or other parties. In the normal course of business, the Company receives reports relating to deaths and other serious incidents involving patients whose care is being managed by the Company. Such incidents occasionally give rise to malpractice, professional negligence and other related actions and claims against the Company or its network providers. Many of

these actions and claims received by the Company seek substantial damages and therefore require the Company to incur significant fees and costs related to their defense.

The Company is also subject to or party to certain class actions and other litigation and claims relating to its operations or business practices. In the opinion of management, the Company has recorded reserves that are adequate to cover litigation, claims or assessments that have been or may be asserted against the Company, and for which the outcome is probable and reasonably estimable. Management believes that the resolution of such litigation and claims will not have a material adverse effect on the Company's financial condition or results of operations; however, there can be no assurance in this regard.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Since January 6, 2004, shares of the Company's Ordinary Common Stock, $0.01 par value per share ("common stock") have traded on the NASDAQ Stock Market under the symbol "MGLN." For further information regarding the Company's common stock, see Note 6—"Stockholders' Equity" to the consolidated financial statements set forth elsewhere herein. The following tables set forth the high and low closing bid prices of the Company's common stock as reported by the NASDAQ Stock Market for the years ended December 31, 2015 and 2016, as follows:

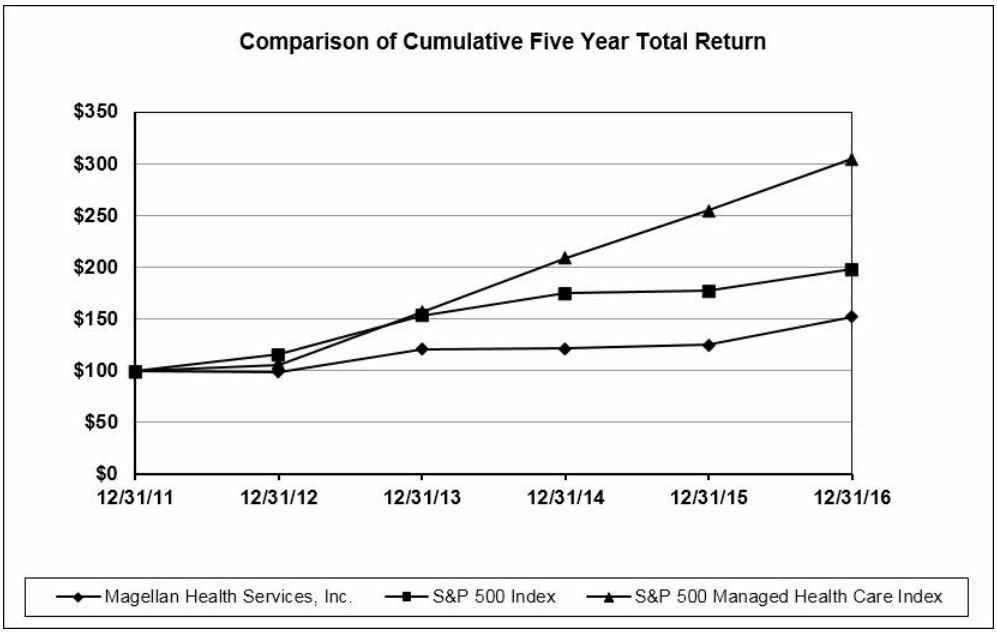
	Common Stock Sales Prices	
	High	Low
2015		
First Quarter	$ 70.82	$ 57.99
Second Quarter	72.12	60.22
Third Quarter	70.22	53.72
Fourth Quarter	63.06	46.17
2016		
First Quarter	68.31	52.57
Second Quarter	71.57	62.42
Third Quarter	71.25	52.34
Fourth Quarter	76.80	49.90

As of December 31, 2016, there were approximately 256 stockholders of record of the Company's common stock. The stockholders of record data for common stock does not reflect persons whose stock was held on that date by the Depository Trust Company or other intermediaries.

Comparison of Cumulative Total Return

The following graph compares the change in the cumulative total return on the Company's common stock to (a) the change in the cumulative total return on the stocks included in the Standard & Poor's ("S&P") 500 Stock Index and (b) the change in the cumulative total return on the stocks included in the S&P 500 Managed Health Care Index, assuming an investment of $100 made at the close of trading on December 31, 2011, and comparing relative values on December 31, 2012, 2013, 2014, 2015 and 2016. The Company did not pay any dividends during the period reflected in the graph. The common stock price performance shown below should not be viewed as being indicative of future performance.

Comparison of Cumulative Total Return



	December 31,					
	2011	2012	2013	2014	2015	2016
Magellan Health, Inc.	$ 100	$ 99.05	$ 121.10	$ 121.35	$ 124.64	$ 152.11
S&P 500 Index	100	116.00	153.57	174.60	177.01	198.18
S&P 500 Managed Health Care Index(1)	100	105.96	156.68	209.33	255.12	304.89

(1) The S&P 500 Managed Health Care Index consists of Aetna, Inc., Cigna Corporation, Humana, Inc., UnitedHealth Group, Inc., Centene Corporation and Anthem, Inc.

The information set forth above under the "Comparison of Cumulative Total Return" does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other of the Company's filings under the Securities Act or the Exchange Act, except to the extent the filing specifically incorporates such information by reference therein.

Stock Repurchases

The Company's board of directors has previously authorized a series of stock repurchase plans. Stock repurchases for each such plan could be executed through open market repurchases, privately negotiated transactions, accelerated share repurchases or other means. The board of directors authorized management to execute stock repurchase transactions from time to time and in such amounts and via such methods as management deemed appropriate. Each stock repurchase program could be limited or terminated at any time without prior notice.

On October 26, 2015, the Company's board of directors approved a stock repurchase plan which authorized the Company to purchase up to $200 million of its outstanding common stock through October 26, 2017. The Company made no repurchases during the three months ended December 31, 2016. As of December 31, 2016, the Company had approximately $74.8 million remaining available for future repurchases under the current plan. The Company made no share repurchases from January 1, 2017 through February 22, 2017.

Dividends

The Company did not declare any dividends during either of the years ended December 31, 2015 or 2016 and does not expect to pay a dividend in 2017. The Company is prohibited from paying dividends on its common stock under the terms of the Credit Facilities, except in limited circumstances. The declaration and payment of any dividends in the future by the Company will be subject to the sole discretion of the Company's board of directors and will depend upon many factors, including the Company's financial condition, earnings, covenants associated with the Company's Credit Facilities and any similar future agreement, legal requirements, regulatory constraints and other factors deemed relevant by the Company's board of directors. Moreover, should the Company pay any dividends in the future, there can be no assurance that the Company will continue to pay such dividends.

Recent Sales of Unregistered Securities

During the quarter ended December 31, 2016, the Company had no sales of unregistered securities.

Item 6. Selected Financial Data

The following table sets forth selected historical consolidated financial information of the Company as of and for the years ended December 31, 2012, 2013, 2014, 2015 and 2016.

Selected consolidated financial information for the years ended December 31, 2014, 2015 and 2016 and as of December 31, 2015 and 2016 presented below, have been derived from, and should be read in conjunction with, the audited consolidated financial statements and the notes thereto included elsewhere herein. Selected consolidated financial information for the years ended December 31, 2012 and 2013 has been derived from the Company's audited consolidated financial statements not included in this Form 10-K. The selected financial data set forth below also should be read in conjunction with the Company's financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere herein.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES

(In thousands, except per share amounts)

	Year Ended December 31,				
	2012	2013	2014	2015	2016
Statement of Operations Data:					
Net revenue	$ 3,207,397	$ 3,546,317	$ 3,760,118	$ 4,597,400	$ 4,836,884
Cost of care	2,071,890	2,232,976	2,088,595	2,274,755	1,882,614
Cost of goods sold	328,414	455,601	732,949	1,321,877	1,818,720
Direct service costs and other operating expenses(1)(2)	557,512	619,546	723,498	822,392	876,612
Depreciation and amortization	60,488	71,994	91,070	102,844	106,046
Interest expense	2,247	3,000	7,387	6,581	10,193
Interest and other income	(2,019)	(1,985)	(1,301)	(2,165)	(2,818)
Income before income taxes	188,865	165,185	117,920	71,116	145,517
Provision for income taxes	37,838	39,924	43,689	42,409	69,728
Net income	151,027	125,261	74,231	28,707	75,789
Less: net income (loss) attributable to non-controlling interest	—	—	(5,173)	(2,706)	(2,090)
Net income attributable to Magellan Health, Inc.	$ 151,027	$ 125,261	$ 79,404	$ 31,413	$ 77,879
Net income per common share attributable to Magellan Health, Inc.:					
Basic	$ 5.51	$ 4.63	$ 2.98	$ 1.26	$ 3.36
Diluted	$ 5.42	$ 4.53	$ 2.90	$ 1.21	$ 3.22

	December 31,				
	2012	2013	2014	2015	2016
Balance Sheet Data:					
Current assets	$ 871,418	$ 989,358	$ 1,140,323	$ 1,097,682	$ 1,319,267
Current liabilities	393,202	476,267	585,840	724,235	1,092,850
Property and equipment, net	136,548	172,333	171,916	174,745	172,524
Total assets	1,512,133	1,759,218	2,068,943	2,069,060	2,443,687
Total debt and capital lease obligations	—	26,725	269,841	257,309	618,379
Stockholders' equity	1,017,333	1,156,485	1,133,558	1,066,183	1,099,719

(1) Includes stock compensation expense of $17.8 million, $21.3 million, $40.6 million, $50.4 million and $37.4 million in 2012, 2013, 2014, 2015 and 2016, respectively.

(2) Includes changes in fair value of contingent consideration of $6.2 million, $44.3 million and $(0.1) million in 2014, 2015 and 2016, respectively.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's selected financial data and the Company's financial statements and the accompanying notes included herein. The following discussion may contain "forward-looking statements" within the meaning of the Securities Act and the Exchange Act. When used in this Form 10-K, the words "estimate," "anticipate," "expect," "believe," "should" and similar expressions are intended to be forward-looking statements. Although the Company believes that its plans, intentions and expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such plans, intentions or expectations will be achieved. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements are set forth under the heading "Risk Factors" in Item 1A and elsewhere in this Form 10-K. Capitalized or defined terms included in this Item 7 have the meanings set forth in Item 1 of this Form 10-K.

Business Overview

The Company is engaged in the healthcare management business, and is focused on meeting needs in areas of healthcare that are fast growing, highly complex and high cost, with an emphasis on special population management. The Company provides services to health plans and other MCOs, employers, labor unions, various military and governmental agencies, TPAs, consultants and brokers. The Company's business is divided into three segments, based on the services it provides and/or the customers that it serves. See Item 1—"Business" for more information on the Company's business segments.

The following tables summarize, for the periods indicated, revenues and covered lives for Healthcare by product classification and customer type (in thousands):

	Revenue for the year ended December 31, 2016		
	Risk-based	ASO	Total
Commercial			
Behavioral(1)	$ 339,604	$ 127,495	$ 467,099
Specialty	501,662	67,876	569,538
Government(2)	1,532,508	90,540	1,623,048
Total	$ 2,373,774	$ 285,911	$ 2,659,685

	Covered lives as of December 31, 2016	
	Risk-based	ASO
Commercial		
Behavioral(1)	13,834	10,219
Specialty	8,666	15,917
Government(2)	4,256	1,043

(1) Includes revenues of $51.4 million from EAP services provided on a risk basis to health plans and employers with 11.0 million covered lives.

(2) Includes revenues of $244.0 million from EAP services provided on a risk basis to federal governmental entities with 3.6 million covered lives.

During 2016, Pharmacy Management paid 24.0 million adjusted commercial network claims in its PBM business, 72.6 million adjusted PBA claims and 0.1 million specialty dispensing claims. Adjusted claim totals apply a multiple of three for each 90-day and traditional mail claim. As of December 31, 2016, Pharmacy Management had a generic dispensing rate of 84.9 percent within its commercial PBM business and served 1.7 million commercial PBM members, 12.5 million members in its medical pharmacy management programs, and 26 states and the District of Columbia in its PBA business.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Company considers the following to be its critical accounting policies and estimates:

Managed Care and Other Revenue

Managed Care Revenue. Managed care revenue, inclusive of revenue from the Company's risk, EAP and ASO contracts, is recognized over the applicable coverage period on a per member basis for covered members. The Company is paid a per member fee for all enrolled members, and this fee is recorded as revenue in the month in which members are entitled to service. The Company adjusts its revenue for retroactive membership terminations, additions and other changes, when such adjustments are identified, with the exception of retroactivity that can be reasonably estimated. The impact of retroactive rate amendments is generally recorded in the accounting period in which terms to the amendment are finalized, and that the amendment is executed. Any fees paid prior to the month of service are recorded as deferred revenue. Managed care revenues approximated $2.6 billion, $2.7 billion and $2.3 billion for the years ended December 31, 2014, 2015 and 2016, respectively.

Fee-For-Service, Fixed Fee and Cost-Plus Contracts. The Company has certain contracts with customers under which the Company recognizes revenue as services are performed and as costs are incurred. This includes revenues received in relation to the Patient Protection and Affordable Care Act health insurer fee ("HIF fee") billed on a cost reimbursement basis. Revenues from these contracts approximated $290.9 million, $342.0 million and $503.2 million for the years ended December 31, 2014, 2015 and 2016, respectively.

Rebate Revenue. The Company administers a rebate program for certain clients through which the Company coordinates the achievement, calculation and collection of rebates and administrative fees from pharmaceutical manufacturers on behalf of clients. Each period, the Company estimates the total rebates earned based on actual volumes of pharmaceutical purchases by the Company's clients, as well as historical and/or anticipated sharing percentages. The Company earns fees based upon the volume of rebates generated for its clients. The Company does not record as rebate revenue any rebates that are passed through to its clients. Total rebate revenues for the years ended December 31, 2014, 2015 and 2016 approximated $43.6 million, $88.7 million and $85.4 million, respectively.

In relation to the Company's PBM business, the Company administers rebate programs through which it receives rebates from pharmaceutical manufacturers that are shared with its customers. The Company recognizes rebates

when the Company is entitled to them and when the amounts of the rebates are determinable. The amount recorded for rebates earned by the Company from the pharmaceutical manufacturers is recorded as a reduction of cost of goods sold.

PBM and Dispensing Revenue

Pharmacy Benefit Management Revenue. The Company recognizes PBM revenue, which consists of a negotiated prescription price (ingredient cost plus dispensing fee), co-payments collected by the pharmacy and any associated administrative fees, when claims are adjudicated. The Company recognizes PBM revenue on a gross basis (i.e. including drug costs and co-payments) as it is acting as the principal in the arrangement and is contractually obligated to its clients and network pharmacies, which is a primary indicator of gross reporting. In addition, the Company is solely responsible for the claims adjudication process, negotiating the prescription price for the pharmacy, collection of payments from the client for drugs dispensed by the pharmacy, and managing the total prescription drug relationship with the client's members. If the Company enters into a contract where it is only an administrator, and does not assume any of the risks previously noted, revenue will be recognized on a net basis. PBM revenues approximated $575.7 million, $1.2 billion and $1.5 billion for the years ended December 31, 2014, 2015 and 2016, respectively.

Dispensing Revenue. The Company recognizes dispensing revenue, which includes the co-payments received from members of the health plans the Company serves, when the specialty pharmaceutical drugs are shipped. At the time of shipment, the earnings process is complete; the obligation of the Company's customer to pay for the specialty pharmaceutical drugs is fixed, and, due to the nature of the product, the member may neither return the specialty pharmaceutical drugs nor receive a refund. Revenues from the dispensing of specialty pharmaceutical drugs on behalf of health plans approximated $216.0 million, $211.6 million and $221.8 million for the years ended December 31, 2014, 2015 and 2016, respectively.

Medicare Part D. The Company is contracted with CMS as a Prescription Drug Plan ("PDP") to provide prescription drug benefits to Medicare beneficiaries. Net revenues include premiums earned by the PDP, which includes a direct premium paid by CMS and a beneficiary premium paid by the PDP member. In cases of low-income members, the beneficiary premium may be subsidized by CMS. The Company recognizes premium revenues on a monthly basis on a per member basis for covered members. In addition to these premiums, net revenues includes certain payments from the members based on the members' actual prescription claims, including co-payments, coverage gap benefits, deductibles and co-insurance (collectively, "Member Responsibilities"). The Company receives a prospective subsidy payment from CMS each month to subsidize a portion of the Member Responsibilities for low-income members. If the prospective subsidy differs from actual prescription claims, the difference is recorded as either a receivable or payable on the consolidated balance sheets. The Company assumes no risk for the Member Responsibilities, including the portion subsidized by CMS. The Company recognizes revenues for Member Responsibilities, including the portion subsidized by CMS, on a gross basis as claims are adjudicated. CMS also provides an annual risk corridor adjustment which compares the Company's actual drug costs incurred to the premiums received. Based on the risk corridor adjustment, the Company may receive additional premiums from CMS or may be required to refund CMS a portion of previously received premiums. The Company calculates the risk corridor adjustment on a quarterly basis and the amount is included in net revenues with a corresponding receivable or payable on the consolidated balance sheets. Medicare Part D revenues approximated $272.8 million for the year ended December 31, 2016, including co-payments, which are included in PBM revenues above, of $31.0 million. As of December 31, 2016, the Company had $117.5 million in receivables associated with Medicare Part D from CMS and other parties related to this business.

Cost of Care, Medical Claims Payable and Other Medical Liabilities

Cost of care is recognized in the period in which members receive managed healthcare services. In addition to actual benefits paid, cost of care in a period also includes the impact of accruals for estimates of medical claims payable. Medical claims payable represents the liability for healthcare claims reported but not yet paid and claims IBNR related to the Company's managed healthcare businesses. Such liabilities are determined by employing actuarial methods that are commonly used by health insurance actuaries and that meet actuarial standards of practice. Cost of care for the Company's EAP contracts, which are mainly with the United States federal government, pertain to the costs to employ licensed behavioral health counselors to deliver non-medical counseling for these contracts.

The IBNR portion of medical claims payable is estimated based on past claims payment experience for member groups, enrollment data, utilization statistics, authorized healthcare services and other factors. This data is incorporated into contract-specific actuarial reserve models and is further analyzed to create "completion factors" that represent the

average percentage of total incurred claims that have been paid through a given date after being incurred. Factors that affect estimated completion factors include benefit changes, enrollment changes, shifts in product mix, seasonality influences, provider reimbursement changes, changes in claims inventory levels, the speed of claims processing and changes in paid claim levels. Completion factors are applied to claims paid through the financial statement date to estimate the ultimate claim expense incurred for the current period. Actuarial estimates of claim liabilities are then determined by subtracting the actual paid claims from the estimate of the ultimate incurred claims. For the most recent incurred months (generally the most recent two months), the percentage of claims paid for claims incurred in those months is generally low. This makes the completion factor methodology less reliable for such months. Therefore, incurred claims for any month with a completion factor that is less than 70 percent are generally not projected from historical completion and payment patterns; rather they are projected by estimating claims expense based on recent monthly estimated cost incurred per member per month times membership, taking into account seasonality influences, benefit changes and healthcare trend levels, collectively considered to be "trend factors."

Medical claims payable balances are continually monitored and reviewed. If it is determined that the Company's assumptions in estimating such liabilities are significantly different than actual results, the Company's results of operations and financial position could be impacted in future periods. Adjustments of prior period estimates may result in additional cost of care or a reduction of cost of care in the period an adjustment is made. Further, due to the considerable variability of healthcare costs, adjustments to claim liabilities occur each period and are sometimes significant as compared to the net income recorded in that period. Prior period development is recognized immediately upon the actuary's judgment that a portion of the prior period liability is no longer needed or that additional liability should have been accrued. The following table presents the components of the change in medical claims payable for the years ended December 31, 2014, 2015 and 2016 (in thousands):

	2014	2015	2016
Claims payable and IBNR, beginning of period	$ 242,229	$ 278,803	$ 253,299
Cost of care:			
Current year	2,097,395	2,297,255	1,892,914
Prior years(3)	(8,800)	(22,500)	(10,300)
Total cost of care	2,088,595	2,274,755	1,882,614
Claim payments and transfers to other medical liabilities(1):			
Current year	1,845,325	2,077,729	1,733,310
Prior years	206,696	222,530	213,985
Total claim payments and transfers to other medical liabilities	2,052,021	2,300,259	1,947,295
Claims payable and IBNR, end of period	278,803	253,299	188,618
Withhold receivables, end of period(2)	(321)	(2,850)	(4,482)
Medical claims payable, end of period	$ 278,482	$ 250,449	$ 184,136

(1) For any given period, a portion of unpaid medical claims payable could be covered by reinvestment liability (discussed below) and may not impact the Company's results of operations for such periods.

(2) Medical claims payable is offset by customer withholds from capitation payments in situations in which the customer has the contractual requirement to pay providers for care incurred.

(3) Favorable development in 2014, 2015 and 2016 was $8.8 million, $22.5 million and $10.3 million, respectively, and was mainly related to lower medical trends and faster claims completion than originally assumed.

Actuarial standards of practice require that the claim liabilities be adequate under moderately adverse circumstances. Adverse circumstances are situations in which the actual claims experience could be higher than the otherwise estimated value of such claims. In many situations, the claims paid amount experienced will be less than the estimate that satisfies the actuarial standards of practice. Any prior period favorable cost of care development related to a lack of moderately adverse conditions is excluded from "Cost of Care—Prior Years" adjustments, as a similar provision for moderately adverse conditions is established for current year cost of care liabilities and therefore does not generally impact net income.

Care trend factors and completion factors can have a significant impact on the medical claims payable liability. The following example provides the estimated impact to the Company's December 31, 2016 unpaid medical claims payable liability assuming hypothetical changes in care trend factors and completion factors:

Care Trend Factor(1)		Completion Factor(2)	
(Decrease) Increase		(Decrease) Increase	
Trend Factor	Medical Claims Payable	Completion Factor	Medical Claims Payable
	(in thousands)		(in thousands)
−4 %	$ (11,000)	−2 %	$ (28,000)
−3 %	(8,500)	−1.5 %	(21,000)
−2 %	(5,500)	−1 %	(14,000)
−1 %	(3,000)	−0.5 %	(7,000)
1 %	3,000	0.5 %	7,000
2 %	5,500	1 %	14,500
3 %	8,500	1.5 %	21,500
4 %	11,000	2 %	29,000

Approximately 70 percent of IBNR dollars is based on care trend factors.

(1) Assumes a change in the care trend factor for any month that a completion factor is not used to estimate incurred claims (which is generally any month that is less than 70 percent complete).

(2) Assumes a change in the completion factor for any month for which completion factors are used to estimate IBNR (which is generally any month that is 70 percent or more complete).

Due to the existence of risk sharing and reinvestment provisions in certain customer contracts, a change in the estimate for medical claims payable does not necessarily result in an equivalent impact on cost of care.

The Company believes that the amount of medical claims payable is adequate to cover its ultimate liability for unpaid claims as of December 31, 2016; however, actual claims payments may differ from established estimates.

Other medical liabilities consist primarily of amounts payable to pharmacies for claims that have been adjudicated by the Company but not yet paid. Other medical liabilities also include "reinvestment" payables under certain managed healthcare contracts with Medicaid customers and "profit share" payables under certain risk-based contracts. Under a contract with reinvestment features, if the cost of care is less than certain minimum amounts specified in the contract (usually as a percentage of revenue), the Company is required to "reinvest" such difference in behavioral healthcare programs when and as specified by the customer or to pay the difference to the customer for their use in funding such programs. Under a contract with profit share provisions, if the cost of care is below certain specified levels, the Company will "share" the cost savings with the customer at the percentages set forth in the contract. In addition, certain contracts include provisions to provide the Company additional funding if the cost of care is above the specified levels.

Long-lived Assets

Long-lived assets, including property and equipment and definite lived intangible assets to be held and used, are currently reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is determined by comparing the carrying value of these long-lived assets to management's best estimate of the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. The cash flow projections used to make this assessment are consistent with the cash flow projections that management uses internally in making key decisions. In the event an impairment exists, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset, which is generally determined by using quoted market prices for similar assets or the discounted present value of expected future cash flows.

Goodwill

The Company is required to test its goodwill for impairment on at least an annual basis. The Company has selected October 1 as the date of its annual impairment test. The goodwill impairment test is a two-step process that

requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of each reporting unit with goodwill based on various valuation techniques, with the primary technique being a discounted cash flow analysis, which requires the input of various assumptions with respect to revenues, operating margins, growth rates and discount rates. The estimated fair value for each reporting unit is compared to the carrying value of the reporting unit, which includes goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an "implied fair value" of goodwill. The determination of a reporting unit's "implied fair value" of goodwill requires the Company to allocate the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the "implied fair value" of goodwill, which is compared to its corresponding carrying value.

Goodwill is tested for impairment at a level referred to as a reporting unit, with the Company's reporting units with goodwill as of December 31, 2016 comprised of Commercial, Government and Pharmacy Management.

The fair value of the Commercial (a component of the Healthcare segment) and Pharmacy Management reporting units were determined using a discounted cash flow method. This method involves estimating the present value of estimated future cash flows utilizing a risk adjusted discount rate. Key assumptions for this method include cash flow projections, terminal growth rates and discount rates.

The fair value of the Government (a component of the Healthcare segment) reporting unit was determined using the discounted cash flow and guideline company methods. Key assumptions for the discounted cash flow method are consistent with those described above. For the guideline company method, revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples for guideline companies were applied to the reporting units pro forma revenue and EBITDA for 2016, which represents actual results for the nine-month period ended September 30, 2016 and projected results for the three-month period ended December 31, 2016, and the reporting unit's projected revenue and EBITDA for 2017. The weighting applied to the fair values determined using the discounted cash flow and guideline company methods to determine an overall fair value for the Government reporting unit was 75 percent and 25 percent, respectively. The weighting of each of the methods described above was based on the relevance of the approach. A change in the weighting would not change the outcome of the first step of the impairment test.

Goodwill for each of the Company's reporting units with goodwill at December 31, 2015 and 2016 were as follows (in thousands):

	2015	2016
Commercial	$ 242,255	$ 242,255
Government	18,363	108,321
Pharmacy Management	360,772	391,478
Total	$ 621,390	$ 742,054

The changes in the carrying amount of goodwill for the years ended December 31, 2015 and 2016 are reflected in the table below (in thousands):

	2015	2016
Balance as of beginning of period	$566,106	$621,390
Acquisition of 4D	49,136	—
Acquisition of AFSC	—	76,736
Acquisition of Veridicus	—	30,705
Other acquisitions and measurement period adjustments	6,148	13,223
Balance as of end of period	$621,390	$742,054

Stock Compensation

At December 31, 2015 and 2016, the Company had equity-based employee incentive plans, which are described more fully in Note 6—"Stockholders' Equity" to the consolidated financial statements set forth elsewhere herein. In addition, the Company issued restricted stock awards associated with the Partners Rx Management, LLC ("Partners Rx"), CDMI, LLC ("CDMI") and AFSC acquisitions, which are described more fully in Note 6—"Stockholders'

Equity" to the consolidated financial statements set forth elsewhere herein. The Company recorded stock compensation expense of $40.6 million, $50.4 million and $37.4 million for the years ended December 31, 2014, 2015 and 2016, respectively. The Company recognizes compensation costs for awards that do not contain performance conditions on a straight-line basis over the requisite service period, which is generally the vesting term of three years. For restricted stock units that include performance conditions, stock compensation is recognized using an accelerated method over the vesting period.

The Company estimates the fair value of substantially all stock options using the Black-Scholes-Merton option pricing model that employs certain factors including expected volatility of stock price, expected life of the option, risk-free interest rate and expected dividend yield. For the years ended December 31, 2014, 2015 and 2016, such volatility was based on the historical volatility of the Company's stock price. The expected term of the option is based on historical employee stock option exercise behavior and the vesting terms of the respective option. Risk-free interest rates are based on the U.S. Treasury yield in effect at the time of grant.

The Company recognizes compensation expense for only the portion of options, restricted stock or restricted stock units that are ultimately expected to vest. Therefore, estimated forfeiture rates are derived from historical employee termination behavior. The Company's estimated forfeiture rates, for its various awards, for the years ended December 31, 2014, 2015 and 2016 ranged between zero and four percent. If the actual number of forfeitures differs from those estimated, additional adjustments to compensation expense may be required in future periods. If vesting of an award is conditioned upon the achievement of performance goals, compensation expense during the performance period is estimated using the most probable outcome of the performance goals, and adjusted as the expected outcome changes.

Income Taxes

The Company estimates income taxes for each of the jurisdictions in which it operates. This process involves determining both permanent and temporary differences resulting from differing treatment for tax and book purposes. Deferred tax assets and/or liabilities are determined by multiplying the temporary differences between the financial reporting and tax reporting bases for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled. The Company then assesses the likelihood that the deferred tax assets will be recovered from the reversal of temporary differences, the implementation of feasible and prudent tax planning strategies, and future taxable income. To the extent the Company cannot conclude that recovery is more likely than not, it establishes a valuation allowance. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date.

Determination of the amount of deferred tax assets considered realizable requires significant judgment and estimation regarding the forecasts of future taxable income which are consistent with the plans and estimates the Company uses to manage the underlying businesses. Although consideration is also given to potential tax planning strategies which might be available to improve the realization of deferred tax assets, none were identified which were both prudent and reasonable. Future changes in the estimated realizable portion of deferred tax assets could materially affect the Company's financial condition and results of operations.

The tax benefit from an uncertain tax position is recognized when it is more likely than not that, based on the technical merits, the position will be sustained by the taxing authorities upon examination, including resolution of related appeals or litigation processes. Significant judgment is required in determining the Company's uncertain tax positions. Accruals for uncertain tax positions are established using the Company's best judgment and adjustments are made, as warranted, due to changing facts and circumstances. The ultimate resolution of a disputed tax position following an examination by a taxing authority could result in a payment that is materially different from that accrued by the Company.

Results of Operations

The accounting policies of the Company's segments are the same as those described in Note 1—"General." The Company evaluates performance of its segments based on profit or loss from operations before stock compensation expense, depreciation and amortization, interest expense, interest and other income, changes in the fair value of contingent consideration recorded in relation to acquisitions, gain on sale of assets, special charges or benefits, and income taxes ("Segment Profit"). Management uses Segment Profit information for internal reporting and control purposes and considers it important in making decisions regarding the allocation of capital and other resources, risk

assessment and employee compensation, among other matters. Healthcare subcontracts with Pharmacy Management to provide pharmacy benefits management services for certain of Healthcare's customers. In addition, Pharmacy Management provides pharmacy benefits management for the Company's employees covered under its medical plan. As such, revenue, cost of goods sold and direct service costs and other related to these arrangements are eliminated. The Company's segments are defined above.

The following tables summarize, for the periods indicated, operating results by business segment (in thousands):

	Healthcare	Pharmacy Management	Corporate and Elimination	Consolidated
Year Ended December 31, 2014				
Managed care and other revenue	$ 2,780,905	$ 205,524	$ (18,055)	$ 2,968,374
PBM and dispensing revenue	—	844,512	(52,768)	791,744
Cost of care	(2,090,352)	(16,298)	18,055	(2,088,595)
Cost of goods sold	—	(784,758)	51,809	(732,949)
Direct service costs and other (1) (3)	(485,388)	(200,198)	(37,912)	(723,498)
Stock compensation expense (1) (3)	6,654	29,767	4,163	40,584
Changes in fair value of contingent consideration (1)	38	6,134	—	6,172
Less: non-controlling interest segment profit (loss) (2)	(5,087)	—	—	(5,087)
Segment profit (loss)	$ 216,944	$ 84,683	$ (34,708)	$ 266,919

	Healthcare	Pharmacy Management	Corporate and Elimination	Consolidated
Year Ended December 31, 2015				
Managed care and other revenue	$ 2,959,252	$ 238,456	$ (63)	$ 3,197,645
PBM and dispensing revenue	—	1,510,180	(110,425)	1,399,755
Cost of care	(2,274,755)	—	—	(2,274,755)
Cost of goods sold	—	(1,427,680)	105,803	(1,321,877)
Direct service costs and other (1) (3)	(510,811)	(284,968)	(26,613)	(822,392)
Stock compensation expense (1) (3)	8,502	36,351	5,531	50,384
Changes in fair value of contingent consideration (1)	(1,404)	45,661	—	44,257
Less: non-controlling interest segment profit (loss) (2)	(2,439)	—	(195)	(2,634)
Segment profit (loss)	$ 183,223	$ 118,000	$ (25,572)	$ 275,651

	Healthcare	Pharmacy Management	Corporate and Elimination	Consolidated
Year Ended December 31, 2016				
Managed care and other revenue	$ 2,659,685	$ 243,561	$ (304)	$ 2,902,942
PBM and dispensing revenue	—	2,053,188	(119,246)	1,933,942
Cost of care	(1,882,614)	—	—	(1,882,614)
Cost of goods sold	—	(1,933,086)	114,366	(1,818,720)
Direct service costs and other (1) (3)	(573,706)	(261,570)	(41,336)	(876,612)
Stock compensation expense (1) (3)	4,440	20,509	12,473	37,422
Changes in fair value of contingent consideration (1)	(231)	127	—	(104)
Impairment of intangible assets (1)	4,800	—	—	4,800
Less: non-controlling interest segment profit (loss) (2)	(567)	—	(170)	(737)
Segment profit (loss)	$ 212,941	$ 122,729	$ (33,877)	$ 301,793

(1) Stock compensation expense, changes in the fair value of contingent consideration recorded in relation to the acquisitions and impairment of intangible assets are included in direct service costs and other operating expenses; however, these amounts are excluded from the computation of Segment Profit.

(2) The non-controlling interest portion of AlphaCare of New York, Inc.'s ("AlphaCare") segment profit (loss) is excluded from the computation of Segment Profit.

(3) Effective January 1, 2016, the Company implemented changes related to the allocation of Corporate operational and support functions. These changes were applied retrospectively. The following tables summarize, for the periods indicated, the changes by business segment (in thousands):

	Healthcare	Pharmacy Management	Corporate and Elimination	Consolidated
Year Ended December 31, 2014				
Segment profit (loss) before Corporate allocations	$ 278,485	$ 101,110	$ (112,676)	$ 266,919
Allocated Corporate costs	(65,296)	(17,365)	82,661	—
Allocated Corporate stock compensation expense	3,755	938	(4,693)	—
Segment profit (loss)	$ 216,944	$ 84,683	$ (34,708)	$ 266,919

	Healthcare	Pharmacy Management	Corporate and Elimination	Consolidated
Year Ended December 31, 2015				
Segment profit (loss) before Corporate allocations	$ 250,069	$ 135,820	$ (110,238)	$ 275,651
Allocated Corporate costs	(72,792)	(19,307)	92,099	—
Allocated Corporate stock compensation expense	5,946	1,487	(7,433)	—
Segment profit (loss)	$ 183,223	$ 118,000	$ (25,572)	$ 275,651

	Healthcare	Pharmacy Management	Corporate and Elimination	Consolidated
Year Ended December 31, 2016				
Segment profit (loss) before Corporate allocations	$ 282,421	$ 140,625	$ (121,253)	$ 301,793
Allocated Corporate costs	(74,498)	(19,150)	93,648	—
Allocated Corporate stock compensation expense	5,018	1,254	(6,272)	—
Segment profit (loss)	$ 212,941	$ 122,729	$ (33,877)	$ 301,793

The following table reconciles consolidated income before income taxes to Segment Profit for the years ended December 31, 2014, 2015 and 2016 (in thousands):

	2014	2015	2016
Income before income taxes	$ 117,920	$ 71,116	$ 145,517
Stock compensation expense	40,584	50,384	37,422
Changes in fair value of contingent consideration	6,172	44,257	(104)
Impairment of intangible assets	—	—	4,800
Non-controlling interest segment profit (loss)	5,087	2,634	737
Depreciation and amortization	91,070	102,844	106,046
Interest expense	7,387	6,581	10,193
Interest and other income	(1,301)	(2,165)	(2,818)
Segment Profit	$ 266,919	$ 275,651	$ 301,793

Non-GAAP Measures

The Company reports its financial results in accordance with GAAP, however the Company's management also assesses business performance and makes business decisions regarding the Company's operations using certain non-GAAP measures. In addition to Segment Profit, as defined above, the Company also uses adjusted net income attributable to Magellan Health, Inc. ("Adjusted Net Income") and adjusted net income per common share attributable to Magellan Health, Inc. on a diluted basis ("Adjusted EPS"). Adjusted Net Income and Adjusted EPS reflect certain adjustments made for acquisitions completed after January 1, 2013 to exclude non-cash stock compensation expense resulting from restricted stock purchases by sellers, changes in the fair value of contingent consideration, amortization of identified acquisition intangibles, as well as impairment of identified acquisition intangibles. The Company believes these non-GAAP measures provide a more useful comparison of the Company's underlying business performance from

period to period and are more representative of the earnings capacity of the Company. Non-GAAP financial measures we disclose, such as Segment Profit, Adjusted Net Income and Adjusted EPS, should not be considered a substitute for, or superior to, financial measures determined or calculated in accordance with GAAP.

The following table reconciles net income attributable to Magellan Health, Inc. to Adjusted Net Income for the years ended December 31, 2014, 2015, and 2016 (in thousands):

	2014	2015	2016
Net income attributable to Magellan Health, Inc.	$ 79,404	$ 31,413	$ 77,879
Adjusted for acquisitions starting in 2013			
Stock compensation expense relating to acquisitions	27,594	32,235	19,181
Changes in fair value of contingent consideration	9,304	44,257	(104)
Amortization of acquired intangibles	13,696	21,371	25,324
Impairment of intangible assets, net of non-controlling interest	—	—	3,936
Tax impact	(19,443)	(37,501)	(16,676)
Adjusted Net Income	$ 110,555	$ 91,775	$ 109,540

The following table reconciles net income per common share attributable to Magellan Health, Inc.—diluted to Adjusted EPS for the years ended December 31, 2014, 2015, and 2016:

	2014	2015	2016
Net income per common share attributable to Magellan Health, Inc. —Diluted	$ 2.90	$ 1.21	$ 3.22
Adjusted for acquisitions starting in 2013			
Stock compensation expense relating to acquisitions	1.01	1.25	0.79
Changes in fair value of contingent consideration	0.34	1.71	—
Amortization of acquired intangibles	0.50	0.83	1.05
Impairment of intangible assets, net of non-controlling interest	—	—	0.16
Tax impact	(0.71)	(1.45)	(0.69)
Adjusted EPS	$ 4.04	$ 3.55	$ 4.53

Year ended December 31, 2016 (“2016”) compared to the year ended December 31, 2015 (“2015”)

Healthcare

Net Revenue

Net revenue related to Healthcare decreased by 10.1 percent or $299.6 million from 2015 to 2016. The decrease in revenue is mainly due to terminated contracts of $665.8 million, unfavorable rate changes of $58.8 million, program changes of $54.3 million, profit share of $8.0 million and other net decreases of $0.3 million. These decreases were partially offset by increased membership from existing customers of $311.4 million, revenue for AFSC acquired on July 1, 2016 of $88.0 million, contracts implemented after (or during) 2015 of $43.1 million, revenue for TMG acquired February 29, 2016 of $41.8 million and favorable retroactive rate adjustments recorded in 2016 of $3.3 million.

Cost of Care

Cost of care decreased by 17.2 percent or $392.1 million from 2015 to 2016. The decrease in cost of care is primarily due to terminated contracts of $571.9 million, lower care associated with unfavorable rate changes of $64.2 million, program changes of $47.5 million, favorable 2015 medical claims development recorded after 2015 of $16.7 million, net favorable prior period medical claims development recorded in 2016 of $10.3 million and care trends and other net favorable variances of $69.1 million. These decreases were partially offset by increased membership from existing customers of $282.5 million, care costs for AFSC acquired on July 1, 2016 of $56.2 million, new contracts

implemented after (or during) 2015 of $26.4 million and favorable prior period medical claims development recorded in 2015 of $22.5 million. For our commercial contracts, cost of care as a percentage of risk revenue (excluding EAP business) was 82.1 percent in 2016 which was consistent with 2015. For our government contracts, cost of care decreased as a percentage of risk revenue (excluding EAP business) from 88.1 percent in 2015 to 81.8 percent in 2016, mainly due to business mix, favorable care development and favorable care trends.

Direct Service Costs

Direct service costs increased by 12.3 percent or $62.9 million from 2015 to 2016 primarily due to costs related to TMG and AFSC and a $4.8 million impairment of intangible assets, partially offset by the impact of terminated contracts, as well as severance and other contract termination cost of $3.8 million recorded in 2015. Direct service costs increased as a percentage of revenue from 17.3 percent in 2015 to 21.6 percent in 2016, mainly due to acquisitions and new business, partially offset by terminated contracts.

Pharmacy Management

Managed Care and Other Revenue

Managed care and other revenue related to Pharmacy Management increased by 2.1 percent or $5.1 million from 2015 to 2016. This increase is primarily due to new contracts implemented after (or during) 2015 of $5.9 million, government pharmacy revenue of $3.8 million and other net favorable variances of $3.2 million. These increases were partially offset by decreased rebate revenue of $6.7 million and terminated contracts of $1.1 million.

PBM and Dispensing Revenue

PBM and dispensing revenue related to Pharmacy Management increased by 36.0 percent or $543.0 million from 2015 to 2016. This increase is primarily due to new contracts implemented after (or during) 2015 of $457.5 million, revenue for 4D acquired on April 1, 2015 of $107.5 million, pharmacy employer revenue of $89.4 million, revenue for Veridicus acquired on December 13, 2016 of $7.5 million and other net favorable variances of $2.4 million. These increases were partially offset by terminated contracts of $108.5 million and net decreased dispensing activity from existing customers of $12.8 million.

Cost of Goods Sold

Cost of goods sold increased by 35.4 percent or $505.4 million from 2015 to 2016. This increase is primarily due to new contracts implemented after (or during) 2015 of $451.3 million, 4D acquired April 1, 2015 of $103.9 million, an increase in pharmacy employer of $60.4 million, Veridicus acquired on December 13, 2016 of $6.9 million and other net unfavorable variances of $5.6 million. These increases were partially offset by terminated contracts of $107.9 million and net decreased dispensing activity from existing customers of $14.8 million. As a percentage of the portion of net revenue that relates to PBM and dispensing activity, cost of goods sold decreased from 94.5 percent in 2015 to 94.2 percent in 2016, mainly due to business mix.

Direct Service Costs

Direct service costs decreased by 8.2 percent or $23.4 million from 2015 to 2016. This decrease mainly relates to changes in the fair value of contingent consideration related to the CDMI and 4D acquisitions of $45.5 million in 2015 and lower stock compensation expense of $14.6 million, which decreases were partially offset by additional costs from the acquisitions of 4D and Veridicus, contract implementation costs and ongoing costs to support new business. As a percentage of revenue, direct service costs decreased from 16.3 percent in 2015 to 11.4 percent in 2016, mainly due to an increase in revenue from business growth and acquisitions and the decrease in expense for fair value of contingent consideration and stock compensation expense.

Corporate and Elimination

Net expenses related to Corporate, which includes eliminations, increased by 48.6 percent or $15.2 million, primarily due to higher project costs, stock compensation expense and discretionary benefits in 2016. As a percentage of revenue, corporate and elimination increased from 0.7 percent in 2015 to 1.0 percent in 2016, mainly due to higher

project cost and discretionary benefits, partially offset by higher revenue due to acquisitions and new business.

Depreciation and Amortization

Depreciation and amortization expense increased by 3.1 percent or $3.2 million from 2015 to 2016, primarily due to asset additions after 2015 and acquisition activity.

Interest Expense

Interest expense increased by $3.6 million from 2015 to 2016 mainly due to an increase in interest rates and the amount of outstanding debt.

Interest and Other Income

Interest and other income increased by $0.7 million from 2015 to 2016 primarily due to higher yields.

Income Taxes

The Company's effective income tax rate was 59.6 percent in 2015 and 47.9 percent in 2016. These rates differ from the federal statutory income tax rate primarily due to state income taxes, permanent differences between book and tax income, and changes to recorded tax contingencies and valuation allowances. The Company also accrues interest and penalties related to uncertain tax positions in its provision for income taxes. The effective income tax rate for 2016 was lower than 2015 mainly due to (i) improved results at AlphaCare which reduced the valuation allowance added in 2016 compared to 2015, and (ii) a less significant impact in 2016 from the non-deductible HIF fees due to greater overall income.

The statutes of limitations regarding the assessment of federal and most state and local income taxes for 2012 expired during 2016. As a result, $2.2 million of tax contingency reserves recorded as of December 31, 2015 were reversed in the current year, of which $1.5 million was reflected as a reduction to income tax expense and $0.7 million as a decrease to deferred tax assets. Additionally, $0.1 million of accrued interest was reversed in 2016 and reflected as a reduction to income tax expense due to the closing of statutes of limitations on tax assessments.

The statutes of limitations regarding the assessment of federal and most state and local income taxes for 2011 expired during 2015. As a result, $3.1 million of tax contingency reserves recorded as of December 31, 2014 were reversed in 2015, of which $2.0 million was reflected as a reduction to income tax expense, $1.0 million as a decrease to deferred tax assets, and the remainder as an increase to additional paid-in capital. Additionally, $0.4 million of accrued interest and $0.7 million of state tax contingency reserves were reversed in 2015 and reflected as reductions to income tax expense due to the closing of statutes of limitations on tax assessments and the favorable settlement of state income tax examinations.

2015 compared to the year ended December 31, 2014 ("2014")

Healthcare

Net Revenue

Net revenue related to Healthcare increased by 6.4 percent or $178.3 million from 2014 to 2015. The increase in revenue is mainly due to increased membership from existing customers of $391.3 million, contracts implemented after (or during) 2014 of $157.0 million, favorable rate changes of $34.2 million, increase in net revenue recorded in relation to the Patient Protection and Affordable Care Act health insurer fee ("HIF fee") of $8.9 million, revenue for HSM Physical Health, Inc. ("HSM") acquired on January 31, 2015 of $10.0 million, increase in performance based revenue of $7.1 million, risk share revenue of $4.0 million and other net favorable increases of $3.1 million. These increases were partially offset by terminated contracts of $389.1 million, program changes of $43.2 million, customer settlements in 2014 of $3.8 million and retroactive rate and membership adjustments recorded in 2014 of $1.2 million.

Cost of Care

Cost of care increased by 8.8 percent or $184.4 million from 2014 to 2015. The increase in cost of care is primarily due to increased membership from existing customers of $365.4 million, new contracts implemented after (or during) 2014 of $120.2 million, higher care associated with favorable rate changes of $16.6 million, favorable prior period medical claims development recorded in 2014 of $8.8 million, customer settlements recorded in 2014 of $7.7 million, HSM acquired on January 31, 2015 of $4.4 million, care offset associated with risk share revenue of $2.8 million and unfavorable care trends and other net variances of $44.3 million. These increases were partially offset by terminated contracts of $307.5 million, program change of $35.1 million, favorable prior period medical claims development recorded in 2015 of $22.5 million and favorable 2014 medical claims development recorded after 2014 of $20.7 million. For our commercial contracts, cost of care increased as a percentage of risk revenue (excluding EAP business) from 76.4 percent in 2014 to 82.1 percent in 2015, mainly due to unfavorable care trends and business mix. For our government contracts, cost of care increased as a percentage of risk revenue (excluding EAP business) from 87.7 percent in 2014 to 88.1 percent in 2015, mainly due to business mix.

Direct Service Costs

Direct service costs increased by 5.2 percent or $25.4 million from 2014 to 2015 primarily due to costs to support new business and development for the Magellan Complete Care product, partially offset by terminated contracts. Direct service costs decreased as a percentage of revenue from 17.5 percent in 2014 to 17.3 percent in 2015, mainly due to membership growth and new business.

Pharmacy Management

Managed Care and Other Revenue

Managed care and other revenue related to Pharmacy Management increased by 16.0 percent or $32.9 million from 2014 to 2015. This increase is primarily due to increased rebate revenue of $33.3 million, revenue of $12.1 million for CDMI which was acquired on April 30, 2014 and new contracts implemented after (or during) 2014 of $7.5 million. These increases were partially offset by terminated contracts of $18.1 million and other net decreases of $1.9 million.

PBM and Dispensing Revenue

PBM and dispensing revenue related to Pharmacy Management increased by 78.8 percent or $665.7 million from 2014 to 2015. This increase is primarily due to revenue for 4D acquired on April 1, 2015 of $368.0 million, new contracts implemented after (or during) 2014 of $136.2 million, an increase in pharmacy employer revenue of $114.3 million, an increase in pharmacy MCO revenue of $83.0 million and net increased dispensing activity from existing customers of $10.6 million. These increases were partially offset by terminated contracts of $43.6 million and other net unfavorable variances of $2.8 million.

Cost of Care

Cost of care decreased by $16.3 million from 2014 to 2015 due to a terminated contract.

Cost of Goods Sold

Cost of goods sold increased by 81.9 percent or $642.9 million from 2014 to 2015. This increase is primarily due to 4D acquired on April 1, 2015 of $356.0 million, new contracts implemented after (or during) 2014 of $132.4 million, an increase in pharmacy employer of $103.2 million, pharmacy MCO of $82.6 million and net increased dispensing activity from existing customers of $11.9 million. These increases were partially offset by terminated contracts of $42.1 million and other net favorable variances of $1.1 million. As a percentage of the portion of net revenue that relates to PBM and dispensing activity, cost of goods sold increased from 92.9 percent in 2014 to 94.5 percent in 2015, mainly due to business mix.

Direct Service Costs

Direct service costs increased by 42.3 percent or $84.8 million from 2014 to 2015. This increase mainly relates

to changes in the fair value of contingent consideration related to the CDMI and 4D acquisitions of $39.5 million, in addition to additional cost from the acquisition of 4D and implementation costs and ongoing costs to support new business. As a percentage of revenue, direct service costs decreased from 19.1 percent in 2014 to 16.3 percent in 2015, mainly due to the increase in revenue from business growth and acquisition activity, partially offset by the fair value of contingent consideration.

Corporate and Elimination

Net expenses related to Corporate, which includes eliminations, decreased by 19.5 percent or $7.6 million, primarily due to lower discretionary benefit costs and project cost in 2015. As a percentage of revenue, corporate and elimination decreased from 1.0 percent in 2014 to 0.7 percent in 2015, mainly due to the increase in revenue due to acquisitions and new business.

Depreciation and Amortization

Depreciation and amortization expense increased by 12.9 percent or $11.8 million from 2014 to 2015, primarily due to asset additions after 2014 and acquisition activity.

Interest Expense

Interest expense decreased by $0.8 million from 2014 to 2015, mainly due to contingent consideration expense for CDMI recorded in 2014, partially offset by borrowings under the 2014 Credit Facility in September 2014.

Interest and Other Income

Interest and other income increased by $0.9 million from 2014 to 2015, primarily due to higher yields and an increase in invested balances.

Income Taxes

The Company's effective income tax rate was 37.0 percent in 2014 and 59.6 percent in 2015. These rates differ from the federal statutory income tax rate primarily due to state income taxes, permanent differences between book and tax income, and changes to recorded tax contingencies and valuation allowances. The Company also accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. The effective income tax rate for 2014 was lower than 2015 mainly due to lower reversals of tax contingencies in 2015 from the closure of statutes of limitations and a more significant impact in 2015 from the non-deductible HIF fees due to lower overall income.

The statutes of limitations regarding the assessment of federal and most state and local income taxes for 2011 expired during 2015. As a result, $3.1 million of unrecognized tax benefits recorded as of December 31, 2014 were reversed in 2015, of which $2.0 million was reflected as a reduction to income tax expense, $1.0 million as a decrease to deferred tax assets, and the remainder as an increase to additional paid-in capital. Additionally, $0.4 million of accrued interest and $0.7 million of unrecognized state tax benefits were reversed in 2015 and reflected as reductions to income tax expense due to the closing of statutes of limitations on tax assessments and the favorable settlement of state income tax examinations.

The statutes of limitations regarding the assessment of federal and most state and local income taxes for 2010 expired during 2014. As a result, $19.5 million of unrecognized tax benefits recorded as of December 31, 2013 were reversed in 2014, of which $16.0 million was reflected as a reduction to income tax expense, $2.6 million as an increase to additional paid-in capital, and the remainder as a decrease to deferred tax assets. Additionally, $1.4 million of accrued interest was reversed in 2014 and reflected as a reduction to income tax expense due to the closing of statutes of limitations on tax assessments.

Outlook—Results of Operations

The Company's Segment Profit and net income are subject to significant fluctuations from period to period. These fluctuations may result from a variety of factors such as those set forth under Item 1A—"Risk Factors" as well as a variety of other factors including: (i) changes in utilization levels by enrolled members of the Company's risk-based

contracts, including seasonal utilization patterns; (ii) contractual adjustments and settlements; (iii) retrospective membership adjustments; (iv) timing of implementation of new contracts, enrollment changes and contract terminations; (v) pricing adjustments upon contract renewals (and price competition in general); (vi) the timing of acquisitions; (vii) changes in estimates regarding medical costs and IBNR; (viii) the timing of recognition of pharmacy revenues, including rebates and Medicare Part D; and (ix) changes in the estimates of contingent consideration.

A portion of the Company's business is subject to rising care costs due to an increase in the number and frequency of covered members seeking healthcare services and higher costs of such services. Many of these factors are beyond the Company's control. Future results of operations will be heavily dependent on management's ability to obtain customer rate increases that are consistent with care cost increases and/or to reduce operating expenses.

Care Trends. The Company expects that same-store normalized cost of care trend for the 12 month forward outlook to be 3 to 7 percent for commercial products and 0 to 2 percent for government business.

Interest Rate Risk. Changes in interest rates affect interest income earned on the Company's cash equivalents and investments, as well as interest expense on variable interest rate borrowings under the Company's Credit Facilities. Based on the amount of cash equivalents and investments and the borrowing levels under the Credit Facilities as of December 31, 2016, a hypothetical 10 percent increase or decrease in the interest rate associated with these instruments, with all other variables held constant, would not materially affect the Company's future earnings and cash outflows.

Historical—Liquidity and Capital Resources

2016 compared to 2015

Operating Activities. The Company reported net cash provided by operating activities of $157.5 million and $66.7 million for 2015 and 2016, respectively. The $90.8 million decrease in operating cash flows from 2015 to 2016 is attributable to unfavorable working capital changes offset by an increase in Segment Profit and lower tax payments between years.

The net unfavorable impact of working capital changes between years totaled $126.4 million. For 2015, operating cash flows were impacted by net unfavorable working capital changes of $54.3 million, which were largely attributable to timing related to receivables and payables. For 2016, operating cash flows were impacted by net unfavorable working capital changes of $180.7 million, which were largely attributable to contingent consideration payments of $91.7 million, of which $51.1 million is reflected as operating activities, working capital changes of approximately $113.8 million related to our Medicare Part D business, primarily receivables, and other net unfavorable working capital changes due to timing related to receivables and payables.

Segment Profit for 2016 increased $26.1 million from 2015. Tax payments from 2016 totaled $54.4 million, which represents a decrease of $9.5 million from 2015.

Investing Activities. The Company utilized $71.6 million and $60.9 million during 2015 and 2016, respectively, for capital expenditures. The additions related to hard assets (equipment, furniture, and leaseholds) and capitalized software for 2015 were $27.3 million and $44.3 million, respectively, as compared to additions for 2016 related to hard assets and capitalized software of $15.2 million and $45.7 million, respectively.

The Company used net cash of $65.8 million during 2015 for the net purchase of "available-for-sale" securities, with the Company receiving net cash of $15.8 million during 2016 from the net maturity of "available-for-sale" securities. In 2015, the Company used net cash of $13.6 million and $42.2 million for the acquisition of HSM and 4D, respectively. In 2016, the Company used net cash of $16.0 million, $110.9 million and $72.8 million for the acquisition of TMG, AFSC and Veridicus, respectively, partially offset by a working capital adjustment of $0.5 million related to the acquisition of 4D.

Financing Activities. During 2015, the Company paid $206.0 million for the repurchase of treasury stock under the Company's share repurchase program, $12.5 million on debt obligations, and $4.5 million on capital lease obligations. The Company made contingent consideration payments totaling $29.3 million of which $20.8 million was related to financing activities. In addition, the Company received $53.5 million from the exercise of stock options and had other net favorable items of $4.4 million.

During 2016, the Company paid $106.8 million for the repurchase of treasury stock under the Company's share repurchase program, $15.6 million on debt obligations, and $5.3 million on capital lease obligations. The Company made contingent consideration payments totaling $91.7 million of which $40.6 million was related to financing activities. In addition, the Company received $375.0 million from the issuance of debt, $25.2 million from the exercise of stock options, and other net favorable items of $1.2 million.

2015 compared to 2014

Operating Activities. The Company reported net cash provided by operating activities of $189.7 million and $157.5 million for 2014 and 2015, respectively. The $32.2 million decrease in operating cash flows from 2014 to 2015 is attributable to unfavorable working capital changes and an increase in tax payments between years, partially offset by an increase in Segment Profit between years.

The net unfavorable impact of working capital changes between years totaled $34.7 million. For 2014, operating cash flows were impacted by net unfavorable working capital changes of $19.5 million, which were largely attributable to the timing of the HIF fee activity and other net favorable working capital changes due to the timing related to receivables and payables. For 2015, operating cash flows were impacted by net unfavorable working capital changes of $54.3 million, which were largely attributable to timing related to receivables and payables.

Tax payments from 2015 totaled $63.9 million, which represents an increase of $6.2 million from 2014. Segment Profit for 2015 increased $8.7 million from 2014.

Investing Activities. The Company utilized $62.3 million and $71.6 million during 2014 and 2015, respectively, for capital expenditures. The additions related to hard assets (equipment, furniture, and leaseholds) and capitalized software for 2014 were $16.9 million and $45.4 million, respectively, as compared to additions for 2015 related to hard assets and capitalized software of $27.3 million and $44.3 million, respectively.

The Company used net cash of $64.5 million and $65.8 million during 2014 and 2015 for the net purchase of "available for sale" securities. In 2014, the Company used net cash of $121.1 million and $7.9 million for the acquisitions of CDMI and Cobalt Therapeutics, LLC ("Cobalt"), respectively, with the Company using net cash of $42.2 million and $13.6 million for the acquisitions of 4D and HSM, respectively, in 2015. In addition, the Company received cash of $0.7 million in 2014 related to the settlement of working capital associated with the Partners Rx acquisition.

Financing Activities. During 2014, the Company received $250.0 million from the issuance of debt and $53.0 million from the exercise of stock options. In addition, the Company paid $197.5 million for the repurchase of treasury stock under the Company's share repurchase program, $4.9 million on capital lease obligations and $3.1 million on debt obligations, and had other net unfavorable items of $1.2 million.

During 2015, the Company paid $206.0 million for the repurchase of treasury stock under the Company's share repurchase program, $12.5 million on debt obligations, and $4.5 million on capital lease obligations. The Company made contingent consideration payments totaling $29.3 million of which $20.8 million was related to financing activities. In addition, the Company received $53.5 million from the exercise of stock options and had other net favorable items of $4.4 million.

Outlook—Liquidity and Capital Resources

Liquidity

During 2017, the Company will have estimated capital expenditures of between $65.0 million and $75.0 million. The Company may draw on the 2014 Credit Facility or 2017 Credit Facility (as defined in Note 13 – "Subsequent Events") as required to meet working capital needs associated with the timing of receivables and payables, fund share repurchases or support acquisition activities. The Company currently expects to have adequate liquidity to satisfy its existing financial commitments over the periods in which they will become due. During 2017, scheduled principal payments of $25.0 million will be made under the 2014 Credit Facility, and the 2016 Credit Facility and the 2017 Credit Facility will mature on December 29, 2017. The Company currently expects to settle its 2017 debt obligations through current unrestricted cash and investment balances and cash flows from operations in 2017, as well as borrowing capacity

available under the 2014 Credit Facility in the form of revolving loans. During 2017, the Company may consider refinancing its debt. The Company plans to maintain its current investment strategy of investing in a diversified, high quality, liquid portfolio of investments and continues to closely monitor the situation in the financial markets. The Company estimates that it has no risk of any material permanent loss on its investment portfolio; however, there can be no assurance the Company will not experience any such losses in the future.

Contractual Obligations and Commitments

The following table sets forth the future financial commitments of the Company as of December 31, 2016 (in thousands):

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**
Term loan	$418,750	$225,000	$193,750	$ —	$ —
Revolving loan borrowings	175,000	175,000	—	—	—
Operating leases(1)	55,397	17,088	25,550	9,719	3,040
Letters of credit(2)	33,729	—	—	—	—
Capital lease obligations(3)	30,619	5,468	6,721	7,120	11,310
Purchase commitments(4)	4,310	4,310	—	—	—
Income tax contingencies(5)	13,430	—	—	—	—
	$731,235	$426,866	$226,021	$16,839	$ 14,350

(1) Operating lease obligations include estimated future lease payments for both open and closed offices.

(2) These letters of credit typically act as a guarantee of payment to certain third parties in accordance with specified terms and conditions.

(3) Capital lease obligations include imputed interest of $4.6 million and are net of leasehold improvement allowances.

(4) Purchase commitments include open purchase orders as of December 31, 2016 relating to ongoing capital expenditure and operational activities.

(5) The Company is unable to make a reasonably reliable estimate of the period of the cash settlement (if any) with the respective taxing authorities for these contingencies. However, settlement of such amounts could require the utilization of working capital. See further discussion in Note 7—"Income Taxes" to the consolidated financial statements set forth elsewhere herein.

The Company also has a variety of other contractual agreements related to acquiring materials and services used in the Company's operations. However, the Company does not believe these other agreements contain material noncancelable commitments.

Stock Repurchases

The Company's board of directors has previously authorized a series of stock repurchase plans. Stock repurchases for each such plan could be executed through open market repurchases, privately negotiated transactions, accelerated share repurchases or other means. The board of directors authorized management to execute stock repurchase transactions from time to time and in such amounts and via such methods as management deemed appropriate. Each stock repurchase program could be limited or terminated at any time without prior notice. See Note 6—"Stockholders' Equity" to the consolidated financial statements for more information on the Company's share repurchase program.

Off-Balance Sheet Arrangements

As of December 31, 2016, the Company has no material off-balance sheet arrangements.

Credit Facilities

On July 23, 2014, the Company entered into a $500.0 million Credit Agreement with various lenders that provided for Magellan Rx Management, Inc. (a wholly owned subsidiary of Magellan Health, Inc.) to borrow up to $250.0 million of revolving loans, with a sublimit of up to $70.0 million for the issuance of letters of credit for the account of the Company, and a term loan in an original aggregate principal amount of $250.0 million (the "2014 Credit Facility"). At such point, the previous credit facility was terminated. On December 2, 2015, the Company entered into an amendment to the 2014 Credit Facility under which Magellan Pharmacy Services, Inc. (a wholly owned subsidiary of Magellan Health, Inc.) became a party to the $500.0 million Credit Agreement as the borrower and assumed all of the obligations of Magellan Rx Management, Inc. The 2014 Credit Facility is guaranteed by substantially all of the non-regulated subsidiaries of the Company and will mature on July 23, 2019, but the Company holds an option to extend the 2014 Credit Facility for an additional one year period.

On June 27, 2016, the Company entered into a $200.0 million Credit Agreement with various lenders that provides for a $200.0 million term loan to Magellan Pharmacy Services, Inc. (the "2016 Credit Facility"). The 2016 Credit Facility is guaranteed by substantially all of the non-regulated subsidiaries of the Company and will mature on December 29, 2017.

For more information on the Company's Credit Facilities see Note 5—"Long-Term Debt and Capital Lease Obligations" to the consolidated financial statements set forth elsewhere herein.

Restrictive Covenants in Debt Agreements

The Credit Facilities contains covenants that limit management's discretion in operating the Company's business by restricting or limiting the Company's ability, among other things, to:

- incur or guarantee additional indebtedness or issue preferred or redeemable stock;
- pay dividends and make other distributions;
- repurchase equity interests;
- make certain advances, investments and loans;
- enter into sale and leaseback transactions;
- create liens;
- sell and otherwise dispose of assets;
- acquire, merge or consolidate with another company; and
- enter into some types of transactions with affiliates.

These restrictions could adversely affect the Company's ability to finance future operations or capital needs or engage in other business activities that may be in the Company's interest.

The Credit Facilities also requires the Company to comply with specified financial ratios and tests. Failure to do so, unless waived by the lenders under the Credit Facilities, pursuant to its terms, would result in an event of default under the Credit Facilities. As of December 31, 2016, the Company was in compliance with all covenants, including financial covenants, under the Credit Facilities.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Changes in interest rates affect interest income earned on the Company's cash equivalents and restricted cash and investments, as well as interest expense on variable interest rate borrowings under the Credit Facilities. Based on the

Company's investment balances, and the borrowing levels under the Credit Facilities as of December 31, 2016, a hypothetical 10 percent increase or decrease in the interest rate associated with these instruments, with all other variables held constant, would not materially affect the Company's future earnings and cash outflows.

Item 8. Financial Statements and Supplementary Data

Information with respect to this item is contained in the Company's consolidated financial statements, including the reports of independent accountants, set forth elsewhere herein and financial statement schedule indicated in the Index on Page F-1 of this Report on Form 10-K, and is included herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of December 31, 2016. Based on their evaluation, management has concluded that the Company's disclosure controls and procedures were effective as of December 31, 2016.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

In the fourth quarter ended December 31, 2016, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). The Company's internal control system was designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company assessed the effectiveness of internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in its statement "Internal Control-Integrated Framework (2013)."

Management's assessment of the effectiveness of internal control over financial reporting excludes the evaluation of the internal controls over reporting of AFSC and Veridicus, which were acquired on July 1, 2016 and December 12, 2016, respectively. These operations represent 9.4 percent and 18.5 percent of total and net assets of the Company as of December 31, 2016, and 2.0 percent and 7.4 percent of revenues and income before income taxes, respectively, of the Company for the year then ended.

Based on this assessment, which excluded an assessment of internal control of the acquired operations of AFSC and Veridicus, management has concluded that, as of December 31, 2016, internal control over financial reporting is effective based on these criteria.

The Company's independent registered public accounting firm has issued an audit report on the Company's internal control over financial reporting. This report dated February 24, 2017 appears on page 51 of this Form 10-K.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Magellan Health, Inc.

We have audited Magellan Health, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Magellan Health, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Armed Forces Services Corporation or Veridicus Holdings, LLC, which are included in the 2016 consolidated financial statements of Magellan Health, Inc. and subsidiaries and which collectively constituted 9.4% of total assets and 18.5% of net assets as of December 31, 2016 as well as 2.0% of revenues and 7.4% of income before income taxes for the year then ended. Our audit of internal control over financial reporting of Magellan Health, Inc. and subsidiaries also did not include an evaluation of the internal control over financial reporting of Armed Forces Services Corporation or Veridicus Holdings, LLC.

In our opinion, Magellan Health, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Magellan Health, Inc. and subsidiaries as of December 31, 2015 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016 and our report dated February 24, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Baltimore, Maryland
February 24, 2017

Item 9B. Other Information

None.

PART III

The information required by Items 10 through 14 is incorporated by reference to the Registrant's definitive proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, within 120 days after December 31, 2016, except for the following information required by Item 12 of this Part III.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth certain information as of December 31, 2016 with respect to the Company's compensation plans under which equity securities are authorized for issuance:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
Equity compensation plans approved by security holders	3,146,332 (1)	$ 57.42 (2)	4,333,750 (3)
Equity compensation plans not approved by security holders	—	—	—
Total	3,146,332	$ 57.42	4,333,750 (3)

(1) Consists of outstanding stock options and unvested restricted stock units and performance-based restricted stock units as of December 31, 2016.

(2) Weighted average exercise price of outstanding stock options as of December 31, 2016.

(3) Consists of shares remaining available for issuance as of December 31, 2016 under the Company's equity compensation plans (pursuant to which the Company may issue stock options, restricted stock awards, stock bonuses, stock purchase rights and other equity incentives), after giving effect to the shares issuable upon the exercise of outstanding options and the shares of restricted stock.

For further discussion, see Note 6—"Stockholders' Equity" to the consolidated financial statements set forth elsewhere herein.

PART IV

Item 15. Exhibits, Financial Statement Schedule and Additional Information

(a) Documents furnished as part of the Report:

1. Financial Statements

Information with respect to this item is contained on Pages F-1 to F-46 of this Report on Form 10-K.

2. Financial Statement Schedule

Information with respect to this item is contained on page S-1 of this Report on Form 10-K.

3. Exhibits

Exhibit No.	Description of Exhibit
2.1	Purchase Agreement, dated as of March 31, 2014, among Magellan Health Services, Inc., CDMI, LLC, and each Seller's party thereto, which was filed as Exhibit 2.1 to the Company's current report on Form 8-K, which was filed on April 1, 2014 and is incorporated herein by reference.
2.2	Amendment No. 1 to Purchase Agreement, dated as of April 30, 2014, among Magellan Health Services, Inc., CDMI, LLC and each of the Sellers' party thereto, which was filed as Exhibit 2.2 to the Company's current report on Form 8-K, which was filed on April 30, 2014 and is incorporated herein by reference.
3.1	Amended and Restated Certificate of Incorporation of the Company, which was filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the period ended December 31, 2004, which was filed on March 30, 2004, and is incorporated herein by reference.
3.2	Certificate of Ownership and Merger dated June 4, 2014, which was filed as Exhibit 3.1 to the Company's current report on Form 8-K, which was filed on June 4, 2014 and is incorporated herein by reference.
3.3	Bylaws of the Company as amended and restated on March 4, 2016, which was filed as Exhibit 3.1 to the Company's quarterly report on Form 10-Q, which was filed on May 5, 2016 and is incorporated herein by reference.
4.1	Credit Agreement, dated December 9, 2011, among the Company, various lenders listed therein and Citibank, N.A., as administrative agent, which was filed as Exhibit 4.1 to the Company's current report on Form 8-K, which was filed on December 13, 2011 and is incorporated herein by reference.
4.2	$500,000,000 Credit Agreement, dated as of July 23, 2014, among Magellan Rx Management, Inc., as borrower, Magellan Health, Inc., various lenders and Citibank, N.A., as administrative agent, which was filed as Exhibit 4.1 to the Company's quarterly report on Form 10-Q, which was filed on July 25, 2014 and is incorporated herein by reference.
4.3	Consent and Amendment No. 1 to Credit Agreement, dated December 2, 2015, among Magellan Rx Management, Inc., as borrower, Magellan Health, Inc. various lenders and Citibank N.A., as administrative agent, which was filed as Exhibit 4.3 to the Company's annual report on Form 10-K, which was filed on February 29, 2016 and is incorporated herein by reference.
4.4	$200,000,000 Credit Agreement, dated June 27, 2016, among Magellan Pharmacy Services, Inc., as borrower, Magellan Health, Inc., various lenders and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as administrative agent, which was filed as Exhibit 4.1 to the Company's quarterly report on Form 10-Q, which was filed on July 29, 2016 and is incorporated herein by reference.
#4.5	$200,000,000 Credit Agreement, dated January 10, 2017, among Magellan Pharmacy Services, Inc., as borrower, Magellan Health, Inc., various lenders and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as administrative agent.
*10.1	Magellan Health Services, Inc.—2006 Management Incentive Plan, effective as of May 16, 2006, which was filed as Exhibit 10.1 to the Company's Quarterly report on Form 10-Q for the quarterly period ended June 30, 2006, which was filed on July 28, 2006, and is incorporated herein by reference.

Exhibit No.	Description of Exhibit
*10.2	Magellan Health Services, Inc.—2006 Director Equity Compensation Plan, effective as of May 16, 2006, which was filed as Exhibit 10.2 to the Company's Quarterly report on Form 10-Q for the quarterly period ended June 30, 2006, which was filed on July 28, 2006, and is incorporated herein by reference.
*10.3	Amended and Restated Supplemental Accumulation Plan, effective as of January 1, 2005, which was filed as Exhibit 10.1 to the Company's Quarterly report on Form 10-Q for the quarter ended September 30, 2006, which was filed on October 26, 2006, and is incorporated herein by reference.
*10.4	Form of Stock Option Agreement, relating to options granted under the Company's 2008 Management Incentive Plan, which was filed as Exhibit 10.1 to the Company's current report on Form 8-K, which was filed on May 27, 2008 and is incorporated herein by reference.
*10.5	Form of Notice of March 2008 Stock Option Grant, relating to options granted under the Company's 2008 Management Incentive Plan, which was filed as Exhibit 10.2 to the Company's current report on Form 8-K, which was filed on May 27, 2008 and is incorporated herein by reference.
*10.6	Employment Agreement, dated August 11, 2008 between the Company and Jonathan Rubin, Chief Financial Officer, which was filed as Exhibit 10.1 to the Company's current report on Form 8-K, which was filed on August 13, 2008, and is incorporated herein by reference.
*10.7	Amendment to Employment Agreement, dated December 1, 2008, between the Company and Daniel N. Gregoire, Executive Vice President, General Counsel and Secretary which was filed as Exhibit 10.58 to the Company's Annual Report on Form 10-K, which was filed on February 29, 2008 and is incorporated herein by reference.
*10.8	Form of Stock Option Agreement, relating to options granted under the Company's 2008 Management Incentive Plan, which was filed as Exhibit 10.1 to the Company's current report on Form 8-K, which was filed on May 4, 2009 and is incorporated herein by reference.
*10.9	Form of Notice of March 2008 Stock Option Grant, relating to options granted under the Company's 2008 Management Incentive Plan, which was filed as Exhibit 10.2 to the Company's current report on Form 8-K, which was filed on May 4, 2009 and is incorporated herein by reference.
*10.10	Form of Stock Option Agreement, relating to options granted under the Company's 2008 Management Incentive Plan, which was filed as Exhibit 10.1 to the Company's current report on Form 8-K, which was filed on March 5, 2010 and is incorporated herein by reference.
*10.11	Form of Notice of March 2008 Stock Option Grant, relating to options granted under the Company's 2008 Management Incentive Plan, which was filed as Exhibit 10.2 to the Company's current report on Form 8-K, which was filed on March 5, 2010 and is incorporated herein by reference.
*10.12	Form of Stock Option Agreement, relating to options granted under the Company's 2008 Management Incentive Plan, which was filed as Exhibit 10.1 to the Company's current report on Form 8-K, which was filed on March 8, 2011 and is incorporated herein by reference.
*10.13	Form of Notice of Stock Option Grant, relating to options granted under the Company's 2008 Management Incentive Plan, which was filed as Exhibit 10.2 to the Company's current report on Form 8-K, which was filed on March 8, 2011 and is incorporated herein by reference.
*10.14	Magellan Health Services, Inc. 2011 Management Incentive Plan, effective as of May 18, 2011, which was filed as Appendix A to the Company's Definitive Proxy Statement, which was filed on April 8, 2011, and is incorporated herein by reference.
*10.15	Form of Stock Option Agreement, relating to options granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.1 to the Company's current report on Form 8-K, which was filed on March 7, 2012 and is incorporated herein by reference.
*10.16	Form of Notice of Stock Option Grant, relating to options granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.2 to the Company's current report on Form 8-K, which was filed on March 7, 2012 and is incorporated herein by reference.
*10.17	Employment Agreement dated December 10, 2012 between the Company and Barry M. Smith, which was filed as Exhibit 10.2 to the Company's current report on Form 8-K, which was filed on December 12, 2012, and is incorporated herein by reference.
*10.18	Form of Stock Option Agreement, relating to options granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.1 to the Company's current report on Form 8-K, which was filed on February 7, 2013 and is incorporated herein by reference.

Exhibit No.	Description of Exhibit
*10.19	Form of Notice of Stock Option Grant, relating to options granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.2 to the Company's current report on Form 8-K, which was filed on February 7, 2013 and is incorporated herein by reference.
*10.20	Form of Restricted Stock Unit Agreement, relating to restricted stock units granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.3 to the Company's current report on Form 8-K, which was filed on February 7, 2013 and is incorporated herein by reference.
*10.21	Form of Notice of Restricted Stock Unit Award, relating to restricted stock units granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.4 to the Company's current report on Form 8-K, which was filed on February 7, 2013 and is incorporated herein by reference.
*10.22	Form of Stock Option Agreement, relating to options granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.1 to the Company's current report on Form 8-K, which was filed on March 8, 2013 and is incorporated herein by reference.
*10.23	Form of Notice of Stock Option Grant, relating to options granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.2 to the Company's current report on Form 8-K, which was filed on March 8, 2013 and is incorporated herein by reference.
*10.24	Form of Restricted Stock Unit Agreement, relating to restricted stock units granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.3 to the Company's current report on Form 8-K, which was filed on March 8, 2013 and is incorporated herein by reference.
*10.25	Form of Notice of Restricted Stock Unit Award, relating to restricted stock units granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.4 to the Company's current report on Form 8-K, which was filed on March 8, 2013 and is incorporated herein by reference.
*10.26	Form of Notice of Cash Denominated Award, relating to cash awards granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.5 to the Company's current report on Form 8-K, which was filed on March 8, 2013 and is incorporated herein by reference.
*10.27	Form of Stock Option Agreement, relating to options granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.1 to the Company's current report on Form 8-K, which was filed on March 7, 2014 and is incorporated herein by reference.
*10.28	Form of Notice of Stock Option Grant, relating to options granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.2 to the Company's current report on Form 8-K, which was filed on March 7, 2014 and is incorporated herein by reference.
*10.29	Form of Restricted Stock Unit Agreement, relating to restricted stock units granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.3 to the Company's current report on Form 8-K, which was filed on March 7, 2014 and is incorporated herein by reference.
*10.30	Form of Notice of Stock Unit Award, relating to restricted stock units granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.4 to the Company's current report on Form 8-K, which was filed on March 7, 2014 and is incorporated herein by reference.
*10.31	Amendment to Employment Agreement, dated April 28, 2014, between the Company and Jonathan N. Rubin, which was filed as Exhibit 10.1 to the Company's current report on Form 8-K, which was filed on April 29, 2014 and is incorporated herein by reference.
*10.32	Employment Agreement, dated September 18, 2013 between the Company and Sam K. Srivastava, Chief Executive Officer of Magellan HealthCare, which was filed as Exhibit 10.85 to the Company's annual report on Form 10-K, which was filed on February 26, 2015 and is incorporated herein by reference.
*10.33	Form of Stock Option Agreement, relating to options granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.1 to the Company's current report on Form 8-K, which was filed on March 9, 2015 and is incorporated herein by reference.
*10.34	Form of Notice of Stock Option Grant, relating to options granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.2 to the Company's current report on Form 8-K, which was filed on March 9, 2015 and is incorporated herein by reference.
*10.35	Form of Performance-Based Restricted Stock Unit Agreement, relating to performance-based restricted stock units granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.3 to the Company's current report on Form 8-K, which was filed on March 9, 2015 and is incorporated herein by reference.

Exhibit No.	Description of Exhibit
*10.36	Form of Notice of Performance-Based Restricted Stock Unit Award, relating to performance-based restricted stock units granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.4 to the Company's current report on Form 8-K, which was filed on March 9, 2015 and is incorporated herein by reference.
*10.37	Amendment to Employment Agreement, dated April 28, 2015, between the Company and Jonathan N. Rubin, which was filed as Exhibit 10.1 to the Company's current report on Form 8-K, which was filed on April 29, 2015 and is incorporated herein by reference.
*10.38	Amendment to Employment Agreement, dated October 26, 2015 between the Company and Jonathan N. Rubin, which was filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q, which was filed on October 27, 2015 and is incorporated herein by reference.
*10.39	Form of Stock Option Agreement, relating to options granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.1 to the Company's current report on Form 8-K, which was filed on March 7, 2016 and is incorporated herein by reference.
*10.40	Form of Notice of Stock Option Grant, relating to options granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.2 to the Company's current report on Form 8-K, which was filed on March 7, 2016 and is incorporated herein by reference.
*10.41	Form of Performance-Based Restricted Stock Unit Agreement, relating to performance-based restricted stock units granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.3 to the Company's current report on Form 8-K, which was filed on March 7, 2016 and is incorporated herein by reference.
*10.42	Form of Notice of Performance-Based Restricted Stock Unit Award, relating to performance-based restricted stock units granted under the Company's 2011 Management Incentive Plan, which was filed as Exhibit 10.4 to the Company's current report on Form 8-K, which was filed on March 7, 2016 and is incorporated herein by reference.
10.43	Share Purchase Agreement dated as of May 15, 2016, among Magellan Health, Inc., Magellan Healthcare, Inc., Armed Forces Services Corporation and the holders of the issued and outstanding common stock of AFSC who are parties thereto, which was filed as Exhibit 10.1 to the Company's quarterly report on Form 10-Q, which was filed on July 29, 2016 and is incorporated herein by reference.
#10.44	Purchase Agreement dated as of November 9, 2016, among Magellan Health, Inc., Magellan Pharmacy Solutions, Inc., Veridicus Holdings, LLC and Veridicus Health, LLC.
#21	List of subsidiaries of the Company.
#23	Consent of Independent Registered Public Accounting Firm.
#31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
#31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
†32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
†32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
#101	The following materials from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Changes in Shareholders' Equity (iv) the Consolidated Statements of Cash Flows and (v) related notes.

* Constitutes a management contract, compensatory plan or arrangement.

\# Filed herewith.

† Furnished herewith.

(b) Exhibits Required by Item 601 of Regulation S-K:

Exhibits required to be filed by the Company pursuant to Item 601 of Regulation S-K are contained in a separate volume.

(c) Financial statements and schedules required by Regulation S-X Rule 12-09:

(1) Not applicable.

(2) Not applicable.

(3) Information with respect to this item is contained on page S-1 of this Report on Form 10-K.

4. Additional Information

The Company will provide to any person without charge, upon request, a copy of its annual Report on Form 10-K (without exhibits) for the year ended December 31, 2016, as filed with the Securities and Exchange Commission. The Company will also 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 (hereinafter referred to as the "Codes of Ethics"). Any such requests should be made in writing to the Investor Relations Department, Magellan Health, Inc., 55 Nod Road, Avon, Connecticut 06001. The documents referred to above and other Securities and Exchange Commission filings of the Company are available on the Company's website at *www.magellanhealth.com*. The Company intends to disclose any future amendments to the provisions of the Codes of Ethics and waivers from such Codes of Ethics, if any, made with respect to any of its directors and executive officers, on its internet site.

Item 16. 10-K Summary

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

MAGELLAN HEALTH, INC.
(Registrant)

Date: February 24, 2017

/s/ JONATHAN N. RUBIN
Jonathan N. Rubin
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: February 24, 2017

/s/ JEFFREY N. WEST
Jeffrey N. West
Senior Vice President and Controller
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons on behalf of the Registrant and in the capacities and on the dates indicated have signed this Report below.

Signature	Title	Date
/s/ BARRY SMITH Barry Smith	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	February 24, 2017
/s/ Dr. John O. Agwunobi Dr. John O. Agwunobi	Director	February 24, 2017
/s/ Eran Broshy Eran Broshy	Director	February 24, 2017
/s/ Michael Diament Michael Diament	Director	February 24, 2017
/s/ Dr. Perry Fine Dr. Perry Fine	Director	February 24, 2017
/s/ Kay Coles James Kay Coles James	Director	February 24, 2017
/s/ G. Scott MacKenzie G. Scott MacKenzie	Director	February 24, 2017
/s/ William J. McBride William J. McBride	Director	February 24, 2017
/s/ Mary Sammons Mary Sammons	Director	February 24, 2017
/s/ JONATHAN N. RUBIN Jonathan N. Rubin	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 24, 2017
/s/ JEFFREY N. WEST Jeffrey N. West	Senior Vice President and Controller (Principal Accounting Officer)	February 24, 2017

MAGELLAN HEALTH, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

The following consolidated financial statements of the registrant and its subsidiaries are submitted herewith in response to Item 8 and Item 15(a)1:

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Magellan Health, Inc.

We have audited the accompanying consolidated balance sheets of Magellan Health, Inc. and subsidiaries as of December 31, 2015 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Magellan Health, Inc. and subsidiaries at December 31, 2015 and 2016, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company changed its statement of cash flows to explain the change during the period in total cash, cash equivalents, restricted cash and restricted equivalents as a result of the early adoption of Accounting Standards Update No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" effective December 31, 2016.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Magellan Health, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 24, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Baltimore, Maryland
February 24, 2017

MAGELLAN HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31,

(In thousands, except per share amounts)

	2015	2016
ASSETS		
Current Assets:		
Cash and cash equivalents (restricted balances of $133,597 and $81,776 at December 31, 2015 and 2016, respectively)	$ 249,029	$ 304,508
Accounts receivable, less allowance for doubtful accounts of $3,246 and $5,644 at December 31, 2015 and 2016, respectively	428,644	606,764
Short-term investments (restricted balances of $277,556 and $227,795 at December 31, 2015 and 2016, respectively)	322,339	297,493
Pharmaceutical inventory	50,749	58,995
Other current assets (restricted balances of $27,752 and $38,785 at December 31, 2015 and 2016, respectively)	46,921	51,507
Total Current Assets	1,097,682	1,319,267
Property and equipment, net	174,745	172,524
Long-term investments (restricted balances of $3,826 and $6,306 at December 31, 2015 and 2016, respectively)	3,826	7,760
Deferred income taxes	26,836	3,125
Other long-term assets	11,207	12,725
Goodwill	621,390	742,054
Other intangible assets, net	133,374	186,232
Total Assets	$ 2,069,060	$ 2,443,687
LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 86,484	$ 95,635
Accrued liabilities	139,726	202,176
Short-term contingent consideration	91,623	9,354
Medical claims payable	250,449	184,136
Other medical liabilities	136,939	197,856
Current debt maturities and capital lease obligations	19,014	403,693
Total Current Liabilities	724,235	1,092,850
Long-term debt and capital lease obligations	238,295	214,686
Tax contingencies	12,677	13,981
Long-term contingent consideration	803	1,799
Deferred credits and other long-term liabilities	20,930	15,882
Total Liabilities	996,940	1,339,198
Redeemable non-controlling interest	5,937	4,770
Preferred stock, par value $.01 per share		
Authorized—10,000 shares at December 31, 2015 and 2016-Issued and outstanding-none	—	—
Ordinary common stock, par value $.01 per share		
Authorized—100,000 shares at December 31, 2015 and 2016-Issued and outstanding-51,340 shares and 24,692 shares at December 31, 2015, respectively, and 51,993 and 23,517 shares at December 31, 2016, respectively	513	520
Multi-Vote common stock, par value $.01 per share		
Authorized—40,000 shares at December 31, 2015 and 2016-Issued and outstanding-none	—	—
Other Stockholders' Equity:		
Additional paid-in capital	1,124,013	1,186,283
Retained earnings	1,211,310	1,289,288
Accumulated other comprehensive loss	(262)	(175)
Ordinary common stock in treasury, at cost, 26,648 shares and 28,476 shares at December 31, 2015 and 2016, respectively	(1,269,391)	(1,376,197)
Total Stockholders' Equity	1,066,183	1,099,719
Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity	$ 2,069,060	$ 2,443,687

See accompanying notes to consolidated financial statements.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,

(In thousands, except per share amounts)

	2014	2015	2016
Net revenue:			
Managed care and other	$ 2,968,374	$ 3,197,645	$ 2,902,942
PBM and dispensing	791,744	1,399,755	1,933,942
Total net revenue	3,760,118	4,597,400	4,836,884
Costs and expenses:			
Cost of care	2,088,595	2,274,755	1,882,614
Cost of goods sold	732,949	1,321,877	1,818,720
Direct service costs and other operating expenses (1)(2)(3)	723,498	822,392	876,612
Depreciation and amortization	91,070	102,844	106,046
Interest expense	7,387	6,581	10,193
Interest and other income	(1,301)	(2,165)	(2,818)
Total costs and expenses	3,642,198	4,526,284	4,691,367
Income before income taxes	117,920	71,116	145,517
Provision for income taxes	43,689	42,409	69,728
Net income	74,231	28,707	75,789
Less: net income (loss) attributable to non-controlling interest	(5,173)	(2,706)	(2,090)
Net income attributable to Magellan Health, Inc.	$ 79,404	$ 31,413	$ 77,879
Net income per common share attributable to Magellan Health, Inc.:			
Basic (See Note 6—"Stockholders' Equity")	$ 2.98	$ 1.26	$ 3.36
Diluted (See Note 6—"Stockholders' Equity")	$ 2.90	$ 1.21	$ 3.22

(1) Includes stock compensation expense of $40,584, $50,384 and $37,422 for the years ended December 31, 2014, 2015 and 2016, respectively.

(2) Includes changes in fair value of contingent consideration of $6,172, $44,257 and $(104) for the years ended December 31, 2014, 2015 and 2016, respectively.

(3) Includes impairment of intangible assets of $4,800 for the year ended December 31, 2016.

See accompanying notes to consolidated financial statements.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,

(In thousands)

	2014	2015	2016
Net income	$ 74,231	$ 28,707	$ 75,789
Other comprehensive income (loss):			
Unrealized (losses) gains on available-for-sale securities (1)	(50)	(119)	87
Comprehensive income	74,181	28,588	75,876
Less: comprehensive income (loss) attributable to non-controlling interest	(5,173)	(2,706)	(2,090)
Comprehensive income attributable to Magellan Health, Inc.	$ 79,354	$ 31,294	$ 77,966

(1) Net of income tax (benefit) expense of $(33), $(68) and $51 for the years ended December 31, 2014, 2015 and 2016, respectively.

See accompanying notes to consolidated financial statements.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock		Common Stock In Treasury		Additional Paid in	Retained	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Earnings	Income (Loss)	Equity
Balance at December 31, 2013	47,351	$ 474	(19,735)	$ (866,714)	$ 922,325	$ 1,100,493	$ (93)	$ 1,156,485
Stock compensation expense	—	—	—	—	40,584	—	—	40,584
Exercise of stock options	1,191	12	—	—	52,982	—	—	52,994
Tax benefit from exercise of stock options and vesting of stock awards	—	—	—	—	2,980	—	—	2,980
Issuance of equity	1,543	15	—	—	(369)	—	—	(354)
Repurchase of stock	—	—	(3,415)	(198,249)	—	—	—	(198,249)
Adjustment to additional paid in capital due to reversal of tax contingency	—	—	—	—	2,591	—	—	2,591
Adjustment to non-controlling interest					(2,827)	—		(2,827)
Net income attributable to Magellan Health, Inc.	—	—	—	—	—	79,404	—	79,404
Other comprehensive loss—other	—	—	—	—	—	—	(50)	(50)
Balance at December 31, 2014	50,085	501	(23,150)	(1,064,963)	1,018,266	1,179,897	(143)	1,133,558
Stock compensation expense	—	—	—	—	50,384	—	—	50,384
Exercise of stock options	1,140	11	—	—	54,079	—	—	54,090
Tax benefit from exercise of stock options and vesting of stock awards	—	—	—	—	3,530	—	—	3,530
Issuance of equity	115	1	—	—	408	—	—	409
Repurchase of stock	—	—	(3,498)	(204,428)	—	—	—	(204,428)
Adjustment to additional paid in capital due to reversal of tax contingency	—	—	—	—	32	—	—	32
Adjustment to non-controlling interest	—	—	—	—	(2,686)	—	—	(2,686)
Net income attributable to Magellan Health, Inc.	—	—	—	—	—	31,413	—	31,413
Other comprehensive loss—other	—	—	—	—	—	—	(119)	(119)
Balance at December 31, 2015	51,340	513	(26,648)	(1,269,391)	1,124,013	1,211,310	(262)	1,066,183
Stock compensation expense	—	—	—	—	37,422	—	—	37,422
Exercise of stock options	494	6	—	—	24,542	—	—	24,548
Adjustment due to adoption of ASU 2016-09	—	—	—	—	—	99	—	99
Issuance of equity	159	1	—	—	1,229	—	—	1,230
Repurchase of stock	—	—	(1,828)	(106,806)	—	—	—	(106,806)
Adjustment to non-controlling interest	—	—	—	—	(923)	—	—	(923)
Net income attributable to Magellan Health, Inc.	—	—	—	—	—	77,879	—	77,879
Other comprehensive income—other	—	—	—	—	—	—	87	87
Balance at December 31, 2016	51,993	$ 520	(28,476)	$ (1,376,197)	$ 1,186,283	$ 1,289,288	$ (175)	$ 1,099,719

See accompanying notes to consolidated financial statements.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,

(In thousands)

	2014	2015	2016
Cash flows from operating activities:			
Net income	$ 74,231	$ 28,707	$ 75,789
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	91,070	102,844	106,046
Non-cash impairment of intangible assets	—	—	4,800
Non-cash interest expense	3,987	399	565
Non-cash stock compensation expense	40,584	50,384	37,422
Non-cash income tax (benefit) provision	(4,291)	(26,999)	4,710
Non-cash amortization on investments	5,050	7,118	5,238
Cash flows from changes in assets and liabilities, net of effects from acquisitions of businesses:			
Accounts receivable, net	(74,604)	(52,394)	(134,089)
Pharmaceutical inventory	10,234	(11,374)	(8,246)
Other assets	(7,557)	4,149	(13,900)
Accounts payable and accrued liabilities	5,887	(36,043)	52,470
Medical claims payable and other medical liabilities	55,670	36,187	(8,042)
Contingent consideration	—	55,035	(51,205)
Tax contingencies	(14,955)	(1,021)	673
Deferred credits and other long-term liabilities	4,045	294	(5,584)
Other	322	171	52
Net cash provided by operating activities	189,673	157,457	66,699
Cash flows from investing activities:			
Capital expenditures	(62,337)	(71,584)	(60,881)
Acquisitions and investments in businesses, net of cash acquired	(128,277)	(55,818)	(199,237)
Purchase of investments	(340,961)	(470,093)	(478,477)
Maturity of investments	276,446	404,308	494,256
Net cash used in investing activities	(255,129)	(193,187)	(244,339)
Cash flows from financing activities:			
Proceeds from issuance of debt	250,000	—	375,000
Payments to acquire treasury stock	(197,533)	(206,044)	(106,806)
Proceeds from exercise of stock options and warrants	52,994	53,493	25,145
Payments on long-term debt and capital lease obligations	(8,045)	(17,038)	(20,891)
Payments on contingent consideration	—	(20,762)	(40,559)
Tax benefit from exercise of stock options and vesting of stock awards	3,218	4,073	—
Other	(4,433)	409	1,230
Net cash provided by (used in) financing activities	96,201	(185,869)	233,119
Net increase (decrease) in cash and cash equivalents	30,745	(221,599)	55,479
Cash and cash equivalents at beginning of period	439,883	470,628	249,029
Cash and cash equivalents at end of period	$ 470,628	$ 249,029	$ 304,508

See accompanying notes to consolidated financial statements.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016

1. General

Basis of Presentation

The consolidated financial statements of Magellan Health, Inc., a Delaware corporation ("Magellan"), include Magellan and its subsidiaries (together with Magellan, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Business Overview

The Company is engaged in the healthcare management business, and is focused on managing the fastest growing, most complex areas of health, including special populations, complete pharmacy benefits and other specialty areas of healthcare. The Company develops innovative solutions that combine advanced analytics, agile technology and clinical excellence to drive better decision making, positively impact health outcomes and optimize the cost of care for the members we serve. The Company provides services to health plans and other managed care organizations ("MCOs"), employers, labor unions, various military and governmental agencies and third party administrators ("TPAs").

Healthcare

Healthcare includes the Company's: (i) management of behavioral healthcare services and employee assistance program ("EAP") services, (ii) management of other specialty areas including diagnostic imaging and musculoskeletal management, and (iii) the integrated management of physical, behavioral and pharmaceutical healthcare for special populations, delivered through Magellan Complete Care ("MCC"). These special populations include individuals with serious mental illness ("SMI"), dual eligibles, long-term services and supports and other populations with unique and often complex healthcare needs.

The Company's coordination and management of these healthcare services are provided through its comprehensive network of medical and behavioral health professionals, clinics, hospitals and ancillary service providers. This network of credentialed and privileged providers is integrated with clinical and quality improvement programs to improve access to care and enhance the healthcare experience for individuals in need of care, while at the same time making the cost of these services more affordable for our customers. The Company generally does not directly provide or own any provider of treatment services, although it does employ licensed behavioral health counselors to deliver non-medical counseling under certain government contracts.

The Healthcare segment's commercial division serves a variety of customers, with services, inclusive of special population management, provided under contracts with health plans and accountable care organizations for some or all of their commercial, Medicaid and Medicare members, as well as with employers. The government division contracts with local, state and federal governmental agencies to provide services to recipients under Medicaid, Medicare and other government programs.

The Company provides its management services primarily through: (i) risk-based products, where the Company assumes all or a substantial portion of the responsibility for the cost of providing treatment services in exchange for a fixed per member per month fee and (ii) administrative services only ("ASO") products, where the Company provides services such as utilization review, claims administration and/or provider network management, but does not assume responsibility for the cost of the treatment services.

Pharmacy Management

The Pharmacy Management segment ("Pharmacy Management") comprises products and solutions that provide clinical and financial management of pharmaceuticals paid under medical and pharmacy benefit programs. Pharmacy Management's services include: (i) pharmacy benefit management ("PBM") services; (ii) pharmacy benefit administration ("PBA") for state Medicaid and other government sponsored programs; (iii) pharmaceutical dispensing operations; (iv) clinical and formulary management programs; (v) medical pharmacy management programs; and (vi) programs for the integrated management of specialty drugs across both the medical and pharmacy benefit that treat complex conditions, regardless of site of service, method of delivery, or benefit reimbursement.

Pharmacy Management's services are provided under contracts with health plans, employers, MCOs, state Medicaid programs, Medicare Part D and other government agencies, and encompass risk-based and fee-for-service ("FFS") arrangements. In addition, Pharmacy Management has subcontract arrangements to provide PBM services for certain Healthcare customers.

Corporate

This segment of the Company is comprised primarily of amounts not allocated to the Healthcare and Pharmacy Management segments that are largely associated with costs related to being a publicly traded company. In order to better represent the operations of the Company's segments, effective January 1, 2016, the Company began allocating operational and corporate support costs to the Healthcare and Pharmacy Management segments. These costs, which were historically reported in the Corporate segment, include operational support functions such as sales and marketing and information technology, as well as corporate support functions such as executive, finance and human resources. Prior period balances have been reclassified to reflect this change.

2. Summary of Significant Accounting Policies

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which is a new comprehensive revenue recognition standard that will supersede virtually all existing revenue guidance under GAAP. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" ("ASU 2016-08"), which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing" ("ASU 2016-10"), which clarifies the performance obligations and licensing implementation guidance of ASU 2014-09. In July 2015, the FASB approved to defer the effective date of ASU 2014-09. In December 2016, the FASB issued ASU No. 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers" ("ASU 2016-20"), which amends various aspects of ASU 2014-09. The amendments in these ASUs are effective for annual and interim reporting periods of public entities beginning after December 15, 2017. The Company has identified its major revenue streams and is in the process of completing formal contract reviews. While the Company continues to assess all of the potential impacts of these ASUs, the Company does not expect implementation of these ASUs will have a significant impact on the Company's consolidated results of operations, financial position and cash flows. The Company intends to adopt the new standard on a modified retrospective basis.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period" ("ASU 2014-12"), which revises the accounting treatment for stock compensation tied to performance targets. The amendments in this ASU are effective for annual and interim reporting periods beginning after December 15, 2015 and were adopted by the Company during the quarter ended March 31, 2016. The effect of this guidance was immaterial to the Company's consolidated results of operations, financial position and cash flows.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements—Going Concern (Subtopic 205-40)" ("ASU 2014- 15"), which provides guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related

footnote disclosures. This amendment should reduce diversity in the timing and content of footnote disclosures. This ASU is effective for the annual period ending after December 15, 2016, was adopted by the Company during the quarter ended December 31, 2016. The effect of this guidance was immaterial to the Company's consolidated results of operations, financial position and cash flows.

In February 2015, the FASB issued ASU No. 2015-02, "Amendments to the Consolidation Analysis" ("ASU 2015-02"), which amends certain requirements for determining whether a variable interest entity must be consolidated. The amendments in this ASU are effective for annual and interim reporting periods of public entities beginning after December 15, 2015 and were adopted by the Company during the quarter ended March 31, 2016. The effect of this guidance was immaterial to the Company's consolidated results of operations, financial position and cash flows.

In April 2015, the FASB issued ASU No. 2015-05, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" ("ASU 2015-05"), which provides guidance to clarify the customer's accounting for fees paid in a cloud computing arrangement. The amendments in this ASU are effective for annual and interim reporting periods of public entities beginning after December 15, 2015 and were adopted by the Company on a prospective basis during the quarter ended March 31, 2016. The effect of this guidance was immaterial to the Company's consolidated results of operations, financial position and cash flows.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory" ("ASU 2015-11"). The amendment under this ASU requires that an entity measure inventory at the lower of cost or net realizable value. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2016. The guidance is not expected to materially impact the Company's consolidated results of operations, financial position or cash flows.

In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement Period Adjustments" ("ASU 2015-16"). The amendment under this ASU requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this ASU are effective for annual and interim reporting periods of public entities beginning after December 15, 2015 and were adopted by the Company during the quarter ended March 31, 2016. The effect of this guidance is immaterial to the Company's consolidated results of operations, financial position and cash flows.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). This ASU amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets. This guidance is effective for annual and interim reporting periods of public entities beginning after December 15, 2018, with early adoption permitted. The Company is currently assessing the impact of adoption, but believes the effect of this ASU will have a material effect on the Company's consolidated balance sheets. The Company is currently assessing the potential impact this ASU will have on the Company's consolidated results of operations, financial position and cash flows.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718)" ("ASU 2016-09"). This ASU amends the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This guidance is effective for annual and interim reporting period of public entities beginning after December 15, 2016, with early adoption permitted. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. During the quarter ended December 31, 2016, the Company elected to early adopt this standard as of January 1, 2016. The effect of this guidance was immaterial to the Company's consolidated results of operations, financial position and cash flows.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). This ASU amends the accounting on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. This guidance is effective for annual and interim periods of public entities beginning after December 15, 2019, with early adoption permitted for fiscal years beginning after December 31, 2018. The Company is currently assessing the potential impact this ASU will have on the Company's consolidated results of operations, financial positions and cash flows.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). This ASU makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. This guidance is effective for annual and interim periods of public entities beginning after December 15, 2017, with early adoption permitted. The ASU is required to be applied using a retrospective transition method to each period presented unless impractical. The Company is currently assessing the potential impact this ASU will have on the Company's consolidated results of operations, financial positions and cash flows.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"). This ASU requires that the statement of cash flows explain the change during the period in total cash, cash equivalents, restricted cash and restricted equivalents. This guidance is effective for annual and interim periods of public entities beginning after December 15, 2017, with early adoption permitted. The ASU is required to be applied using a retrospective transition method to each period presented. During the quarter ended December 31, 2016, the Company elected to early adopt this standard. Adoption of this standard resulted in a reduction to the Company's operating cash flows of $21.4 million, $81.7 million and $51.8 million for the years ended December 31, 2014, 2015 and 2016, respectively.

In December 2016, the FASB issued ASU 2016-19, "Technical Corrections and Improvements" ("ASU 2016-19"). The amendments in this ASU cover a wide range of Topics in the Accounting Standard Codification, including internal use software covered under Subtopic 350-40. This guidance is effective for annual and interim periods of public entities beginning after December 15, 2017, with early adoption permitted. The Company is currently assessing the potential impact this ASU will have on the Company's consolidated results of operations, financial positions and cash flows.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" ("ASU 2017-01"). The amendments in this ASU clarify whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance is effective for annual and interim periods of public entities beginning after December 15, 2017, with early adoption permitted. The Company is currently assessing the potential impact this ASU will have on the Company's consolidated results of operations, financial positions and cash flows.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). The amendments in this ASU eliminate the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. This guidance is effective for annual and interim periods of public entities beginning after December 15, 2019, with early adoption permitted for interim periods after January 1, 2017. The Company is currently assessing the potential impact this ASU will have on the Company's consolidated results of operations, financial positions and cash flows.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates of the Company include, among other things, accounts receivable realization, valuation allowances for deferred tax assets, valuation of goodwill and intangible assets, medical claims payable, other medical liabilities, contingent consideration, stock compensation assumptions, tax contingencies and legal liabilities. Actual results could differ from those estimates.

Managed Care and Other Revenue

Managed Care Revenue. Managed care revenue, inclusive of revenue from the Company's risk, EAP and ASO contracts, is recognized over the applicable coverage period on a per member basis for covered members. The Company is paid a per member fee for all enrolled members, and this fee is recorded as revenue in the month in which members are entitled to service. The Company adjusts its revenue for retroactive membership terminations, additions and other changes, when such adjustments are identified, with the exception of retroactivity that can be reasonably estimated. The impact of retroactive rate amendments is generally recorded in the accounting period in which terms to the amendment are finalized, and that the amendment is executed. Any fees paid prior to the month of service are recorded as deferred

revenue. Managed care revenues approximated $2.6 billion, $2.7 billion and $2.3 billion for the years ended December 31, 2014, 2015 and 2016, respectively.

Fee-For-Service, Fixed Fee and Cost-Plus Contracts. The Company has certain contracts with customers under which the Company recognizes revenue as services are performed and as costs are incurred. This includes revenues recorded in relation to the Patient Protection and Affordable Care Act health insurer fee ("HIF fee") billed on a cost reimbursement basis. Revenues from these contracts approximated $290.9 million, $342.0 million and $503.2 million for the years ended December 31, 2014, 2015 and 2016, respectively.

Rebate Revenue. The Company administers a rebate program for certain clients through which the Company coordinates the achievement, calculation and collection of rebates and administrative fees from pharmaceutical manufacturers on behalf of clients. Each period, the Company estimates the total rebates earned based on actual volumes of pharmaceutical purchases by the Company's clients, as well as historical and/or anticipated sharing percentages. The Company earns fees based upon the volume of rebates generated for its clients. The Company does not record as rebate revenue any rebates that are passed through to its clients. Total rebate revenues for the years ended December 31, 2014, 2015 and 2016 approximated $43.6 million, $88.7 million and $85.4 million, respectively.

In relation to the Company's PBM business, the Company administers rebate programs through which it receives rebates from pharmaceutical manufacturers that are shared with its customers. The Company recognizes rebates when the Company is entitled to them and when the amounts of the rebates are determinable. The amount recorded for rebates earned by the Company from the pharmaceutical manufacturers is recorded as a reduction of cost of goods sold.

PBM and Dispensing Revenue

Pharmacy Benefit Management Revenue. The Company recognizes PBM revenue, which consists of a negotiated prescription price (ingredient cost plus dispensing fee), co-payments collected by the pharmacy and any associated administrative fees, when claims are adjudicated. The Company recognizes PBM revenue on a gross basis (i.e. including drug costs and co-payments) as it is acting as the principal in the arrangement and is contractually obligated to its clients and network pharmacies, which is a primary indicator of gross reporting. In addition, the Company is solely responsible for the claims adjudication process, negotiating the prescription price for the pharmacy, collection of payments from the client for drugs dispensed by the pharmacy, and managing the total prescription drug relationship with the client's members. If the Company enters into a contract where it is only an administrator, and does not assume any of the risks previously noted, revenue will be recognized on a net basis. PBM revenues approximated $575.7 million, $1.2 billion and $1.5 billion for the years ended December 31, 2014, 2015 and 2016, respectively.

Dispensing Revenue. The Company recognizes dispensing revenue, which includes the co-payments received from members of the health plans the Company serves, when the specialty pharmaceutical drugs are shipped. At the time of shipment, the earnings process is complete, the obligation of the Company's customer to pay for the specialty pharmaceutical drugs is fixed, and, due to the nature of the product, the member may neither return the specialty pharmaceutical drugs nor receive a refund. Revenues from the dispensing of specialty pharmaceutical drugs on behalf of health plans approximated $216.0 million, $211.6 million and $221.8 million for the years ended December 31, 2014, 2015 and 2016, respectively.

Medicare Part D. The Company is contracted with the Centers for Medicare and Medicaid ("CMS") as a Prescription Drug Plan ("PDP") to provide prescription drug benefits to Medicare beneficiaries. Net revenues include premiums earned by the PDP, which includes a direct premium paid by CMS and a beneficiary premium paid by the PDP member. In cases of low-income members, the beneficiary premium may be subsidized by CMS. The Company recognizes insurance premium revenues on a monthly basis on a per member basis for covered members. In addition to these premiums, net revenue includes certain payments from the members based on the members' actual prescription claims, including co-payments, coverage gap benefits, deductibles and co-insurance (collectively, "Member Responsibilities"). The Company receives a prospective subsidy payment from CMS each month to subsidize a portion of the Member Responsibilities for low-income members. If the prospective subsidy differs from actual prescription claims, the difference is recorded as either a receivable or payable on the consolidated balance sheets. The Company assumes no risk for the Member Responsibilities, including the portion subsidized by CMS. The Company recognizes revenues for Member Responsibilities, including the portion subsidized by CMS, on a gross basis as claims are adjudicated. The CMS also provides an annual risk corridor adjustment which compares the Company's actual drug costs incurred to the premiums received. Based on the risk corridor adjustment, the Company may receive additional

premiums from CMS or may be required to refund CMS a portion of previously received premiums. The Company calculates the risk corridor adjustment on a quarterly basis and the amount is included in net revenues with a corresponding receivable or payable on the consolidated balance sheets. Medicare Part D revenues approximated $272.8 million for the year ended December 31, 2016, including co-payments, which are included in PBM revenues above, of $31.0 million. As of December 31, 2016, the Company had $117.5 million in net receivables associated with Medicare Part D from CMS and other parties related to this business.

Significant Customers

Customers exceeding ten percent of the consolidated Company's net revenues

The Company provides behavioral healthcare management and other related services to members in the state of Florida pursuant to contracts with the State of Florida (the "Florida Contracts"). The Company had behavioral healthcare contracts with various areas in the State of Florida (the "Florida Areas") which were part of the Florida Medicaid program. The State of Florida implemented a new system of mandated managed care through which Medicaid enrollees receive integrated healthcare services, and in 2014 phased out the behavioral healthcare programs under which the Florida Areas' contracts operated. The Company has a contract with the State of Florida to provide integrated healthcare services under the new program ("the Florida Medicaid Contract"). The Florida Medicaid Contract began on February 4, 2014 and extends through December 31, 2018, unless sooner terminated by the parties. The State of Florida has the right to terminate the Florida Medicaid Contract with cause, as defined, upon 24 hour notice and upon 30 days notice for any reason or no reason at all. The Florida Contracts generated net revenues of $253.7 million, $439.5 million and $548.7 million for the years ended December 31, 2014, 2015 and 2016, respectively.

Through December 31, 2015, the Company provided behavioral healthcare management and other related services to members in the state of Iowa pursuant to contracts with the State of Iowa (the "Iowa Contracts"). The Iowa Contracts terminated on December 31, 2015. The Iowa Contracts generated net revenues of $465.0 million, $530.3 million and $13.5 million for the years ended December 31, 2014, 2015 and 2016, respectively.

Customers exceeding ten percent of segment net revenues

In addition to the Florida Contracts and Iowa Contracts previously discussed, the following customers generated in excess of ten percent of net revenues for the respective segment for the years ended December 31, 2014, 2015 and 2016 (in thousands):

Segment	Term Date	2014	2015	2016
Healthcare				
None				
Pharmacy Management				
Customer A	December 31, 2016 (1)	$ 171,936	$ 324,809	$ 264,152
Customer B	December 31, 2018	123,812	130,200 *	139,273 *

* Revenue amount did not exceed 10 percent of net revenues for the respective segment for the year presented. Amount is shown for comparative purposes only.

(1) A vast majority of this customer's revenues were generated from drug acquisition costs related to PBM services which terminated on September 1, 2016. The Company continues to provide specialty drug formulary management services to the customer and is in negotiations with the customer to extend this contract.

Concentration of Business

The Company also has a significant concentration of business with various counties in the State of Pennsylvania (the "Pennsylvania Counties") which are part of the Pennsylvania Medicaid program, with members under its contract with CMS and with various agencies and departments of the United States federal government. Net revenues from the Pennsylvania Counties in the aggregate totaled $369.9 million, $395.7 million and $461.6 million for the years ended December 31, 2014, 2015 and 2016, respectively. Net revenues from members in relation to its contract with CMS in

aggregate totaled $272.8 million for the year ended December 31, 2016. Net revenues from contracts with various agencies and departments of the United States federal government in aggregate totaled $139.5 million, $164.3 million, and $252.5 million for the years ended December 31, 2014, 2015 and 2016, respectively.

The Company's contracts with customers typically have terms of one to three years, and in certain cases contain renewal provisions (at the customer's option) for successive terms of between one and two years (unless terminated earlier). Substantially all of these contracts may be immediately terminated with cause and many of the Company's contracts are terminable without cause by the customer or the Company either upon the giving of requisite notice and the passage of a specified period of time (typically between 60 and 180 days) or upon the occurrence of other specified events. In addition, the Company's contracts with federal, state and local governmental agencies generally are conditioned on legislative appropriations. These contracts generally can be terminated or modified by the customer if such appropriations are not made.

Income Taxes

The Company files a consolidated federal income tax return with most of its eighty-percent or more controlled subsidiaries. The Company files a separate consolidated federal income tax return for AlphaCare of New York, Inc. ("AlphaCare") and its parent, AlphaCare Holdings, Inc. ("AlphaCare Holdings"). The Company and its subsidiaries also file income tax returns in various state and local jurisdictions.

The Company estimates income taxes for each of the jurisdictions in which it operates. This process involves determining both permanent and temporary differences resulting from differing treatment for tax and book purposes. Deferred tax assets and/or liabilities are determined by multiplying the temporary differences between the financial reporting and tax reporting bases for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled. The Company then assesses the likelihood that the deferred tax assets will be recovered from the reversal of temporary differences, the implementation of feasible and prudent tax planning strategies, and future taxable income. To the extent the Company cannot conclude that recovery is more likely than not, it establishes a valuation allowance. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date.

Reversals of both valuation allowances and unrecognized tax benefits are recorded in the period they occur, typically as reductions to income tax expense. However, reversals of unrecognized tax benefits related to deductions for stock compensation in excess of the related book expense are recorded as reductions to deferred tax assets, although prior to the adoption of ASU 2016-09 in 2016 were recorded as increases in additional paid-in capital.

The Company recognizes interim period income taxes by estimating an annual effective tax rate and applying it to year-to-date results. The estimated annual effective tax rate is periodically updated throughout the year based on actual results to date and an updated projection of full year income. Although the effective tax rate approach is generally used for interim periods, taxes on significant, unusual and infrequent items are recognized at the statutory tax rate entirely in the period the amounts are realized.

Health Care Reform

The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the "Health Reform Law"), imposes a mandatory annual fee on health insurers for each calendar year beginning on or after January 1, 2014. The Company has obtained rate adjustments from customers which the Company expects will cover the direct costs of these fees and the impact from non-deductibility of such fees for federal and state income tax purposes. To the extent the Company has such a customer that does not renew, there may be some impact due to taxes paid where the timing and amount of recoupment of these additional costs is uncertain. In the event the Company is unable to obtain rate adjustments to cover the financial impact of the annual fee, the fee may have a material impact on the Company. For 2014, 2015 and 2016, the HIF fees were $21.4 million, $26.5 million and $26.5 million, respectively, which have been paid and which are included in direct service costs and other operating expenses in the consolidated statements of income. The Company recorded revenues of $36.5 million, $45.4 million and $44.0 million in the years ended December 31, 2014, 2015 and 2016, respectively, associated with the accrual for the reimbursement of the economic impact of the HIF fees from its customers. As of December 31, 2016, the Company has a $13.3 million receivable related to a terminated contract that the customer has expressed their unwillingness to pay, however the Company believes the amount is collectible and has not established a reserve.

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid interest-bearing investments with maturity dates of three months or less when purchased, consisting primarily of money market instruments. At December 31, 2016, the Company's excess capital and undistributed earnings for the Company's regulated subsidiaries of $117.7 million are included in cash and cash equivalents.

Restricted Assets

The Company has certain assets which are considered restricted for: (i) the payment of claims under the terms of certain managed care contracts; (ii) regulatory purposes related to the payment of claims in certain jurisdictions; and (iii) the maintenance of minimum required tangible net equity levels for certain of the Company's subsidiaries. Significant restricted assets of the Company as of December 31, 2015 and 2016 were as follows (in thousands):

	2015	2016
Restricted cash and cash equivalents	$ 133,597	$ 81,776
Restricted short-term investments	277,556	227,795
Restricted deposits (included in other current assets)	27,752	38,785
Restricted long-term investments	3,826	6,306
Total	$ 442,731	$ 354,662

Fair Value Measurements

The Company has certain assets and liabilities that are required to be measured at fair value on a recurring basis. These assets and liabilities are to be measured using inputs from the three levels of the fair value hierarchy, which are as follows:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2—Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3—Unobservable inputs that reflect the Company's assumptions about the assumptions that market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available, including the Company's data.

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company's financial assets and liabilities that are required to be measured at fair value as of December 31, 2015 and 2016 (in thousands):

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents (1)	$ —	$ 88,817	$ —	$ 88,817
Investments:				
U.S. Government and agency securities	5,514	—	—	5,514
Obligations of government-sponsored enterprises (2)	—	50,525	—	50,525
Corporate debt securities	—	268,976	—	268,976
Certificates of deposit	—	1,150	—	1,150
Total assets held at fair value	$ 5,514	$ 409,468	$ —	$ 414,982
Liabilities				
Contingent consideration	$ —	$ —	$ 92,426	$ 92,426
Total liabilities held at fair value	$ —	$ —	$ 92,426	$ 92,426

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents (3)	$ —	$ 177,495	$ —	$ 177,495
Investments:				
U.S. Government and agency securities	5,817	—	—	5,817
Obligations of government-sponsored enterprises (4)	—	25,767	—	25,767
Corporate debt securities	—	272,219	—	272,219
Certificates of deposit	—	1,450	—	1,450
Total assets held at fair value	$ 5,817	$ 476,931	$ —	$ 482,748
Liabilities				
Contingent consideration	$ —	$ —	$ 11,153	$ 11,153
Total liabilities held at fair value	$ —	$ —	$ 11,153	$ 11,153

(1) Excludes $160.2 million of cash held in bank accounts by the Company.

(2) Includes investments in notes issued by the Federal Home Loan Bank and Federal Farm Credit Banks.

(3) Excludes $127.0 million of cash held in bank accounts by the Company.

(4) Includes investments in notes issued by the Federal Home Loan Bank, Federal Farm Credit Banks and Federal National Mortgage Association.

For the years ended December 31, 2015 and 2016, the Company did not transfer any assets between fair value measurement levels.

The carrying values of financial instruments, including accounts receivable and accounts payable, approximate their fair values due to their short-term maturities. The estimated fair value of the Company's term loans of $418.8 million as of December 31, 2016 was based on current interest rates for similar types of borrowings and is in Level 2 of the fair value hierarchy. The estimated fair values may not represent actual values of the financial instruments that could be realized as of the balance sheet date or that will be realized in the future.

All of the Company's investments are classified as "available-for-sale" and are carried at fair value.

The contingent consideration liability reflects the fair value of potential future payments related to the Cobalt Therapeutics, LLC ("Cobalt"), 4D Pharmacy Management Systems, Inc. ("4D"), The Management Group, LLC ("TMG") and Armed Forces Services Corporation ("AFSC") acquisitions. The CDMI, LLC ("CDMI") purchase agreement provided for potential contingent payments up to a maximum aggregate amount of $165.0 million. The potential future payments were contingent upon CDMI meeting certain client retention, client conversion and gross profit milestones through December 31, 2016. The CDMI contingent payments were finalized in 2016 and no future potential payments remain outstanding. The 4D purchase agreement provided for potential contingent payments up to a maximum aggregate amount of $30.0 million. The potential future payments were contingent upon the achievement of certain growth targets in the underlying dual eligible membership served by 4D during calendar year 2015 and the retention of certain business. The 4D contingent payments were finalized in 2016 and no future potential payments remain outstanding. The Cobalt, TMG and AFSC purchase agreements also provide for potential contingent payments of up to a maximum of $6.0 million, $15.0 million and $10.0 million, respectively. As of December 31, 2016, there are remaining potential future payments of $5.0 million, $15.0 million and $10.0 million for Cobalt, TMG and AFSC, respectively.

As of the balance sheet date, the fair value of contingent consideration is determined based on probabilities of payment, projected payment dates, discount rates, projected revenues, gross profits, client base, member engagement and new contract execution. The projected revenues, gross profits, client base, member engagement and new contract execution are derived from the Company's latest internal operational forecasts. The Company used a probability weighted discounted cash flow method to arrive at the fair value of the contingent consideration. Changes in the operational forecasts, probabilities of payment, discount rates or projected payment dates may result in a change in the fair value measurement. Any changes in the fair value measurement are reflected as income or expense in the

consolidated statements of income. As the fair value measurement for the contingent consideration is based on inputs not observed in the market, these measurements are classified as Level 3 measurements as defined by fair value measurement guidance.

For CDMI, the Company estimated undiscounted future contingent payments of $90.1 million as of December 31, 2015, which the Company settled in June 2016. For 4D, the Company estimated net undiscounted future contingent payments of $1.0 million as of December 31, 2015, which the Company settled in February 2016.

For Cobalt, TMG and AFSC the unobservable inputs used in the fair value measurement include the discount rate, probabilities of payment and projected payment dates. For Cobalt, the Company estimated undiscounted future contingent payments of $1.7 million and $0.9 million as of December 31, 2015 and 2016, respectively. As of December 31, 2016, the fair value of the short-term contingent consideration for Cobalt was $0.9 million. For TMG the Company estimated undiscounted future contingent payments of $3.8 million and $2.8 million at the acquisition date and December 31, 2016, respectively. The decrease is mainly a result of changes in operational forecasts and probabilities of payment. As of December 31, 2016, the fair value of the long-term contingent consideration for TMG was $1.8 million. For AFSC the Company estimated undiscounted future contingent payments of $9.0 million at the acquisition date and December 31, 2016. As of December 31, 2016, the fair value of the short-term contingent consideration for AFSC was $8.5 million. As of December 31, 2016, the aggregate amounts and projected dates of future potential contingent consideration payments were $9.9 million in 2017 and $2.8 million in 2020.

As of December 31, 2015, the fair value of the short-term and long-term contingent consideration was $91.6 million and $0.8 million, respectively, and is included in short-term contingent consideration and long-term contingent consideration, respectively, in the consolidated balance sheets. As of December 31, 2016, the fair value of the short-term and long-term contingent consideration was $9.4 million and $1.8 million, respectively, and is included in short-term contingent consideration and long-term contingent consideration, respectively, in the consolidated balance sheets.

The change in the fair value of the contingent consideration was $9.3 million for the year ended December 31, 2014, $6.2 million and $3.1 million of which was recorded in the consolidated statements of income as direct service costs and other operating expenses, and as interest expense, respectively. The change in the fair value of the contingent consideration was $44.3 million for the year ended December 31, 2015, which was recorded as direct service costs and other operating expenses in the consolidated statements of income. The increase was mainly a result of changes in the present value and estimated undiscounted liability. The change in the fair value of the contingent consideration was $(0.1) million for the year ended December 31, 2016, which was recorded as direct service costs and other operating expenses in the consolidated statements of income. The decrease was mainly a result of net changes in present value and estimated undiscounted liability.

The following table summarizes the Company's liability for contingent consideration (in thousands):

	December 31, 2015	December 31, 2016
Balance as of beginning of period	$ 58,153	$ 92,426
Acquisition of 4D	19,290	—
Acquisition of TMG	—	2,244
Acquisition of AFSC	—	8,247
Changes in fair value	44,257	(104)
Payments	(29,274)	(91,660)
Balance as of end of period	$ 92,426	$ 11,153

Investments

All of the Company's investments are classified as "available-for-sale" and are carried at fair value. Securities which have been classified as Level 1 are measured using quoted market prices in active markets for identical assets or liabilities while those which have been classified as Level 2 are measured using quoted prices for identical assets and liabilities in markets that are not active. The Company's policy is to classify all investments with contractual maturities within one year as current. Investment income is recognized when earned and reported net of investment expenses. Net unrealized holding gains or losses are excluded from earnings and are reported, net of tax, as "accumulated other

comprehensive income (loss)" in the accompanying consolidated balance sheets and consolidated statements of comprehensive income until realized, unless the losses are deemed to be other-than-temporary. Realized gains or losses, including any provision for other-than-temporary declines in value, are included in the consolidated statements of income.

If a debt security is in an unrealized loss position and the Company has the intent to sell the debt security, or it is more likely than not that the Company will have to sell the debt security before recovery of its amortized cost basis, the decline in value is deemed to be other-than-temporary and is recorded to other-than-temporary impairment losses recognized in income in the consolidated statements of income. For impaired debt securities that the Company does not intend to sell or it is more likely than not that the Company will not have to sell such securities, but the Company expects that it will not fully recover the amortized cost basis, the credit component of the other-than-temporary impairment is recognized in other-than-temporary impairment losses recognized in income in the consolidated statements of income and the non-credit component of the other-than-temporary impairment is recognized in other comprehensive income.

The credit component of an other-than-temporary impairment is determined by comparing the net present value of projected future cash flows with the amortized cost basis of the debt security. The net present value is calculated by discounting the best estimate of projected future cash flows at the effective interest rate implicit in the debt security at the date of acquisition. Cash flow estimates are driven by assumptions regarding probability of default, including changes in credit ratings, and estimates regarding timing and amount of recoveries associated with a default. Furthermore, unrealized losses entirely caused by non-credit related factors related to debt securities for which the Company expects to fully recover the amortized cost basis continue to be recognized in accumulated other comprehensive income.

As of December 31, 2015 and 2016, there were no unrealized losses that the Company believed to be other-than-temporary. No realized gains or losses were recorded for the years ended December 31, 2014, 2015, or 2016. The following is a summary of short-term and long-term investments at December 31, 2015 and 2016 (in thousands):

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities	$ 5,524	$ —	$ (10)	$ 5,514
Obligations of government-sponsored enterprises (1)	50,575	4	(54)	50,525
Corporate debt securities	269,340	—	(364)	268,976
Certificates of deposit	1,150	—	—	1,150
Total investments at December 31, 2015	$ 326,589	$ 4	$ (428)	$ 326,165

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities	$ 5,832	$ —	$ (15)	$ 5,817
Obligations of government-sponsored enterprises (2)	25,779	2	(14)	25,767
Corporate debt securities	272,479	1	(261)	272,219
Certificates of deposit	1,450	—	—	1,450
Total investments at December 31, 2016	$ 305,540	$ 3	$ (290)	$ 305,253

(1) Includes investments in notes issued by the Federal Home Loan Bank and Federal Farm Credit Banks.

(2) Includes investments in notes issued by the Federal Home Loan Bank, Federal National Mortgage Association and Federal Farm Credit Banks.

The maturity dates of the Company's investments as of December 31, 2016 are summarized below (in thousands):

	Amortized Cost	Estimated Fair Value
2017	$ 297,748	$ 297,493
2018	7,792	7,760
Total investments at December 31, 2016	$ 305,540	$ 305,253

Accounts Receivable

The Company's accounts receivable consists of amounts due from customers throughout the United States. Collateral is generally not required. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. Management believes the allowance for doubtful accounts is adequate to provide for normal credit losses.

Concentration of Credit Risk

Accounts receivable subjects the Company to a concentration of credit risk with third party payors that include health insurance companies, managed healthcare organizations, healthcare providers and governmental entities.

The Company maintains cash and cash equivalents balances at financial institutions which are insured by the Federal Deposit Insurance Corporation ("FDIC"). At times, balances in certain bank accounts may exceed the FDIC insured limits.

Pharmaceutical Inventory

Pharmaceutical inventory consists solely of finished goods (primarily prescription drugs) and is stated at the lower of first-in first-out cost or market.

Long-lived Assets

Long-lived assets, including property and equipment and intangible assets to be held and used, are currently reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We group and evaluate these long-lived assets for impairment at the lowest level at which individual cash flows can be identified. Impairment is determined by comparing the carrying value of these long-lived assets to management's best estimate of the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. The cash flow projections used to make this assessment are consistent with the cash flow projections that management uses internally in making key decisions. In the event an impairment exists, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset, which is generally determined by using quoted market prices or the discounted present value of expected future cash flows.

Property and Equipment

Property and equipment is stated at cost, except for assets that have been impaired, for which the carrying amount has been reduced to estimated fair value. Expenditures for renewals and improvements are capitalized to the property accounts. Replacements and maintenance and repairs that do not improve or extend the life of the respective assets are expensed as incurred. The Company capitalizes costs incurred to develop internal-use software during the application development stage. Capitalization of software development costs occurs after the preliminary project stage is complete, management authorizes the project, and it is probable that the project will be completed and the software will be used for the function intended. Amortization of capital lease assets is included in depreciation expense and is included in accumulated depreciation as reflected in the table below. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which is generally two to ten years for building improvements (or the lease term, if shorter), three to fifteen years for equipment and three to five years for capitalized internal-use software. The net capitalized internal use software as of December 31, 2015 and 2016 was $84.8 million and $88.2 million, respectively. Depreciation expense was $68.3 million, $73.4 million and $75.3 million for the years ended December 31, 2014, 2015

and 2016, respectively. Included in depreciation expense for the years ended December 31, 2014, 2015 and 2016 was $40.9 million, $45.6 million and $47.6 million, respectively, related to capitalized internal use software.

Property and equipment, net, consisted of the following at December 31, 2015 and 2016 (in thousands):

	2015	2016
Building improvements	$ 13,655	$ 16,817
Equipment	207,667	204,743
Capital leases - property	26,945	26,945
Capital leases - equipment	12,335	14,729
Capitalized internal-use software	396,794	446,619
	657,396	709,853
Accumulated depreciation	(482,651)	(537,329)
Property and equipment, net	$ 174,745	$ 172,524

Goodwill

The Company is required to test its goodwill for impairment on at least an annual basis. The Company has selected October 1 as the date of its annual impairment test. The goodwill impairment test is a two-step process that requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of each reporting unit with goodwill based on various valuation techniques, with the primary technique being a discounted cash flow analysis, which requires the input of various assumptions with respect to revenues, operating margins, growth rates and discount rates. The estimated fair value for each reporting unit is compared to the carrying value of the reporting unit, which includes goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an "implied fair value" of goodwill. The determination of a reporting unit's "implied fair value" of goodwill requires the Company to allocate the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the "implied fair value" of goodwill, which is compared to its corresponding carrying value.

Goodwill is tested for impairment at a level referred to as a reporting unit, which is one level below the operating segment. The Company's three reporting units are comprised of Commercial, Government and Pharmacy Management.

The fair values of the Commercial (a component of the Healthcare segment) and Pharmacy Management reporting units were determined using a discounted cash flow method. This method involves estimating the present value of estimated future cash flows utilizing a risk adjusted discount rate. Key assumptions for this method include cash flow projections, terminal growth rates and discount rates.

The fair value of the Government (a component of the Healthcare segment) reporting unit was determined using the discounted cash flow and guideline company methods. Key assumptions for the discounted cash flow method are consistent with those described above. For the guideline company method, revenue and earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples for guideline companies were applied to the reporting units pro forma revenue and EBITDA for 2016, which represents actual results for the nine-month period ended September 30, 2016 and projected results for the three-month period ended December 31, 2016, and the reporting unit's projected revenue and EBITDA for 2017. The weighting applied to the fair values determined using the discounted cash flow and guideline company methods to determine an overall fair value for the Government reporting unit was 75 percent and 25 percent, respectively. The weighting of each of the methods described above was based on the relevance of the approach. A change in the weighting would not change the outcome of the first step of the impairment test.

Goodwill for each of the Company's reporting units with goodwill at December 31, 2015 and 2016 were as follows (in thousands):

	2015	2016
Commercial	$ 242,255	$ 242,255
Government	18,363	108,321
Pharmacy Management	360,772	391,478
Total	$ 621,390	$ 742,054

The changes in the carrying amount of goodwill for the years ended December 31, 2015 and 2016 are reflected in the table below (in thousands):

	2015	2016
Balance as of beginning of period	$ 566,106	$ 621,390
Acquisition of 4D	49,136	—
Acquisition of AFSC	—	76,736
Acquisition of Veridicus	—	30,705
Other acquisitions and measurement period adjustments	6,148	13,223
Balance as of end of period	$ 621,390	$ 742,054

Intangible Assets

The Company reviews other intangible assets for impairment when events or changes in circumstances occur which may potentially impact the estimated useful life of the intangible assets. During the second quarter of 2016, the Company recognized $4.8 million in impairment charges, which are reflected in direct service costs and other operating expenses in the consolidated statements of income and reported within the Healthcare segment. The fair value of the impairment was determined using the income method, which resulted in the full impairment of the customer agreement intangible asset recorded in conjunction with the AlphaCare acquisition.

The following is a summary of intangible assets at December 31, 2015 and 2016, and the estimated useful lives for such assets (in thousands):

	December 31, 2015				
Asset	Original Useful Life	Weighted Avg Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer agreements and lists	2.5 to18 years	6.8 years	$ 274,790	$ (148,795)	$ 125,995
Provider networks and other	1 to16 years	4.7 years	16,663	(9,284)	7,379
			$ 291,453	$ (158,079)	$ 133,374

	December 31, 2016				
Asset	Original Useful Life	Weighted Avg Remaining Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer agreements and lists	2.5 to18 years	6.4 years	$ 357,708	$ (181,588)	$ 176,120
Provider networks and other	1 to16 years	4.3 years	18,240	(12,008)	6,232
AFSC trade name	indefinite	indefinite	3,880	—	3,880
			$ 379,828	$ (193,596)	$ 186,232

Amortization expense was $22.8 million, $29.4 million and $30.7 million for the years ended December 31, 2014, 2015 and 2016, respectively. The Company estimates amortization expense will be $35.1 million, $30.6 million, $28.5 million, $27.4 million and $26.8 million for the years ending December 31, 2017, 2018, 2019, 2020 and 2021, respectively.

Cost of Care, Medical Claims Payable and Other Medical Liabilities

Cost of care is recognized in the period in which members receive managed healthcare services. In addition to actual benefits paid, cost of care in a period also includes the impact of accruals for estimates of medical claims payable. Medical claims payable represents the liability for healthcare claims reported but not yet paid and claims incurred but not yet reported ("IBNR") related to the Company's managed healthcare businesses. Such liabilities are determined by employing actuarial methods that are commonly used by health insurance actuaries and that meet actuarial standards of practice. Cost of care for the Company's EAP contracts, which are mainly with the United States federal government, pertain to the costs to employ licensed behavioral health counselors to deliver non-medical counseling for these contracts.

The IBNR portion of medical claims payable is estimated based on past claims payment experience for member groups, enrollment data, utilization statistics, authorized healthcare services and other factors. This data is incorporated into contract-specific actuarial reserve models and is further analyzed to create "completion factors" that represent the average percentage of total incurred claims that have been paid through a given date after being incurred. Factors that affect estimated completion factors include benefit changes, enrollment changes, shifts in product mix, seasonality influences, provider reimbursement changes, changes in claims inventory levels, the speed of claims processing and changes in paid claim levels. Completion factors are applied to claims paid through the financial statement date to estimate the ultimate claim expense incurred for the current period. Actuarial estimates of claim liabilities are then determined by subtracting the actual paid claims from the estimate of the ultimate incurred claims. For the most recent incurred months (generally the most recent two months), the percentage of claims paid for claims incurred in those months is generally low. This makes the completion factor methodology less reliable for such months. Therefore, incurred claims for any month with a completion factor that is less than 70 percent are generally not projected from historical completion and payment patterns; rather they are projected by estimating claims expense based on recent monthly estimated cost incurred per member per month times membership, taking into account seasonality influences, benefit changes and healthcare trend levels, collectively considered to be "trend factors."

Medical claims payable balances are continually monitored and reviewed. If it is determined that the Company's assumptions in estimating such liabilities are significantly different than actual results, the Company's results of operations and financial position could be impacted in future periods. Adjustments of prior period estimates may result in additional cost of care or a reduction of cost of care in the period an adjustment is made. Further, due to the considerable variability of healthcare costs, adjustments to claim liabilities occur each period and are sometimes significant as compared to the net income recorded in that period. Prior period development is recognized immediately upon the actuary's judgment that a portion of the prior period liability is no longer needed or that additional liability should have been accrued. The following table presents the components of the change in medical claims payable for the years ended December 31, 2014, 2015 and 2016 (in thousands):

	2014	2015	2016
Claims payable and IBNR, beginning of period	$ 242,229	$ 278,803	$ 253,299
Cost of care:			
Current year	2,097,395	2,297,255	1,892,914
Prior years(3)	(8,800)	(22,500)	(10,300)
Total cost of care	2,088,595	2,274,755	1,882,614
Claim payments and transfers to other medical liabilities(1):			
Current year	1,845,325	2,077,729	1,733,310
Prior years	206,696	222,530	213,985
Total claim payments and transfers to other medical liabilities	2,052,021	2,300,259	1,947,295
Claims payable and IBNR, end of period	278,803	253,299	188,618
Withhold receivables, end of period(2)	(321)	(2,850)	(4,482)
Medical claims payable, end of period	$ 278,482	$ 250,449	$ 184,136

(1) For any given period, a portion of unpaid medical claims payable could be covered by reinvestment liability (discussed below) and may not impact the Company's results of operations for such periods.

(2) Medical claims payable is offset by customer withholds from capitation payments in situations in which the customer has the contractual requirement to pay providers for care incurred.

(3) Favorable development in 2014, 2015 and 2016 was $8.8 million, $22.5 million and $10.3 million, respectively, and was mainly related to lower medical trends and faster claims completion than originally assumed.

Actuarial standards of practice require that claim liabilities be adequate under moderately adverse circumstances. Adverse circumstances are situations in which the actual claims experience could be higher than the otherwise estimated value of such claims. In many situations, the claims paid amount experienced will be less than the estimate that satisfies the actuarial standards of practice. Any prior period favorable cost of care development related to a lack of moderately adverse conditions is excluded from "Cost of Care – Prior Years" adjustments, as a similar provision for moderately adverse conditions is established for current year cost of care liabilities and therefore does not generally impact net income.

Due to the existence of risk sharing and reinvestment provisions in certain customer contracts, principally in the Government contracts, a change in the estimate for medical claims payable does not necessarily result in an equivalent impact on cost of care.

The Company believes that the amount of medical claims payable is adequate to cover its ultimate liability for unpaid claims as of December 31, 2016; however, actual claims payments may differ from established estimates.

Other medical liabilities consist primarily of amounts payable to pharmacies for claims that have been adjudicated by the Company but not yet paid. Other medical liabilities also include "reinvestment" payables under certain managed healthcare contracts with Medicaid customers and "profit share" payables under certain risk-based contracts. Under a contract with reinvestment features, if the cost of care is less than certain minimum amounts specified in the contract (usually as a percentage of revenue), the Company is required to "reinvest" such difference in behavioral healthcare programs when and as specified by the customer or to pay the difference to the customer for their use in funding such programs. Under a contract with profit share provisions, if the cost of care is below certain specified levels, the Company will "share" the cost savings with the customer at the percentages set forth in the contract. In addition, certain contracts include provisions to provide the Company additional funding if the cost of care is above the specified levels.

Advertising Costs

Advertising costs consist primarily of printed media services, event sponsorships, and promotional items, which are expensed as incurred. Advertising expense was approximately $2.7 million, $2.5 million, and $2.0 million for the fiscal years ended December 31, 2014, 2015, and 2016, respectively.

Accrued Liabilities

As of December 31, 2015 and 2016, the only individual current liability that exceeded five percent of total current liabilities related to accrued employee compensation liabilities of $37.6 million and $76.1 million, respectively.

Net Income per Common Share attributable to Magellan Health, Inc.

Net income per common share attributable to Magellan Health, Inc. is computed based on the weighted average number of shares of common stock and common stock equivalents outstanding during the period (see Note 6 —"Stockholders' Equity").

Redeemable Non-Controlling Interest

As of December 31, 2016 the Company held an 84% equity interest in AlphaCare Holdings. The other shareholders of AlphaCare Holdings have the right to exercise put options, requiring the Company to purchase up to 50% of the remaining shares prior to January 1, 2017 provided certain membership levels are attained. After December 31, 2016 the other shareholders of AlphaCare Holdings have the right to exercise put options requiring the Company to purchase all or any portion of the remaining shares. In addition, after December 31, 2016 the Company has the right to purchase all remaining shares. Non-controlling interests with redemption features, such as put options, that are not solely within the Company's control are considered redeemable non-controlling interests. Redeemable non-controlling interest is considered to be temporary and is therefore reported in a mezzanine level between liabilities and stockholders' equity on the Company's consolidated balance sheet at the greater of the initial carrying amount adjusted for the non-

controlling interest's share of net income or loss or its redemption value. The carrying value of the non-controlling interest as of December 31, 2015 and December 31, 2016 was $5.9 million and $4.8 million, respectively. The $1.1 million decrease in carrying value is a result of operating losses, partially offset by the impact of additional capital provided by the Company. The Company evaluates the redemption value on a quarterly basis. If the redemption value is greater than the carrying value, the Company adjusts the carrying amount of the non-controlling interest to equal the redemption value at the end of each reporting period. Under this method, this is viewed at the end of the reporting period as if it were also the redemption date for the non-controlling interest. The Company will reflect redemption value adjustments in the earnings per share ("EPS") calculation if redemption value is in excess of the carrying value of the non-controlling interest. As of December 31, 2016, the carrying value of the non-controlling interest exceeded the redemption value and therefore no adjustment to the carrying value was required.

Stock Compensation

At December 31, 2015 and 2016, the Company had equity-based employee incentive plans, which are described more fully in Note 6—"Stockholders' Equity". In addition, the Company issued restricted stock awards associated with the Partners Rx Management LLC ("Partners Rx"), CDMI and AFSC acquisitions, which are also described more fully in Note 6 —"Stockholders' Equity". The Company uses the Black-Scholes-Merton formula to estimate the fair value of substantially all stock options granted to employees, and recorded stock compensation expense of $40.6 million, $50.4 million and $37.4 million for the years ended December 31, 2014, 2015 and 2016, respectively. As stock compensation expense recognized in the consolidated statements of income for the years ended December 31, 2014, 2015 and 2016 is based on awards ultimately expected to vest, it has been reduced for annual estimated forfeitures of zero to four percent. If the actual number of forfeitures differs from those estimated, additional adjustments to compensation expense may be required in future periods. If vesting of an award is conditioned upon the achievement of performance goals, compensation expense during the performance period is estimated using the most probable outcome of the performance goals, and adjusted as the expected outcome changes. The Company recognizes compensation costs for awards that do not contain performance conditions on a straight-line basis over the requisite service period, which is generally the vesting term of three years. For restricted stock units that include performance conditions, stock compensation is recognized using an accelerated method over the vesting period.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

In order to better represent the operations of the Company's segments, effective January 1, 2016, the Company began allocating operational and corporate support costs to the Healthcare and Pharmacy Management segments. For comparative presentation, the Company applied the allocation methodology retrospectively and reclassified direct service costs and other between segments for the years ended December 31, 2014 and 2015. The impact of these reclassifications are disclosed in Note 10—"Business Segment Information".

The Company elected to early adopt ASU 2016-18 effective for the fiscal year ended December 31, 2016 and applied it retrospectively. See Note—2 "Summary of Significant Accounting Policies—Recent Accounting Pronouncements" for the impact to the Company's financial statements.

3. Acquisitions

Acquisition of AFSC

Pursuant to the May 15, 2016 share purchase agreement (the "AFSC Agreement") AFSC, on July 1, 2016 the Company acquired all of the outstanding equity interests of AFSC (the "AFSC Acquisition"). AFSC has extensive experience providing and managing behavioral health and specialty services to various agencies of the federal government, including all five branches of the U.S. Armed Forces.

The base purchase price for the AFSC Acquisition per the AFSC Agreement was $117.5 million, subject to working capital adjustments. Pursuant to the AFSC Agreement, certain members of AFSC's management, who were also shareholders of AFSC, purchased a total of $4.0 million in Magellan restricted common stock, which will vest over a two-year period, conditioned upon continued employment with the Company. Consideration for the AFSC Acquisition

includes a net payment for the net base purchase price of $113.5 million in cash, subject to working capital adjustments, including adjustments for cash acquired. Proceeds from the sale of restricted common stock are recorded as stock compensation expense over the requisite service period.

In addition to the base purchase price, the AFSC Agreement provides for potential contingent payments up to a maximum aggregate amount of $10.0 million. The potential contingent payments are based on the retention of certain core business by AFSC.

The Company reports the results of operation of AFSC within the Healthcare segment. The consolidated statements of income include total revenues and Segment Profit for AFSC of $88.1 million and $14.5 million for the six months subsequent to the acquisition, respectively.

The purchase price has been allocated based upon the estimated fair value of net assets acquired at the date of acquisition. A portion of the excess purchase price over tangible net assets acquired has been allocated to identified intangible assets totaling $51.7 million, consisting of customer contracts in the amount of $47.7 million, which is being amortized over seven years, trade name in the amount of $3.9 million, which has an indefinite life, and non-compete agreements in the amount of $0.1 million, which is being amortized over four years. The acquisition resulted in $76.7 million in goodwill related primarily to anticipated synergies and the expanded presence in the PBM market. The goodwill is included in the Company's Government reporting unit. None of the goodwill or other identified intangibles assets are deductible for tax purposes.

The Company's total consideration for this transaction, as of the date of acquisition, totaled $140.4 million, including an accrual for estimated contingent consideration of $8.2 million.

The estimated fair value of AFSC assets acquired and liabilities assumed at the date of the acquisition are summarized as follows (in thousands):

Assets acquired:		
Current assets (includes $32,143 and $18,188 of accounts receivable and cash, respectively)	$	54,255
Property and equipment, net		945
Other assets		25
Other identified intangible assets		51,721
Goodwill		76,736
Total assets acquired		183,682
Liabilities assumed:		
Current liabilities		23,690
Deferred tax liabilities		19,569
Other liabilities		64
Total liabilities assumed		43,323
Net assets acquired	$	140,359

The Company's estimated fair values of AFSC's accounts receivable acquired at the date of acquisition are determined based on certain valuations and analyses that have yet to be finalized, and accordingly, the accounts receivable acquired are subject to adjustment once the analyses are completed. In addition, the amount recognized for deferred tax liabilities may be impacted by the determination of these items. The Company will make appropriate adjustments to the purchase price allocation prior to the completion of the measurement period as required.

As of December 31, 2016, the Company established a working capital receivable of $3.2 million that was reflected as a reduction to the transaction price.

The fair value of contingent consideration is determined based on probabilities of payment, projected payment dates, discount rates and projected contract retention. The Company used a probability weighted discounted cash flow method to arrive at the fair value of contingent consideration. Changes in the probabilities of payment, discount rates or projected payment dates may result in a change in the fair value measurement. Any changes in the fair value measurement are reflected as income or expense in the consolidated statements of income. As of the acquisition date, the

Company estimated undiscounted future contingent consideration payments of $9.0 million. As of December 31, 2016, the fair value of the contingent consideration was $8.5 million and is included in short-term contingent consideration in the accompanying consolidated balance sheets. The change in the present value of the contingent consideration was $0.3 million for the year ended December 31, 2016 and was recorded as direct service costs and other operating expenses in the consolidated statements of income.

In connection with the AFSC acquisition, the Company incurred $1.9 million of acquisition related costs that were expensed during the year ended December 31, 2016. These costs are included within direct service costs and other operating expenses in the accompanying consolidated statements of income.

Acquisition of Veridicus Holdings, LLC.

Pursuant to the November 19, 2016 purchase agreement (the "Veridicus Agreement") with Veridicus Holdings, LLC ("Veridicus") and Veridicus Health, LLC, on December 13, 2016 the Company acquired all of the outstanding equity interests of Veridicus (the "Veridicus Acquisition"). Veridicus is a PBM with a unique set of clinical services and capabilities.

The base purchase price for the Veridicus Acquisition per the Veridicus Agreement was $72.5 million, subject to working capital adjustments. The Company reports the results of operations of Veridicus within its Pharmacy Management segment.

The purchase price has been allocated based upon the estimated fair value of net assets acquired at the date of acquisition. A portion of the excess purchase price over tangible net assets acquired has been allocated to identified intangible assets totaling $34.4 million, consisting of total customer contract intangible assets in the amount of $33.8 million, which are being amortized over six to eight years, trade name in the amount of $0.4 million, which is being amortized over 1 year, and non-compete agreements in the amount of $0.3 million, which is being amortized over five years. The acquisition resulted in $30.7 million in goodwill related primarily to anticipated synergies and the assembled workforce of Veridicus. The entire excess purchase price over tangible net assets acquired is amortizable for tax purposes, although the Company's effective rate will not be impacted by the tax amortization.

The estimated fair value of Veridicus assets acquired and liabilities assumed at the date of the acquisition are summarized as follows (in thousands):

Assets acquired:		
Current assets (includes $5,625, $1,569 and $1,564 of accounts receivable, cash and inventory, respectively)	$	8,961
Property and equipment, net		6,323
Other assets		42
Other identified intangible assets		34,440
Goodwill		30,705
Total assets acquired		80,471
Liabilities assumed:		
Current liabilities		6,083
Total liabilities assumed		6,083
Net assets acquired	$	74,388

The Company's estimated fair values of Veridicus assets acquired and liabilities assumed at the date of acquisition are determined based on certain valuations and analyses that have yet to be finalized, and accordingly, the assets acquired and liabilities assumed, as detailed above, are subject to adjustment once the analyses are completed. The Company will make appropriate adjustments to the purchase price allocation prior to the completion of the measurement period as required.

As of December 31, 2016, the Company established a working capital receivable of $0.1 million that was reflected as a reduction to the transaction price.

In connection with the Veridicus acquisition, the Company incurred $0.5 million of acquisition related costs, of which $0.2 million and $0.3 million were expensed during the years ended December 31, 2015 and 2016, respectively.

These costs are included within direct service costs and other operating expenses in the accompanying consolidated statements of income.

Acquisition of 4D Pharmacy Management Systems, Inc.

Pursuant to the March 17, 2015 Purchase Agreement (the "4D Agreement") with 4D, on April 1, 2015 the Company acquired (the "4D Acquisition") all of the outstanding equity interests of 4D. 4D was a privately held, full-service PBM serving managed care organizations, employers and government-sponsored benefit programs, such as Medicare Part D plans.

As consideration for the 4D Acquisition, the Company paid a base price of $54.7 million, including net receipts of $0.3 million for working capital adjustments. In addition to the base purchase price, the Company made additional contingent payments of $20.0 million. The contingent payments were based on the achievement of certain growth targets in the underlying dual eligible membership served by 4D during calendar year 2015 and for the retention of certain business. The Company reports the results of operations of 4D within its Pharmacy Management segment.

Acquisition of AlphaCare Holdings, Inc.

Pursuant to the August 13, 2013 stock purchase agreement (the "AlphaCare Agreement"), on December 31, 2013 the Company acquired a 65% equity interest in AlphaCare Holdings, the holding company for AlphaCare, a Health Maintenance Organization ("HMO") in New York that operates a New York Managed Long-Term Care Plan in Bronx, New York, Queens, Kings and Westchester Counties, and Medicare Plans in Bronx, New York, Queens and Kings Counties.

During the year ended December 31, 2015, the Company purchased an additional $23.6 million in shares of Series B Participating Preferred Stock and Series C Participating Preferred Stock. During the year ended December 31, 2016, the Company purchased an additional $7.5 million in shares of Series C Participating Preferred Stock. As of December 31, 2016, the Company held an 84% interest and the remaining shareholders held a 16% interest in AlphaCare Holdings.

Based on the Company's 84% equity interest in AlphaCare Holdings, the Company has included the results of operations in its consolidated financial statements. The Company reports the results of operations of AlphaCare Holdings within the Healthcare segment.

Acquisition of CDMI, LLC

Pursuant to the March 31, 2014 purchase agreement (the "CDMI Agreement") with CDMI, on April 30, 2014 the Company acquired all of the outstanding equity interests of CDMI. CDMI provides a range of clinical consulting programs and negotiates and administers drug rebates for managed care organizations and other customers. As consideration for the transaction, the Company paid a base price of $201.0 million, including net receipts of $4.0 million for working capital adjustments. In addition to the base purchase price, the Company made additional contingent payments of $100.0 million. The contingent payments were based upon CDMI meeting certain client retention and gross profit milestones. The Company reports the results of operations of CDMI within its Pharmacy Management segment.

Other Acquisitions

Pursuant to the February 9, 2016 purchase agreement (the "TMG Agreement") with TMG, on February 29, 2016 the Company acquired all of the outstanding equity interests of TMG. TMG is a company with 30 years of expertise in community-based long-term care services and supports. As consideration for the transaction, the Company paid a base price of $14.8 million in cash, including net receipts of $0.2 million for working capital adjustments. In addition to the base purchase price, the TMG agreement provides for potential contingent payments up to a maximum aggregate of $15.0 million. The potential future payments are contingent upon the Company being awarded additional managed long-term services and supports contracts. The Company reports the results of operations of TMG within its Healthcare segment.

Pursuant to the January 15, 2015 purchase agreement (the "HSM Agreement") with HSM Physical Health, Inc. ("HSM") and HSM Companies Inc., on January 31, 2015 the Company acquired all of the outstanding equity interests of

HSM. HSM provides cost containment and utilization management services focused on physical and musculoskeletal health specialties. As consideration for the transaction, the Company paid a base price of $13.6 million in cash, including net payments of $0.1 million for working capital adjustments. The Company reports the results of operations of HSM within its Healthcare segment.

Pursuant to the July 1, 2014 purchase agreement (the "Cobalt Agreement") with Cobalt, the Company acquired all of the outstanding equity interests of Cobalt. Cobalt provides computerized cognitive behavioral therapy self-service programs. As consideration for the transaction, the Company paid a base price of $7.8 million in cash, including net receipts of $0.2 million for working capital adjustments. In addition to the base purchase price, the Cobalt Agreement provides for potential contingent payments up to a maximum aggregate amount of $6.0 million. The potential future payments are contingent upon engagement of new members and new contract execution through June 30, 2017. The Company reports the results of operations of Cobalt within its Healthcare segment.

Pro Forma Financial Information

The following unaudited supplemental pro forma information represents the Company's consolidated results of operations for the year ended December 31, 2015 as if the acquisitions of AFSC, TMG, and Veridicus had occurred on January 1, 2015, and for the year ended December 31, 2016, as if the acquisitions of AFSC, TMG and Veridicus had occurred on January 1, 2016, in all cases after giving effect to certain adjustments including interest income, depreciation, amortization, and stock compensation expense.

Such pro forma information does not purport to be indicative of operating results that would have been reported had the acquisitions of AFSC, TMG and Veridicus occurred on January 1, 2015 and 2016 (in thousands, except per share amounts):

	Year Ended December 31,	
	2015 (unaudited)	2016 (unaudited)
Net revenue	$ 4,912	$ 5,084
Net income attributable to Magellan Health, Inc.	$ 37	$ 80
Income per common share attributable to Magellan Health, Inc.:		
Basic	$ 1.48	$ 3.45
Diluted	$ 1.42	$ 3.31

4. Benefit Plans

The Company has a defined contribution retirement plan (the "401(k) Plan"). Employee participants can elect to contribute up to 75 percent of their compensation, subject to Internal Revenue Service ("IRS") deferral limitations. The Company makes contributions to the 401(k) Plan based on employee compensation and contributions. The Company matches 50 percent of each employee's contribution up to 6 percent of their annual compensation. The Company recognized $8.7 million, $9.6 million and $11.1 million of expense for the years ended December 31, 2014, 2015 and 2016, respectively, for matching contributions to the 401(k) Plan.

5. Long-Term Debt and Capital Lease Obligations

On July 23, 2014, the Company entered into a $500.0 million Credit Agreement with various lenders that provides for Magellan Rx Management, Inc. (a wholly owned subsidiary of Magellan Health, Inc.) to borrow up to $250.0 million of revolving loans, with a sublimit of up to $70.0 million for the issuance of letters of credit for the account of the Company, and a term loan in an original aggregate principal amount of $250.0 million (the "2014 Credit Facility"). On December 2, 2015, the Company entered into an amendment to the 2014 Credit Facility under which Magellan Pharmacy Services, Inc. (a wholly owned subsidiary of Magellan Health, Inc.) became a party to the $500.0 million Credit Agreement as the borrower and assumed all of the obligations of Magellan Rx Management, Inc. The 2014 Credit Facility is guaranteed by substantially all of the non-regulated subsidiaries of the Company and will mature

on July 23, 2019; however, the Company holds an option to extend the 2014 Credit Facility for an additional one year period.

Under the 2014 Credit Facility, the annual interest rate on revolving and term loan borrowings is equal to (i) in the case of base rate loans, the sum of a borrowing margin ranging from 0.50 percent to 1.00 percent plus the higher of the prime rate, one-half of one percent in excess of the overnight "federal funds" rate, or the Eurodollar rate for one month plus 1.00 percent, or (ii) in the case of Eurodollar rate loans, the sum of a borrowing margin ranging from 1.50 percent to 2.00 percent plus the Eurodollar rate for the selected interest period. The Company has the option to borrow in base rate loans or Eurodollar rate loans at its discretion, with the borrowing margin for these loans adjusted from time to time based on the Company's total leverage ratio. Letters of credit issued bear interest equal to the borrowing margin for Eurodollar loans that ranges from 1.50 percent to 2.00 percent, with the commitment commission on the unused revolving loan commitment ranging from 0.20 percent to 0.35 percent. These letter of credit and commitment commission rates are adjusted from time to time based on the Company's total leverage ratio.

Under the 2014 Credit Facility, on September 30, 2014, the Company completed a draw-down of the $250.0 million term loan (the "2014 Term Loan"). The borrowings have been maintained as a Eurodollar loan. The 2014 Term Loan is subject to certain quarterly amortization payments. As of December 31, 2016 the remaining balance on the 2014 Term Loan was $218.7 million. The 2014 Term Loan will mature on July 23, 2019. As of December 31, 2016, the 2014 Term Loan bore interest at a rate of 1.625 percent plus the London Interbank Offered Rate ("LIBOR"), which was equivalent to a total interest rate of approximately 2.395 percent. For the year ended December 31, 2016, the weighted average interest rate was approximately 2.034 percent.

On June 27, 2016, the Company entered into a $200.0 million Credit Agreement with various lenders that provides for a $200.0 million term loan (the "2016 Term Loan") to Magellan Pharmacy Services, Inc. (the "2016 Credit Facility"). The 2016 Credit Facility is guaranteed by substantially all of the non-regulated subsidiaries of the Company and will mature on December 29, 2017.

Under the 2016 Credit Facility, the annual interest rate on the term loan is equal to (i) in the case of base rate loans, the sum of a borrowing margin ranging from 0.25 percent to 0.75 percent plus the higher of the prime rate, one-half of one percent in excess of the overnight "federal funds" rate, or the Eurodollar rate for one month plus 1.00 percent, or (ii) in the case of Eurodollar rate loans, the sum of a borrowing margin ranging from 1.25 percent to 1.75 percent plus the Eurodollar rate for the selected interest period. The Company has the option to borrow in base rate loans or Eurodollar rate loans at its discretion, with the borrowing margin for these loans adjusted from time to time based on the Company's total leverage ratio.

The borrowings under the 2016 Term Loan have been maintained as a Eurodollar loan. As of December 31, 2016 the remaining balance on the 2016 Term Loan was $200.0 million and bore interest at a rate of approximately 1.375 percent plus the LIBOR, which was equivalent to a total interest rate of approximately 2.145 percent. During the period the term loan was outstanding, from June 27, 2016 through December 31, 2016, the weighted average interest rate was approximately 1.901 percent.

As of December 30, 2016, the contractual maturities of the term loans under the 2014 Credit Facility and the 2016 Credit Facility (collectively the "Credit Facilities") were as follows: 2017—$225.0 million; 2018—$25.0 million; and 2019—$168.7 million. The Company had $33.4 million and $33.7 million of letters of credit outstanding at December 31, 2015 and 2016, respectively. The Company had no revolving loan borrowings at December 31, 2015. Beginning in April 2016, due to the timing of working capital needs, the Company has borrowed from the revolving loan under the 2014 Credit Facility. The revolving loan borrowings have been in the form of Eurodollar rate loans and totaled $175.0 million at December 31, 2016.

The Credit Facilities contains covenants that limit management's discretion in operating the Company's business by restricting or limiting the Company's ability, among other things, to:

- incur or guarantee additional indebtedness or issue preferred or redeemable stock;
- pay dividends and make other distributions;
- repurchase equity interests;

- make certain advances, investments and loans;
- enter into sale and leaseback transactions;
- create liens;
- sell and otherwise dispose of assets;
- acquire or merge or consolidate with another company; and
- enter into some types of transactions with affiliates.

There were $24.4 million and $26.0 million of capital lease obligations at December 31, 2015 and December 31, 2016, respectively. The Company's capital lease obligations represent amounts due under leases for certain properties and computer software and equipment. The recorded gross cost of capital leased assets was $39.3 million and $41.7 million at December 31, 2015 and 2016, respectively.

6. Stockholders' Equity

Stock Compensation

At December 31, 2015 and 2016, the Company had equity-based employee incentive plans. Prior to May 18, 2011, the Company utilized the 2008 Management Incentive Plan (the "2008 MIP"), 2006 Management Incentive Plan (the "2006 MIP"), 2003 Management Incentive Plan (the "2003 MIP") and 2006 Directors' Equity Compensation Plan (collectively the "Preexisting Plans") for grants of stock options, restricted stock, restricted stock units, and stock appreciation rights, to provide incentives to officers, employees and non-employee directors.

On February 18, 2011, the board of directors of the Company approved the 2011 Management Incentive Plan ("2011 MIP"), and the 2011 MIP was approved by the Company's shareholders at the 2011 Annual Meeting of Shareholders on May 18, 2011. The 2011 MIP provides for the delivery of up to a number of shares equal to (i) 5,000,000 shares of common stock, plus (ii) the number of shares subject to outstanding awards under the Preexisting Plans which become available after shareholder approval of the 2011 MIP as a result of forfeitures, expirations, and in other permitted ways under the share recapture provisions of the 2011 MIP. Delivery of shares under "full-value" awards (awards other than options or stock appreciation rights) will be counted for each share delivered as 2.29 shares against the total number of shares reserved under the 2011 MIP. Upon shareholder approval of the 2011 MIP, no further awards were made under the Preexisting Plans, and any shares that remained available for new awards (i.e., were not committed for outstanding awards) under the Preexisting Plans were not carried forward to the 2011 MIP.

On February 25, 2016, the board of directors of the Company approved the 2016 Management Incentive Plan ("2016 MIP"), and the 2016 MIP was approved by the Company's shareholders at the 2016 Annual Meeting of Shareholders on May 18, 2016. The 2016 MIP provides for the delivery of up to a number of shares equal to (i) 4,000,000 shares of common stock, plus (ii) the number of shares subject to outstanding awards under the 2011 MIP and Preexisting Plans which become available after shareholder approval of the 2016 MIP as a result of forfeitures, expirations, and in other permitted ways under the share recapture provisions of the 2016 MIP. Delivery of shares under "full-value" awards (awards other than options or stock appreciation rights) will be counted for each share delivered as 1.60 shares against the total number of shares reserved under the 2016 MIP. The 2011 MIP remains in effect and new awards will continue to be granted from the 2011 MIP for participants that are not covered officers under Section 162(m) if the Internal Revenue Code until all shares are depleted.

The 2011 MIP and 2016 MIP provides for awards of stock options, restricted stock awards ("RSAs"), restricted stock units ("RSUs"), performance-based restricted stock units ("PSUs"), stock appreciation rights, cash-denominated awards and any combination of the foregoing. A restricted stock unit is a notional account representing the right to receive a share of the Company's Common Stock (or, at the Company's option, cash in lieu thereof) at some future date. In general, stock options vest ratably on each anniversary over the three years subsequent to grant, and have a ten year life. With the exception of the shares received by the principal owners of Partners Rx and CDMI, RSAs generally vest on the anniversary of the grant. In general, RSUs vest ratably on each anniversary over the three years subsequent to grant, assuming that the associated performance hurdle(s) for that vesting year are met. Stock compensation expense is

recognized using an accelerated method over the vesting period based upon the continued employment of the RSU holder and the probability of achievement of the performance hurdle(s). RSUs granted in 2013 and 2014 have performance thresholds based on EPS and return on equity ("ROE"). The PSUs vest over three years and are subject to market-based conditions. At December 31, 2016, 204,858 shares and 4,128,892 shares of the Company's common stock remain available for future grant under the Company's 2011 MIP and 2016 MIP, respectively.

On February 27, 2014 the board of directors of the Company approved the 2014 Employee Stock Purchase Plan ("2014 ESPP"), and the 2014 ESPP was approved by the Company's shareholders at the 2014 Annual Meeting of Shareholders on May 21, 2014. The 2014 ESPP provides for up to 200,000 shares of the Company's ordinary common stock, plus the number of shares remaining under the 2011 Employee Stock Purchase Plan, to be issued. During the years ended December 31, 2015 and 2016, 39,673 and 48,815 shares of the Company's common stock were issued under the employee stock purchase plans, respectively. At December 31, 2016, 128,613 shares of the Company's common stock remain available for future grant under the Company's 2014 ESPP.

Stock Options

Summarized information related to the Company's stock options for the years ended December 31, 2014, 2015 and 2016 is as follows:

	2014		2015	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	4,010,146	$ 47.23	3,321,063	$ 50.58
Granted	769,636	59.62	1,004,321	62.65
Forfeited	(267,028)	53.74	(244,658)	60.25
Exercised	(1,191,691)	44.45	(1,140,886)	47.41
Outstanding, end of period	3,321,063	50.58	2,939,840	55.13

	2016			
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding, beginning of period	2,939,840	$ 55.13		
Granted	501,960	64.10		
Forfeited	(104,680)	57.23		
Exercised	(493,943)	50.60		
Outstanding, end of period	2,843,177	$ 57.42	6.80	$ 50,684
Vested and expected to vest at end of period	2,821,794	$ 57.38	6.79	$ 50,417
Exercisable, end of period	1,612,850	$ 53.76	5.55	$ 34,658

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (based upon the difference between the Company's closing stock price on the last trading day of 2016 of $75.25 and the exercise price) for all in-the-money options as of December 31, 2016. This amount changes based on the fair market value of the Company's common stock.

The total pre-tax intrinsic value of options during the years ended December 31, 2014, 2015 and 2016 was $19.7 million, $21.8 million, and $9.3 million, respectively.

The weighted average grant date fair value per share of substantially all stock options granted during the years ended December 31, 2014, 2015 and 2016 was $13.49, $13.69 and $15.05, respectively, as estimated using the Black-Scholes-Merton option pricing model based on the following weighted average assumptions:

	2014	2015	2016
Risk-free interest rate	1.16 %	1.28 %	1.16 %
Expected life	4 years	4 years	4 years
Expected volatility	26.20 %	25.03 %	27.75 %
Expected dividend yield	0.00 %	0.00 %	0.00 %

For the years ended December 31, 2014, 2015 and 2016, expected volatility was based on the historical volatility of the Company's stock price.

As of December 31, 2016, there was $10.9 million of total unrecognized compensation expense related to nonvested stock options that is expected to be recognized over a weighted average remaining recognition period of 1.72 years. The total fair value of options vested during the year ended December 31, 2016 was $9.3 million.

In the years ended December 31, 2014 and 2015, $3.2 million and $4.1 million, respectively, of benefits of tax deductions in excess of recognized stock compensation expense were realized and as such were reported as financing cash flows. For the year ended December 31, 2015, the net change to additional paid-in capital related to tax benefits (deficiencies) was $3.5 million which primarily consists of the $4.1 million of excess tax benefits offset by $0.6 million of tax deficiencies. For the year ended December 31, 2014, the net change to additional paid-in capital related to tax benefits (deficiencies) was $3.0 million which primarily consists of the $3.2 million of excess tax benefits offset by $0.3 million of tax deficiencies. These tax benefits were reported as a financing cash flow, rather than as an operating cash flow.

In the year ended December 31, 2016, the net tax benefit from excess tax deductions was $0.8 million, which consists of $1.0 million of excess tax benefits offset by $0.2 million of tax deficiencies. Due to the adoption of ASU 2016-09 in 2016, this net tax benefit reduced income tax expense rather than being recorded as a change in additional paid-in-capital. Consistent with the adoption of this provision, the net tax benefit for the year ended December 31, 2016 is reported as an operating cash flow, rather than a financing cash flow.

Restricted Stock Awards

Summarized information related to the Company's nonvested RSAs for the years ended December 31, 2014, 2015 and 2016 is as follows:

	2014		2015		2016	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding, beginning of period	192,165	$ 56.59	1,626,827	$ 57.66	1,109,622	$ 57.88
Awarded (1)	1,451,231	57.75	20,115	67.12	77,744	65.52
Vested	(16,569)	52.82	(537,320)	57.56	(571,894)	58.03
Forfeited	—	—	—	—	—	—
Outstanding, ending of period	1,626,827	57.66	1,109,622	57.88	615,472	58.71

(1) December 31, 2014 includes 1,433,946 shares associated with the CDMI acquisition. December 31, 2016 includes 60,069 shares associated with the AFSC acquisition.

As of December 31, 2016, there was $18.1 million of unrecognized stock compensation expense related to nonvested restricted stock awards. This cost is expected to be recognized over a weighted-average period of 0.93 years.

Restricted Stock Units

Summarized information related to the Company's nonvested RSUs for the years ended December 31, 2014, 2015 and 2016 is as follows:

	2014		2015		2016	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding, beginning of period	194,913	$ 50.21	156,695	$ 54.88	231,088	$ 61.53
Awarded	76,306	60.39	187,272	63.42	51,521	64.87
Vested	(91,510)	49.53	(79,036)	52.82	(53,839)	63.32
Forfeited	(23,014)	54.86	(33,843)	61.54	(28,592)	63.34
Outstanding, ending of period	156,695	54.88	231,088	61.53	200,178	61.65

As of December 31, 2016, there was $5.8 million of unrecognized stock compensation expense related to nonvested restricted stock units. This cost is expected to be recognized over a weighted-average period of 1.52 years.

Performance-Based Restricted Stock Units

Summarized information related to the Company's nonvested PSUs for the years ended December 31, 2015 and 2016 is as follows:

	2015		2016	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding, beginning of period	—	$ —	36,938	$ 85.00
Awarded	43,900	85.00	69,691	97.22
Vested	—	—	—	—
Forfeited	(6,962)	85.00	(3,652)	91.89
Outstanding, end of period	36,938	85.00	102,977	93.03

The weighted average estimated fair value of the PSUs granted in year ended December 31, 2015 was $85.00, which was derived from a Monte Carlo simulation. Significant assumptions utilized in estimating the value of the awards granted include an expected dividend yield of 0%, a risk free rate of 1%, and expected volatility of 15% to 52% (average of 28%). The PSUs will entitle the grantee to receive a number of shares of the Company's Common Stock determined over a three-year performance period ending on December 31, 2017 and vesting on March 4, 2018, the settlement date, provided the grantee remains in the service of the Company on the settlement date. The Company expenses the cost of these awards ratably over the requisite service period. The number of shares for which the PSUs will be settled will be a percentage of shares for which the award is targeted and will depend on the Company's total shareholder return (as defined below), expressed as a percentile ranking of the Company's total shareholder return as compared to the Company's peer group (as defined below). The number of shares for which the PSUs will be settled vary from zero to 200 percent of the shares specified in the grant. Total shareholder return is determined by dividing the average share value of the Company's Common Stock over the 30 trading days preceding January 1, 2018 by the average share value of the Company's Common Stock over the 30 trading days beginning on January 1, 2015, with a deemed reinvestment of any dividends declared during the performance period. The Company's peer group includes 54 companies which comprise the S&P Health Care Services Industry Index, which was selected by the Compensation Committee of the Company's Board of Directors and includes a range of healthcare companies operating in several business segments.

The weighted average estimated fair value of the PSUs granted in the year ended December 31, 2016 was $97.22, which was derived from a Monte Carlo simulation. Significant assumptions utilized in estimating the value of the awards granted include an expected dividend yield of 0%, a risk free rate of 1%, and expected volatility of 16% to 81% (average of 32%). The PSUs granted in the year ended December 31, 2016, will entitle the grantee to receive a

number of shares of the Company's common stock determined over a three-year performance period ending on December 31, 2018 and vesting on March 3, 2019, the settlement date, provided the grantee remains in the service of the Company on the settlement date. The Company expenses the cost of these awards ratably over the requisite service period. The number of shares for which the PSUs will be settled will be a percentage of shares for which the award is targeted and will depend on the Company's total shareholder return (as defined below), expressed as a percentile ranking of the Company's total shareholder return as compared to the Company's peer group (as defined below). The number of shares for which the PSUs will be settled vary from zero to 200 percent of the shares specified in the grant. Total shareholder return is determined by dividing the average share value of the Company's common stock over the 30 trading days preceding January 1, 2019 by the average share value of the Company's common stock over the 30 trading days beginning on January 1, 2016, with a deemed reinvestment of any dividends declared during the performance period. The Company's peer group includes 56 companies which comprise the S&P Health Care Services Industry Index, which was selected by the compensation committee of the Company's board of directors and includes a range of healthcare companies operating in several business segments.

As of December 31, 2016, there was $6.1 million of unrecognized stock compensation expense related to nonvested PSUs. This cost is expected to be recognized over a weighted-average period of 1.97 years.

Income per Common Share Attributable to Magellan Health, Inc.

The following table reconciles income (numerator) and shares (denominator) used in the Company's computations of net income per share for the years ended December 31, 2014, 2015 and 2016 (in thousands, except per share data):

	2014	2015	2016
Numerator:			
Net income attributable to Magellan Health, Inc.	$ 79,404	$ 31,413	$ 77,879
Denominator:			
Weighted average number of common shares outstanding—basic	26,689	24,865	23,181
Common stock equivalents—stock options	495	316	289
Common stock equivalents—RSAs	155	626	593
Common stock equivalents—RSUs	14	33	45
Common stock equivalents—PSUs	—	35	45
Common stock equivalents—employee stock purchase plan	2	2	3
Weighted average number of common shares outstanding—diluted	27,355	25,877	24,156
Net income attributable to Magellan Health, Inc. per common share—basic	$ 2.98	$ 1.26	$ 3.36
Net income attributable to Magellan Health, Inc. per common share—diluted	$ 2.90	$ 1.21	$ 3.22

The weighted average number of common shares outstanding for the years ended December 31, 2014, 2015 and 2016 was calculated using outstanding shares of the Company's common stock. Common stock equivalents included in the calculation of diluted weighted average common shares outstanding for the years ended December 31, 2014, 2015 and 2016 represent stock options to purchase shares of the Company's common stock, restricted stock awards, restricted stock units and stock purchased under the ESPP.

For the years ended December 31, 2014, 2015 and 2016, the Company had additional potential dilutive securities outstanding representing 0.7 million, 1.3 million and 1.5 million options, respectively, that were not included in the computation of dilutive securities because they were anti-dilutive for such periods. Had these shares not been anti-dilutive, all of these shares would not have been included in the net income per common share calculation as the Company uses the treasury stock method of calculating diluted shares.

Stock Repurchases

The Company's board of directors has previously authorized a series of stock repurchase plans. Stock repurchases for each such plan could be executed through open market repurchases, privately negotiated transactions, accelerated share repurchases or other means. The board of directors authorized management to execute stock repurchase transactions from time to time and in such amounts and via such methods as management deemed appropriate. Each stock repurchase program could be limited or terminated at any time without prior notice.

On October 25, 2011, the Company's board of directors approved a new stock repurchase plan which authorized the Company to purchase up to $200 million of its outstanding common stock through October 25, 2013. On July 24, 2013 the Company's board of directors approved an increase and extension of the stock repurchase plan which authorized the Company to purchase up to $300 million of its outstanding stock through October 25, 2015. On November 21, 2014, the Company reached aggregate purchases of $300 million and the program was completed. Pursuant to this program, the Company made purchases as follows (aggregate cost excludes broker commissions and is reflected in millions):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Aggregate Cost
November 11, 2011 - December 31, 2011	671,776	$ 48.72	$ 32.7
January 1, 2012 - December 31, 2012	459,252	50.27	23.1
January 1, 2013 - December 31, 2013	1,159,871	51.83	60.1
January 1, 2014 - November 21, 2014	3,183,306	57.82	184.1
	5,474,205		$ 300.0

On October 22, 2014, the Company's board of directors approved a new stock repurchase plan which authorized the Company to purchase up to $200 million of its outstanding common stock through October 22, 2016. On October 21, 2015, the Company reached aggregate purchases of $200 million and the program was completed. Pursuant to this program, the Company made purchases as follows (aggregate cost excludes broker commissions and is reflected in millions):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Aggregate Cost
November 24, 2014 - December 31, 2014	232,170	$ 60.65	$ 14.1
January 1, 2015 - October 21, 2015	3,153,156	58.96	185.9
	3,385,326		$ 200.0

On October 26, 2015, the Company's board of directors approved a stock repurchase plan which authorized the Company to purchase up to $200 million of its outstanding common stock through October 26, 2017. Pursuant to this program, the Company made purchases as follows (aggregate cost excludes broker commissions and is reflected in millions):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Aggregate Cost
October 26, 2015 - December 31, 2015	345,044	$ 53.46	$ 18.4
January 1, 2016 - December 31, 2016	1,828,183	58.40	106.8
	2,173,227		$ 125.2

The Company made no share repurchases from January 1, 2017 through February 22, 2017.

Recent Sales of Unregistered Securities

On March 31, 2014, the Company and CDMI, LLC entered into a purchase agreement pursuant to which on April 30, 2014 the sellers and key management of CDMI purchased 1,433,946 shares of the Company's restricted stock for a total purchase price of $80.0 million. The aggregate number of shares issued was determined by dividing $80.0 million by the volume weighted average trading prices per share of Magellan's ordinary common stock on the NASDAQ as reported by Bloomberg US L.P. using its "Volume at Price" function over the five trading days ended on the trading day prior to the closing of the purchase agreement. The shares received by such sellers and key management of CDMI are subject to vesting over 42 months with 25% vesting after 18 months and 75% vesting after 42 months, conditioned on continued employment. The shares were issued to the sellers and key management of CDMI in a private placement pursuant to Section 4(a)(2) of the Securities Act.

On May 15, 2016, the Company and AFSC entered into a purchase agreement pursuant to which on July 1, 2016 the sellers and key management of AFSC purchased 60,069 shares of the Company's restricted stock for a total

purchase price of $4.0 million. The aggregate number of shares issued was determined by dividing $4.0 million by the average trading prices per share of Magellan's ordinary common stock on the NASDAQ over the five trading days ended on the trading day prior to the execution of the purchase agreement. The shares received by such sellers and key management of AFSC are subject to vesting over two years with 50% vesting on the first anniversary of the acquisition and 50% vesting on the second anniversary of the acquisition, conditioned on continued employment with the Company on the applicable vesting dates.. The shares were issued to the sellers and key management of AFSC in a private placement pursuant to Section 4(a)(2) of the Securities Act.

7. Income Taxes

Income Tax Expense

The components of income tax expense (benefit) for the following years ended December 31 were as follows (in thousands):

	2014	2015	2016
Income taxes currently payable:			
Federal	$ 42,674	$ 64,227	$ 59,343
State	5,306	5,181	5,675
	47,980	69,408	65,018
Deferred income taxes (benefits):			
Federal	(3,236)	(26,573)	3,830
State	(1,055)	(426)	880
	(4,291)	(26,999)	4,710
Total income tax expense	$ 43,689	$ 42,409	$ 69,728

Total income tax expense for the years ended December 31 was different from the amount computed using the statutory federal income tax rate of 35 percent for the following reasons (in thousands):

	2014	2015	2016
Income tax expense at federal statutory rate	$ 41,272	$ 24,891	$ 50,931
State income taxes, net of federal income tax benefit	2,738	2,158	5,799
Tax contingencies reversed due to statute closings	(17,318)	(2,223)	(1,632)
Change in valuation allowances	4,999	5,174	2,130
Non-deductible HIF fees	8,205	9,953	10,204
Other-net	3,793	2,456	2,296
Total income tax expense	$ 43,689	$ 42,409	$ 69,728

Deferred Income Taxes

The significant components of deferred tax assets and liabilities at December 31 were as follows (in thousands):

	2015	2016
Deferred tax assets:		
Net operating loss carryforwards	$ 20,686	$ 19,727
Share-based compensation	12,320	14,704
Other accrued compensation	7,745	9,313
Claims reserves	8,243	6,251
Deferred revenue	3,644	4,986
Other non-deductible accrued liabilities	10,536	3,460
Amortization of goodwill and intangible assets	17,394	444
Indirect tax benefits	3,909	4,396
Other deferred tax assets	1,041	3,858
Total deferred tax assets	85,518	67,139
Valuation allowances	(15,458)	(17,117)
Deferred tax assets after valuation allowances	70,060	50,022
Deferred tax liabilities:		
Depreciation	(39,843)	(41,311)
Other deferred tax liabilities	(3,381)	(5,586)
Total deferred tax liabilities	(43,224)	(46,897)
Net deferred tax assets (liabilities)	$ 26,836	$ 3,125

The Company has $1.8 million of federal net operating loss carryforwards ("NOLs") available to reduce its federal consolidated taxable income in 2017 and subsequent years. These NOLs will expire in 2018 and 2019 if not used and are subject to examination and adjustment by the IRS. AlphaCare has $41.0 million of federal NOLs available to reduce its consolidated taxable income in 2017 and subsequent years. These NOLs will expire in 2033 through 2036 if not used and are subject to examination and adjustment by the IRS. The Company and its subsidiaries also have $103.6 million of state NOLs available to reduce state taxable income at certain subsidiaries in 2016 and subsequent years. Most of these NOLs will expire in 2017 through 2035 if not used and are subject to examination and adjustment by the respective state tax authorities.

The Company's valuation allowances against deferred tax assets were $15.5 million and $17.1 million as of December 31, 2015 and 2016, respectively, mostly relating to uncertainties regarding the eventual realization of the AlphaCare federal NOLs and certain state NOLs. The $1.6 million increase in valuation allowance recorded to income tax expense in the current year mostly consists of an additional $3.3 million allowance for federal NOLs at AlphaCare, offset by a $1.8 million reversal for actual and projected utilization of state NOL carryovers due to improved operations. Reversals of valuation allowances are recorded in the period they occur, typically as reductions to income tax expense. Determination of the amount of deferred tax assets considered realizable requires significant judgment and estimation regarding the forecasts of future taxable income which are consistent with the plans and estimates the Company uses to manage the underlying businesses. Although consideration is also given to potential tax planning strategies which might be available to improve the realization of deferred tax assets, none were identified which were both prudent and reasonable. The Company believes taxable income expected to be generated in the future will be sufficient to support realization of the Company's deferred tax assets, as reduced by valuation allowances. This determination is based upon earnings history and future earnings expectations. Because AlphaCare has no earnings history due to the NOLs incurred to date, a full valuation allowance is recorded on such NOLs. Other than deferred tax benefits attributable to operating loss carryforwards, there are no time constraints within which the Company's deferred tax assets must be realized. Future changes in the estimated realizability of deferred tax assets could materially affect the Company's financial condition and results of operations.

Uncertain Tax Positions

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows (in thousands):

	2014	2015	2016
Balance as of beginning of period	$ 30,176	$ 13,528	$ 12,597
Additions for current year tax positions	2,734	3,371	3,274
Additions for tax positions of prior years	118	949	141
Reductions for tax positions of prior years	(35)	(1,807)	(173)
Reductions due to lapses of applicable statutes of limitations	(19,465)	(3,071)	(2,235)
Reductions due to settlements with taxing authorities	—	(373)	—
Balance as of end of period	$ 13,528	$ 12,597	$ 13,604

If these unrecognized tax benefits had been realized as of December 31, 2015 and 2016, $8.6 million and $9.1 million, respectively, would have reduced income tax expense.

The Company continually performs a comprehensive review of its tax positions and accrues amounts for tax contingencies related to uncertain tax positions. Based upon these reviews, the status of ongoing tax audits and the expiration of applicable statutes of limitations, accruals are adjusted as necessary. The tax benefit from an uncertain tax position is recognized when it is more likely than not that, based on the technical merits, the position will be sustained upon examination, including resolution of any related appeals or litigation processes.

The Company also adjusts these liabilities for unrecognized tax benefits when its judgment changes as a result of the evaluation of new information not previously available. However, the ultimate resolution of a disputed tax position following an examination by a taxing authority could result in a payment that is materially different from that accrued by the Company. These differences are reflected as increases or decreases to income tax expense in the period in which they are determined. However, reversals of unrecognized tax benefits related to deductions for stock compensation in excess of the related book are recorded as reductions to deferred tax assets, although prior to the adoption of ASU 2016-09 in 2016 were recorded as increases in additional paid-in capital.

The statutes of limitations regarding the assessment of federal and most state and local income taxes for 2012 expired during 2016. As a result, $2.2 million of tax contingency reserves recorded as of December 31, 2015 were reversed in 2016, of which $1.5 million was reflected as a reduction to income tax expense and $0.7 million as a decrease to deferred tax assets. Additionally, $0.1 million of accrued interest was reversed in 2016 and reflected as reductions to income tax expense due to the closing of statutes of limitations on tax assessments.

The statutes of limitations regarding the assessment of federal and most state and local income taxes for 2011 expired during 2015. As a result, $3.1 million of tax contingency reserves recorded as of December 31, 2014 were reversed in 2015, of which $2.0 million was reflected as a reduction to income tax expense, $1.0 million as a decrease to deferred tax assets, and the remainder as an increase to additional paid-in capital. Additionally, $0.4 million of accrued interest and $0.7 million of unrecognized state tax benefits were reversed in 2015 and reflected as reductions to income tax expense due to the closing of statutes of limitations on tax assessments and the favorable settlement of state income tax examinations.

The statutes of limitations regarding the assessment of federal and most state and local income taxes for 2010 expired during 2014. As a result, $19.5 million of tax contingency reserves recorded as of December 31, 2013 were reversed in 2014, of which $16.0 million was reflected as a reduction to income tax expense, $2.6 million as an increase to additional paid-in capital, and the remainder as a decrease to deferred tax assets. Additionally, $1.4 million of accrued interest was reversed in 2014 and reflected as a reduction to income tax expense due to the closing of statutes of limitations on tax assessments.

With few exceptions, the Company is no longer subject to income tax assessments by tax authorities for years ended prior to 2013. Further, it is reasonably possible the statutes of limitations regarding the assessment of federal and most state and local income taxes for 2013 could expire during 2017. Up to $2.6 million of unrecognized tax benefits recorded as of December 31, 2016 could be reversed during 2017 as a result of statute expirations, of which $1.8 million

would be reflected as a reduction to income tax expense and $0.8 million as a decrease to deferred tax assets. All reversals from statute expirations would be reflected as discrete adjustments during the quarter in which the respective event occurs. As of December 31, 2015 and 2016, the Company had accrued approximately $0.2 million and $0.3 million, respectively, for the potential payment of interest and penalties. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. During the years ended December 31, 2014, 2015 and 2016, the Company recorded approximately $(0.8) million, $(0.4) million and $0.1 million in interest and penalties.

8. Supplemental Cash Flow Information

Supplemental cash flow information for the years ended December 31, 2014, 2015 and 2016 is as follows (in thousands):

	2014	2015	2016
Income taxes paid, net of refunds	$ 57,728	$ 63,899	$ 54,442
Interest paid	$ 3,389	$ 6,181	$ 9,378
Assets acquired through capital leases	$ 2,810	$ 4,212	$ 4,491

9. Commitments and Contingencies

Insurance

The Company maintains a program of insurance coverage for a broad range of risks in its business. The Company has renewed its general, professional and managed care liability insurance policies with unaffiliated insurers for a one-year period from June 17, 2016 to June 17, 2017. The general liability policy is written on an "occurrence" basis, subject to a $0.05 million per claim un-aggregated self-insured retention. The professional liability and managed care errors and omissions liability policies are written on a "claims-made" basis, subject to a $1.0 million per claim ($10.0 million per class action claim) un-aggregated self-insured retention for managed care errors and omissions liability, and a $0.05 million per claim un-aggregated self-insured retention for professional liability.

The Company maintains a separate general and professional liability insurance policy with an unaffiliated insurer for its specialty pharmaceutical dispensing operations. The specialty pharmaceutical dispensing operations insurance policy has a one-year term for the period June 17, 2016 to June 17, 2017. The general liability policy is written on an "occurrence" basis and the professional liability policy is written on a "claims-made" basis, subject to a $0.05 million per claim and $0.25 million aggregated self-insured retention.

The Company is responsible for claims within its self-insured retentions, and for portions of claims reported after the expiration date of the policies if they are not renewed, or if policy limits are exceeded. The Company also purchases excess liability coverage in an amount that management believes to be reasonable for the size and profile of the organization.

Regulatory Issues

The managed healthcare industry is subject to numerous laws and regulations. The subjects of such laws and regulations cover, but are not limited to, matters such as licensure, accreditation, government healthcare program participation requirements, information privacy and security, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Over the past several years, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse and false claims statutes and/or regulations by healthcare organizations and insurers. Entities that are found to have violated these laws and regulations may be excluded from participating in government healthcare programs, subjected to fines or penalties or required to repay amounts received from the government for previously billed patient services. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

In addition, regulators of certain of the Company's subsidiaries may exercise certain discretionary rights under regulations including increasing their supervision of such entities, requiring additional restricted cash or other security or seizing or otherwise taking control of the assets and operations of such subsidiaries.

Legal

The Company's operating activities entail significant risks of liability. From time to time, the Company is subject to various actions and claims arising from the acts or omissions of its employees, network providers or other parties. In the normal course of business, the Company receives reports relating to deaths and other serious incidents involving patients whose care is being managed by the Company. Such incidents occasionally give rise to malpractice, professional negligence and other related actions and claims against the Company or its network providers. Many of these actions and claims received by the Company seek substantial damages and therefore require the Company to incur significant fees and costs related to their defense.

The Company is also subject to or party to certain class actions and other litigation and claims relating to its operations or business practices. In the opinion of management, the Company has recorded reserves that are adequate to cover litigation, claims or assessments that have been or may be asserted against the Company, and for which the outcome is probable and reasonably estimable. Management believes that the resolution of such litigation and claims will not have a material adverse effect on the Company's financial condition or results of operations; however, there can be no assurance in this regard.

Operating Leases

The Company leases certain of its operating facilities and equipment. The leases, which expire at various dates through January 2025, generally require the Company to pay all maintenance, property tax and insurance costs.

At December 31, 2016, aggregate amounts of future minimum payments under operating leases were as follows: 2017—$17.1 million; 2018—$13.2 million; 2019—$12.3 million; 2020—$5.6 million; 2021—$4.1 million; 2022 and beyond—$3.1 million. Operating lease obligations include estimated future lease payments for both open and closed offices.

At December 31, 2016, aggregate amounts of future minimum rentals to be received under operating subleases were as follows: 2017—$0.2 million; 2018—$0.1 million; and 2019—$0.2 million. Operating sublease rentals to be received relate to a portion of the Company's former headquarters.

Rent expense is recognized on a straight-line basis over the terms of the leases. Rent expense was $17.4 million, $15.2 million and $16.2 million for the years ended December 31, 2014, 2015 and 2016, respectively.

Capital Leases

At December 31, 2016, aggregate future amounts of minimum payments under capital leases, net of leasehold improvement allowances, were as follows: 2017—$5.5 million; 2018—$3.8 million; 2019—$2.9 million; 2020—$3.5 million; 2021—$3.6 million; 2022 and beyond—$11.3 million. Included in the future amounts payable under capital lease commitments is imputed interest of $4.6 million.

10. Business Segment Information

The accounting policies of the Company's segments are the same as those described in Note 1—"General." The Company evaluates performance of its segments based on profit or loss from operations before stock compensation expense, depreciation and amortization, interest expense, interest and other income, changes in the fair value of contingent consideration recorded in relation to acquisitions, gain on sale of assets, special charges or benefits, and income taxes ("Segment Profit"). Management uses Segment Profit information for internal reporting and control purposes and considers it important in making decisions regarding the allocation of capital and other resources, risk assessment and employee compensation, among other matters. Healthcare subcontracts with Pharmacy Management to provide pharmacy benefits management services for certain of Healthcare's customers. In addition, Pharmacy Management provides pharmacy benefits management for the Company's employees covered under its medical plan. As such, revenue, cost of goods sold and direct service costs and other related to these arrangements are eliminated. The Company's segments are defined above.

The following tables summarize, for the periods indicated, operating results by business segment (in thousands):

	Healthcare	Pharmacy Management	Corporate and Elimination	Consolidated
Year Ended December 31, 2014				
Managed care and other revenue	$ 2,780,905	$ 205,524	$ (18,055)	$ 2,968,374
PBM and dispensing revenue	—	844,512	(52,768)	791,744
Cost of care	(2,090,352)	(16,298)	18,055	(2,088,595)
Cost of goods sold	—	(784,758)	51,809	(732,949)
Direct service costs and other (4)	(485,388)	(200,198)	(37,912)	(723,498)
Stock compensation expense (1)	6,654	29,767	4,163	40,584
Changes in fair value of contingent consideration (1)	38	6,134	—	6,172
Less: non-controlling interest segment profit (loss) (2)	(5,087)	—	—	(5,087)
Segment profit (loss)	$ 216,944	$ 84,683	$ (34,708)	$ 266,919
Identifiable assets by business segment (3)				
Restricted cash	$ 213,681	$ —	$ 1,644	$ 215,325
Net accounts receivable	170,488	180,535	2,690	353,713
Investments	142,957	—	124,697	267,654
Pharmaceutical inventory	—	39,375	—	39,375
Goodwill	254,470	311,636	—	566,106
Other intangible assets, net	10,840	122,878	—	133,718

	Healthcare	Pharmacy Management	Corporate and Elimination	Consolidated
Year Ended December 31, 2015				
Managed care and other revenue	$ 2,959,252	$ 238,456	$ (63)	$ 3,197,645
PBM and dispensing revenue	—	1,510,180	(110,425)	1,399,755
Cost of care	(2,274,755)	—	—	(2,274,755)
Cost of goods sold	—	(1,427,680)	105,803	(1,321,877)
Direct service costs and other (4)	(510,811)	(284,968)	(26,613)	(822,392)
Stock compensation expense (1) (4)	8,502	36,351	5,531	50,384
Changes in fair value of contingent consideration (1)	(1,404)	45,661	—	44,257
Less: non-controlling interest segment profit (loss) (2)	(2,439)	—	(195)	(2,634)
Segment profit (loss)	$ 183,223	$ 118,000	$ (25,572)	$ 275,651
Identifiable assets by business segment (3)				
Restricted cash	$ 133,597	$ —	$ —	$ 133,597
Net accounts receivable	153,036	270,975	4,633	428,644
Investments	313,045	—	13,120	326,165
Pharmaceutical inventory	—	50,749	—	50,749
Goodwill	260,618	360,772	—	621,390
Other intangible assets, net	12,227	121,147	—	133,374

	Healthcare	Pharmacy Management	Corporate and Elimination	Consolidated
Year Ended December 31, 2016				
Managed care and other revenue	$ 2,659,685	$ 243,561	$ (304)	$ 2,902,942
PBM and dispensing revenue	—	2,053,188	(119,246)	1,933,942
Cost of care	(1,882,614)	—	—	(1,882,614)
Cost of goods sold	—	(1,933,086)	114,366	(1,818,720)
Direct service costs and other (4)	(573,706)	(261,570)	(41,336)	(876,612)
Stock compensation expense (1) (4)	4,440	20,509	12,473	37,422
Changes in fair value of contingent consideration (1)	(231)	127	—	(104)
Impairment of intangible assets (1)	4,800	—	—	4,800
Less: non-controlling interest segment profit (loss) (2)	(567)	—	(170)	(737)
Segment profit (loss)	$ 212,941	$ 122,729	$ (33,877)	$ 301,793
Identifiable assets by business segment (3)				
Restricted cash	$ 81,608	$ 1	$ 167	$ 81,776
Net accounts receivable	191,058	405,611	10,095	606,764
Investments	293,034	10,703	1,516	305,253
Pharmaceutical inventory	—	58,995	—	58,995
Goodwill	350,576	391,478	—	742,054
Other intangible assets, net	55,756	130,476	—	186,232

(1) Stock compensation expense, changes in the fair value of contingent consideration recorded in relation to the acquisitions and impairment of intangible assets are included in direct service costs and other operating expenses; however, these amounts are excluded from the computation of Segment Profit.

(2) The non-controlling interest portion of AlphaCare's segment profit (loss) is excluded from the computation of Segment Profit.

(3) Identifiable assets by business segment are those assets that are used in the operations of each segment. The remainder of the Company's assets cannot be specifically identified by segment.

(4) Effective January 1, 2016, the Company implemented changes related to the allocation of Corporate operational and support functions. These changes were applied retrospectively. The following tables summarize, for the periods indicated, the changes by business segment (in thousands):

	Healthcare	Pharmacy Management	Corporate and Elimination	Consolidated
Year Ended December 31, 2014				
Segment profit (loss) before Corporate allocations	$ 278,485	$ 101,110	$ (112,676)	$ 266,919
Allocated Corporate costs	(65,296)	(17,365)	82,661	—
Allocated Corporate stock compensation expense	3,755	938	(4,693)	—
Segment profit (loss)	$ 216,944	$ 84,683	$ (34,708)	$ 266,919

	Healthcare	Pharmacy Management	Corporate and Elimination	Consolidated
Year Ended December 31, 2015				
Segment profit (loss) before Corporate allocations	$ 250,069	$ 135,820	$ (110,238)	$ 275,651
Allocated Corporate costs	(72,792)	(19,307)	92,099	—
Allocated Corporate stock compensation expense	5,946	1,487	(7,433)	—
Segment profit (loss)	$ 183,223	$ 118,000	$ (25,572)	$ 275,651

	Healthcare	Pharmacy Management	Corporate and Elimination	Consolidated
Year Ended December 31, 2016				
Segment profit (loss) before Corporate allocations	$ 282,421	$ 140,625	$ (121,253)	$ 301,793
Allocated Corporate costs	(74,498)	(19,150)	93,648	—
Allocated Corporate stock compensation expense	5,018	1,254	(6,272)	—
Segment profit (loss)	$ 212,941	$ 122,729	$ (33,877)	$ 301,793

The following table reconciles consolidated income before income taxes to Segment Profit for the years ended December 31, 2014, 2015 and 2016 (in thousands):

	2014	2015	2016
Income before income taxes	$ 117,920	$ 71,116	$ 145,517
Stock compensation expense	40,584	50,384	37,422
Changes in fair value of contingent consideration	6,172	44,257	(104)
Impairment of intangible assets	—	—	4,800
Non-controlling interest segment profit (loss)	5,087	2,634	737
Depreciation and amortization	91,070	102,844	106,046
Interest expense	7,387	6,581	10,193
Interest and other income	(1,301)	(2,165)	(2,818)
Segment Profit	$ 266,919	$ 275,651	$ 301,793

11. Selected Quarterly Financial Data (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2015 and 2016 (in thousands, except per share amounts):

	For the Quarter Ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Year Ended December 31, 2015				
Net revenue:				
Managed care and other	$ 748,650	$ 776,240	$ 809,249	$ 863,506
PBM and dispensing	232,318	381,367	380,833	405,237
Total net revenue	980,968	1,157,607	1,190,082	1,268,743
Costs and expenses:				
Cost of care	522,328	568,288	596,323	587,816
Cost of goods sold	218,207	361,409	360,444	381,817
Direct service costs and other operating expenses (1) (2)	204,450	191,455	220,586	205,901
Depreciation and amortization	23,496	25,022	26,721	27,605
Interest expense	1,626	1,653	1,654	1,648
Interest and other income	(466)	(500)	(631)	(568)
Total costs and expenses	969,641	1,147,327	1,205,097	1,204,219
Income (loss) before income taxes	11,327	10,280	(15,015)	64,524
Provision (benefit) for income taxes	4,133	5,987	(7,254)	39,543
Net income (loss)	7,194	4,293	(7,761)	24,981
Less: net income (loss) attributable to non-controlling interest	(94)	(350)	47	(2,309)
Net income (loss) attributable to Magellan Health, Inc.	$ 7,288	$ 4,643	$ (7,808)	$ 27,290
Weighted average number of common shares outstanding—basic	25,319	25,684	24,892	23,582
Weighted average number of common shares outstanding—diluted	26,399	26,776	24,892	24,402
Net income (loss) per common share attributable to Magellan Health, Inc.:				
Net income (loss) per common share—basic:	$ 0.29	$ 0.18	$ (0.31)	$ 1.16
Net income (loss) per common share—diluted:	$ 0.28	$ 0.17	$ (0.31)	$ 1.12

	For the Quarter Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
Year Ended December 31, 2016				
Net revenue:				
Managed care and other	$ 676,461	$ 699,861	$ 751,589	$ 775,031
PBM and dispensing	440,561	464,484	540,543	488,354
Total net revenue	1,117,022	1,164,345	1,292,132	1,263,385
Costs and expenses:				
Cost of care	457,631	472,529	480,243	472,211
Cost of goods sold	415,459	436,930	509,673	456,658
Direct service costs and other operating expenses (3) (4) (5)	192,456	214,077	229,094	240,985
Depreciation and amortization	25,007	25,580	26,885	28,574
Interest expense	1,748	1,994	3,038	3,413
Interest and other income	(683)	(692)	(741)	(702)
Total costs and expenses	1,091,618	1,150,418	1,248,192	1,201,139
Income before income taxes	25,404	13,927	43,940	62,246
Provision for income taxes	12,013	12,615	18,631	26,469
Net income	13,391	1,312	25,309	35,777
Less: net income attributable to non-controlling interest	154	(2,646)	(200)	602
Net income attributable to Magellan Health, Inc.	$ 13,237	$ 3,958	$ 25,509	$ 35,175
Weighted average number of common shares outstanding—basic	23,631	23,516	23,052	22,556
Weighted average number of common shares outstanding—diluted (6)	24,511	24,643	24,009	23,493
Net income per common share attributable to Magellan Health, Inc.:				
Net income per common share—basic:	$ 0.56	$ 0.17	$ 1.11	$ 1.56
Net income per common share—diluted:	$ 0.54	$ 0.16	$ 1.06	$ 1.50

(1) Includes stock compensation expense of $13,901, $13,795, $12,897 and $9,791 for the quarters ended March 31, June 30, September 30 and December 31, 2015, respectively.

(2) Includes changes in fair value of contingent consideration of $14,969, $2,567, $29,738 and $(3,017) for the quarters ended March 31, June 30, September 30 and December 31, 2015, respectively.

(3) Includes stock compensation expense of $8,887, $9,510, $9,176 and $9,849 for the quarters ended March 31, June 30, September 30 and December 31, 2016, respectively.

(4) Includes changes in fair value of contingent consideration of $(266), $463, $313 and $(614) for the quarters ended March 31, June 30, September 30 and December 31, 2016, respectively.

(5) Includes impairment of intangible assets of $4,800 for the quarter ended June 30, 2016.

(6) During the quarter ended December 31, 2016 the Company early adopted ASU 2016-09. As a result, the diluted weighted average shares outstanding as of March 31, June 30 and September 30, 2016 have been adjusted. There was no impact to the net income per common share – diluted.

12. Subsequent Events

2017 Credit Facility

On January 10, 2017, the Company entered into a Credit Agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citigroup Global Markets Inc., Compass Bank (d/b/a BBVA Compass), JPMorgan Chase Bank, N.A., Suntrust Robinson Humphrey, Inc. and Wells Fargo Securities, LLC as joint lead arrangers and joint bookrunners, that provides for a $200.0 million delayed draw term loan to Magellan Pharmacy Services, Inc., a wholly-owned subsidiary of the Company, as the borrower (the "2017 Credit Facility").

The 2017 Credit Facility is guaranteed by substantially all of the non-regulated subsidiaries of the Company and will mature on December 29, 2017. The proceeds of the 2017 Credit Facility will be used for working capital and general corporate purposes, including the funding of acquisitions not prohibited thereunder.

Under the 2017 Credit Facility, the annual interest rate on the term loan borrowing is equal to (i) in the case of base rate loans, the sum of an initial borrowing margin of 0.625 percent plus the higher of the prime rate, one-half of one percent in excess of the overnight "federal funds" rate, or the Eurodollar rate for one month plus 1.00 percent, or (ii) in the case of Eurodollar rate loans, the sum of an initial borrowing margin of 1.625 percent plus the Eurodollar rate for the selected interest period. The borrowing margin is subject to adjustment based on the leverage ratio of the Company. The Company, through Magellan Pharmacy Services, Inc., has the option to borrow in base rate loans or Eurodollar rate loans at its discretion. The commitment commission on the 2017 Credit Facility is 0.25 percent of the unused commitment, which rate shall be adjusted from time to time based on the Company's total leverage ratio.

The 2017 Credit Facility contains certain affirmative and negative covenants and certain events of default customary for facilities of this type and substantially identical to those applicable to the 2016 Credit Facility.

On January 10, 2017, the Company completed a $100.0 million draw of its available $200.0 million delayed draw term loan under the 2017 Credit Facility. Subsequent to December 31, 2016, the revolver borrowings under the 2014 Credit Facility have been settled. As of February 22, 2017, the Company had borrowing capacity of $222.3 million and $100.0 million under its 2014 Credit Facility and 2017 Credit Facility, respectively.

Granite Alliance Insurance Company Acquisition

Pursuant to the November 19, 2016 purchase agreement with Veridicus Health and Granite Alliance Insurance Company ("Granite") (the "Granite Agreement"), on February 7, 2017 the Company acquired all of the issued and outstanding stock of Granite. Granite is a fully licensed insurance company which is contracted with CMS and serves members enrolled in the Medicare Part D Employer Group Waiver Plan ("EGWP") program. As consideration for this transaction, the Company paid a base price of $2.0 million, subject to working capital adjustments.

MAGELLAN HEALTH, INC.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

Classification	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Addition	Deduction	Balance at End of Period
Year Ended December 31, 2014						
Allowance for doubtful accounts	$ 5,447	$ 764 (1)	$ (1,934)(2)	$ 107 (3)	$ (337)(4)	$ 4,047
Year Ended December 31, 2015						
Allowance for doubtful accounts	4,047	(150)(1)	(11)(2)	—	(640)(4)	3,246
Year Ended December 31, 2016						
Allowance for doubtful accounts	3,246	2,498 (1)	(67)(2)	—	(33)(4)	5,644

(1) Bad debt expense.

(2) Recoveries of accounts receivable previously written off.

(3) To establish a reserve on pre-acquisition balances.

(4) Accounts written off.

Exhibit 4.5

EXECUTION VERSION

$200,000,000
CREDIT AGREEMENT

among

MAGELLAN PHARMACY SERVICES, INC.,
as Borrower,

MAGELLAN HEALTH, INC.,
VARIOUS LENDERS

and

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
as Administrative Agent

Dated as of January 10, 2017

CITIBANK, N.A.,
COMPASS BANK (d/b/a BBVA COMPASS),
JPMORGAN CHASE BANK, N.A.,
SUNTRUST BANK and
WELLS FARGO SECURITIES, LLC,
as Co-Syndication Agents,

and

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
CITIGROUP GLOBAL MARKETS INC.,
COMPASS BANK (d/b/a BBVA COMPASS),
JPMORGAN CHASE BANK, N.A.,
SUNTRUST ROBINSON HUMPHREY, INC. and
WELLS FARGO SECURITIES, LLC,
as Joint Lead Arrangers and Joint Bookrunners

TABLE OF CONTENTS

SCHEDULES

EXHIBITS

CREDIT AGREEMENT, dated as of January 10, 2017, among MAGELLAN PHARMACY SERVICES, INC., a Delaware corporation (the "Borrower"), MAGELLAN HEALTH, INC., a Delaware corporation ("Magellan"), the Lenders party hereto from time to time, and THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., as administrative agent (in such capacity, the "Administrative Agent"). All capitalized terms used herein and defined in Section 11 are used herein as therein defined.

W I T N E S S E T H:

WHEREAS, the Borrower has requested that the Lenders provide Commitments hereunder in an aggregate principal amount of $200,000,000; and

WHEREAS, subject to and upon the terms and conditions set forth herein, the Lenders are willing to make available to the Borrower the credit facility provided for herein;

NOW, THEREFORE, IT IS AGREED:

Section 1. Amount and Terms of Credit.

1.01 The Commitments. Subject to and upon the terms and conditions set forth herein, each Lender severally agrees to make, on up to four occasions during the Availability Period, a term loan to the Borrower (each a "Loan" and, collectively, the "Loans") in an aggregate principal amount not to exceed such Lender's respective Commitment, which Loans (i) shall be denominated in Dollars and (ii) shall, at the option of the Borrower, be incurred and maintained as, and/or converted into, Base Rate Loans or Eurodollar Loans; provided, that (x) all Loans comprising the same Borrowing shall at all times be of the same Type (it being understood that multiple simultaneous Term Borrowings may be made on the same date) and (y) all such Loans shall constitute a single class of Loans hereunder, regardless of the date on which such Loans are borrowed. Amounts repaid or prepaid in respect of Loans may not be reborrowed.

1.02 Minimum Amount of Each Borrowing. The aggregate principal amount of each Borrowing (other than any continuation or conversion of Loans) shall not be less than $25,000,000. More than one Borrowing may occur on the same date, but at no time shall there be outstanding more than ten Borrowings of Eurodollar Loans in the aggregate.

1.03 Notice of Borrowing. (a) Whenever the Borrower desires to incur (x) Eurodollar Loans hereunder, the Borrower shall give the Administrative Agent at the Notice Office at least three Business Days' prior notice of each Eurodollar Loan to be incurred hereunder and (y) Base Rate Loans hereunder, the Borrower shall give the Administrative Agent at the Notice Office at least one Business Day's prior notice of each Base Rate Loan to be incurred hereunder; provided, that (in each case) any such notice shall be deemed to have been given on a certain day only if given before 11:00 A.M. (New York time) on such day. Each such notice (each a " Notice of Borrowing"), except as otherwise expressly provided in Section 1.10, shall be irrevocable and shall be in writing, or by telephone promptly confirmed in writing, in the form of Exhibit A-1, appropriately completed to specify: (i) the aggregate principal amount of the Loans to be incurred pursuant to such Borrowing, (ii) the date of such Borrowing (which shall be a Business Day), and (iii) whether the Loans being incurred pursuant to such Borrowing are to be initially maintained as Base Rate Loans or, to the extent permitted hereunder, Eurodollar Loans and, if Eurodollar Loans, the initial Interest Period to be applicable thereto. The Administrative Agent shall promptly give each Lender notice of such proposed Borrowing, of such Lender's proportionate share thereof and of the other matters required by the immediately preceding sentence to be specified in the Notice of Borrowing.

(b) Without in any way limiting the obligation of the Borrower to confirm in writing any telephonic notice of any Borrowing or prepayment of Loans, the Administrative Agent may act without liability upon the basis of telephonic notice of such Borrowing or prepayment, as the case may be, believed by the Administrative Agent, as the case may be, in good faith to be from an Authorized Officer of the Borrower, prior to receipt of written confirmation. In each such case, the Borrower hereby waives the right to dispute the Administrative Agent's record of the terms of such telephonic notice of such Borrowing or prepayment of Loans, as the case may be, absent manifest error.

1.04 Disbursement of Funds. No later than 1:00 P.M. (New York time) on the date specified in each Notice of Borrowing, each applicable Lender will make available its pro rata portion (determined in accordance with Section 1.07) of each such Borrowing requested to be made on such date. All such amounts will be made available in Dollars and in immediately available funds at the Payment Office, and the Administrative Agent will make available to the Borrower at the Payment Office the aggregate of the amounts so made available by the applicable Lenders. Unless the Administrative Agent shall have been notified by any Lender prior to the date of Borrowing that such Lender does not intend to make available to the Administrative Agent such Lender's portion of any Borrowing to be made on such date, the Administrative Agent may assume that such Lender has made such amount available to the Administrative Agent on such date of Borrowing and the Administrative Agent may (but shall not be obligated to), in reliance upon such assumption, make available to the Borrower a corresponding amount. If such corresponding amount is not in fact made available to the Administrative Agent by such Lender, the Administrative Agent shall be entitled to recover such corresponding amount on demand from such Lender. If such Lender does not pay such corresponding amount forthwith upon the Administrative Agent's demand therefor, the Administrative Agent shall promptly notify the Borrower and the Borrower shall promptly (but in any event within one Business Day thereafter) pay such corresponding amount to the Administrative Agent. The Administrative Agent also shall be entitled to recover on demand from such Lender or the Borrower, as the case may be, interest on such corresponding amount in respect of each day from the date such corresponding amount was made available by the Administrative Agent to the Borrower until the date such corresponding amount is recovered by the Administrative Agent, at a rate per annum equal to (i) if recovered from such Lender, the overnight Federal Funds Rate for the first three days and at the interest rate otherwise applicable to such Loans for each day thereafter, and (ii) if recovered from the Borrower, the rate of interest applicable to the respective Borrowing, as determined pursuant to Section 1.08. Nothing in this Section 1.04 shall be deemed to relieve any Lender from its obligation to make Loans hereunder or to prejudice any rights which the Borrower may have against any Lender as a result of any failure by such Lender to make Loans hereunder.

1.05 Notes. (a) The Borrower's obligation to pay the principal of, and interest on, the Loans made by each Lender shall be evidenced in the Register maintained by the Administrative Agent pursuant to Section 13.15 and shall, if requested by such Lender, also be evidenced by a promissory note duly executed and delivered by the Borrower substantially in the form of Exhibit B, with blanks appropriately completed in conformity herewith (each a "Note" and, collectively, the "Notes"). Each Note issued to each Lender shall (i) be executed by the Borrower, (ii) be payable to such Lender or its registered assigns and be dated the Effective Date (or, if issued after the Effective Date, be dated the date of the issuance thereof), (iii) be in a stated principal amount equal to the Loans funded by such Lender and be payable in the outstanding principal amount of the Loans evidenced thereby from time to time, (iv) mature on the Maturity Date, (v) bear interest as provided in the appropriate clause of Section 1.08 in respect of the Base Rate Loans and Eurodollar Loans, as the case may be, evidenced thereby, (vi) be subject to voluntary prepayment as provided in Section 4.01 and (vii) be entitled to the benefits of this Agreement and the other Credit Documents.

(b) Each Lender will note on its internal records the amount of each Loan made by it and each payment in respect thereof and prior to any transfer of any of its Notes will endorse on the

reverse side thereof the outstanding principal amount of Loans evidenced thereby. Failure to make any such notation or any error in such notation shall not affect the Borrower's obligations in respect of such Loans.

(c) Notwithstanding anything to the contrary contained above in this Section 1.05 or elsewhere in this Agreement, Notes shall only be delivered to Lenders which at any time specifically request the delivery of such Notes. No failure of any Lender to request or obtain a Note evidencing its Loans to the Borrower shall affect or in any manner impair the obligations of the Borrower to pay the Loans (and all related Obligations) incurred by the Borrower which would otherwise be evidenced thereby in accordance with the requirements of this Agreement, and shall not in any way affect the guaranties therefor provided pursuant to the various Credit Documents. Any Lender which does not have a Note evidencing its outstanding Loans shall in no event be required to make the notations otherwise described in preceding clause (b). At any time when any Lender requests the delivery of a Note to evidence any of its Loans, the Borrower shall promptly execute and deliver to the respective Lender, at the Borrower's expense, the requested Note in the appropriate amount or amounts to evidence such Loans.

1.06 Conversions. The Borrower shall have the option to convert, on any Business Day, all or a portion equal to at least $1,000,000 of the outstanding principal amount of Loans made pursuant to one or more Borrowings of one Type into a Borrowing of another Type of Loans; provided, that (i) except as otherwise provided in Section 1.10(b), Eurodollar Loans may be converted into Base Rate Loans only on the last day of an Interest Period applicable to the Loans being converted and no such partial conversion of Eurodollar Loans shall reduce the outstanding principal amount of such Eurodollar Loans made pursuant to a single Borrowing to less than $1,000,000, (ii) Base Rate Loans may not be converted into Eurodollar Loans if (x) a Default or an Event of Default under Section 10.05 is in existence on the date of the conversion or (y) any other Default or Event of Default is in existence on the date of the conversion and the Administrative Agent has received instructions from the Required Lenders to that effect, and (iii) no conversion pursuant to this Section 1.06 shall result in a greater number of Borrowings of Eurodollar Loans than is permitted under Section 1.02. Each such conversion shall be effected by the Borrower by giving the Administrative Agent at the Notice Office prior to 11:00 A.M. (New York time) at least three Business Days prior notice (each a "Notice of Conversion/Continuation") in the form of Exhibit A-2, appropriately completed to specify (A) the Loans to be so converted, (B) the Borrowing or Borrowings pursuant to which such Loans were incurred and, (C) in the case of a conversion into Eurodollar Loans, the Interest Period to be initially applicable thereto. The Administrative Agent shall give each Lender prompt notice of any such proposed conversion affecting any of its Loans. Upon any such conversion the proceeds thereof will be deemed to be applied directly on the day of such conversion to prepay the outstanding principal amount of the Loans being converted.

1.07 Pro Rata Borrowings. All Borrowings under this Agreement shall be incurred from the Lenders pro rata on the basis of their respective Commitments. It is understood that no Lender shall be responsible for any default by any other Lender of its obligation to make Loans hereunder and that each Lender shall be obligated to make the Loans provided to be made by it hereunder, regardless of the failure of any other Lender to make its Loans hereunder.

1.08 Interest. (a) The Borrower agrees to pay interest in respect of the unpaid principal amount of each Base Rate Loan from the date of Borrowing thereof until the earlier of (i) the maturity thereof (whether by acceleration or otherwise) and (ii) the conversion of such Base Rate Loan to a Eurodollar Loan pursuant to Section 1.06 or 1.09, as applicable, at a rate per annum which shall be equal to the sum of the Applicable Margin as in effect from time to time plus the Base Rate as in effect from time to time.

(b) The Borrower agrees to pay interest in respect of the unpaid principal amount of each Eurodollar Loan from the date of Borrowing thereof until the earlier of (i) the maturity thereof (whether by acceleration or otherwise) and (ii) the conversion of such Eurodollar Loan to a Base Rate Loan pursuant to Section 1.06, 1.09 or 1.10, as applicable, at a rate per annum which shall, during each Interest Period applicable thereto, be equal to the sum of the Applicable Margin as in effect from time to time during such Interest Period plus the Eurodollar Rate for such Interest Period.

(c) During the continuance of a Specified Default, principal and, to the extent permitted by law, overdue interest in respect of each Loan shall, in each case, bear interest at a rate per annum equal to the greater of (x) the rate which is 2% in excess of the rate then borne by such Loans and (y) the rate which is 2% in excess of the rate otherwise applicable to Base Rate Loans from time to time. Interest that accrues under this Section 1.08(c) shall be payable on demand.

(d) Accrued (and theretofore unpaid) interest shall be payable (i) in respect of each Base Rate Loan, (x) quarterly in arrears on each Quarterly Payment Date, (y) on the date of any repayment or prepayment in full of all outstanding Base Rate Loans, and (z) at maturity (whether by acceleration or otherwise) and, after such maturity, on demand, and (ii) in respect of each Eurodollar Loan, (x) on the last day of each Interest Period applicable thereto and, in the case of an Interest Period in excess of three months, on each date occurring at three month intervals after the first day of such Interest Period, and (y) on the date of any repayment or prepayment (on the amount repaid or prepaid), at maturity (whether by acceleration or otherwise) and, after such maturity, on demand.

(e) Upon each Interest Determination Date, the Administrative Agent shall

determine the Eurodollar Rate for each Interest Period applicable to the respective Eurodollar Loans and shall promptly notify the Borrower and the Lenders thereof. Each such determination shall, absent manifest error, be final and conclusive and binding on all parties hereto.

1.09 Interest Periods for Eurodollar Loans. At the time the Borrower gives any Notice of Borrowing or Notice of Conversion/Continuation in respect of the making of, or conversion into, any Eurodollar Loan (in the case of the initial Interest Period applicable thereto) or prior to 11:00 A.M. (New York time) on the third Business Day prior to the expiration of an Interest Period applicable to such Eurodollar Loan (in the case of any subsequent Interest Period), the Borrower shall have the right to elect the Interest Period applicable to such Eurodollar Loan, which Interest Period shall, at the option of the Borrower, be a one, two, three or six month period (or if deposits of a corresponding maturity are available to all Lenders in the London interbank market, a one week or twelve month period); provided, that (in each case):

(i) all Eurodollar Loans comprising a Borrowing shall at all times have the same Interest Period;

(ii) the initial Interest Period for any Eurodollar Loan shall commence on the date of Borrowing of such Eurodollar Loan (including the date of any conversion thereto from a Base Rate Loan) and each Interest Period occurring thereafter in respect of such Eurodollar Loan shall commence on the day on which the next preceding Interest Period applicable thereto expires;

(iii) if any Interest Period for a Eurodollar Loan begins on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period, such Interest Period shall end on the last Business Day of such calendar month;

(iv) if any Interest Period for a Eurodollar Loan would otherwise expire on a day which is not a Business Day, such Interest Period shall expire on the next succeeding Business

Day; provided, however, that if any Interest Period for a Eurodollar Loan would otherwise expire on a day which is not a Business Day but is a day of the month after which no further Business Day occurs in such month, such Interest Period shall expire on the next preceding Business Day;

(v) no Interest Period may be selected at any time when (x) a Specified Default is then in existence or (y) any other Event of Default is then in existence and the Administrative Agent has received instructions from the Required Lenders to that effect; and

(vi) no Interest Period in respect of any Borrowing of any Eurodollar Loans shall be selected which extends beyond the Maturity Date.

If by 11:00 A.M. (New York time) on the third Business Day prior to the expiration of any Interest Period applicable to a Borrowing of Eurodollar Loans, the Borrower has failed to elect, or is not permitted to elect, a new Interest Period to be applicable to such Eurodollar Loans as provided above, the Borrower shall be deemed to have elected to convert such Eurodollar Loans into Base Rate Loans effective as of the expiration date of such current Interest Period.

1.10 Increased Costs, Illegality, etc. (a) In the event that any Lender shall have determined (which determination shall, absent manifest error, be final and conclusive and binding upon all parties hereto but, with respect to clause (i) below, may be made only by the Administrative Agent):

(i) on any Interest Determination Date that, by reason of any changes arising after the date of this Agreement affecting the interbank Eurodollar market, adequate and fair means do not exist for ascertaining the applicable interest rate on the basis provided for in the definition of Eurodollar Rate; or

(ii) at any time, that such Lender shall incur increased costs or reductions in the amounts received or receivable hereunder with respect to any Loan because of (x) any Change in Law after the Effective Date, such as, but not limited to: (A) a change in the basis of taxation of payment to any Lender of the principal of or interest on the Loans or the Notes or any other amounts payable hereunder (except for (x) taxes with respect to which additional amounts are paid pursuant to Section 4.04, (y) changes in the rate of tax on, or determined by reference to, the net income or net profits (or any franchise or similar tax imposed in lieu of a net income or net profits tax) of such Lender pursuant to the laws of the jurisdiction in which it is organized or in which its principal office or applicable lending office is located or any subdivision thereof or therein) or (z) taxes under FATCA or (B) a change in official reserve requirements, but, in all events, excluding reserves required under Regulation D to the extent included in the computation of the Eurodollar Rate and/or (y) other circumstances arising since the Effective Date affecting such Lender, the interbank Eurodollar market or the position of such Lender in such market; or

(iii) at any time, that the making or continuance of any Eurodollar Loan has been made (x) unlawful by any law or governmental rule, regulation or order, (y) impossible by compliance by any Lender in good faith with any governmental request (whether or not having force of law) or (z) impracticable as a result of a contingency occurring after the Effective Date which materially and adversely affects the interbank Eurodollar market;

then, and in any such event, such Lender (or the Administrative Agent, in the case of clause (i) above) shall promptly give notice (by telephone promptly confirmed in writing) to the Borrower and, except in the case of clause (i) above, to the Administrative Agent of such determination (which notice the Administrative Agent shall promptly transmit to each of the other Lenders). Thereafter (x) in the case of clause (i) above, Eurodollar Loans shall no longer be available until such time as the Administrative

Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice by the Administrative Agent no longer exist, and any Notice of Borrowing or Notice of Conversion/Continuation given by the Borrower with respect to Eurodollar Loans which have not yet been incurred (including by way of conversion) shall be deemed rescinded by the Borrower, (y) in the case of clause (ii) above, the Borrower agrees to pay to such Lender, upon such Lender's written request therefor, such additional amounts (in the form of an increased rate of, or a different method of calculating, interest or otherwise as such Lender in its reasonable discretion shall determine) as shall be required to compensate such Lender for such increased costs or reductions in amounts received or receivable hereunder (a written notice as to the additional amounts owed to such Lender, showing in reasonable detail the basis for the calculation thereof, submitted to the Borrower by such Lender shall, absent manifest error, be final and conclusive and binding on all the parties hereto) and (z) in the case of clause (iii) above, the Borrower shall take one of the actions specified in Section 1.10(b) as promptly as possible and, in any event, within the time period required by law.

(b) At any time that any Eurodollar Loan is affected by the circumstances described in Section 1.10(a)(ii), the Borrower may, and in the case of a Eurodollar Loan affected by the circumstances described in Section 1.10(a)(iii), the Borrower shall, either (x) if the affected Eurodollar Loan is then being made initially or pursuant to a conversion, cancel such Borrowing by giving the Administrative Agent telephonic notice (confirmed in writing) on the same date that the Borrower was notified by the affected Lender or the Administrative Agent pursuant to Section 1.10(a)(ii) or (iii) or (y) if the affected Eurodollar Loan is then outstanding, upon at least three Business Days' written notice to the Administrative Agent, require the affected Lender to convert such Eurodollar Loan into a Base Rate Loan; provided, that, if more than one Lender is affected at any time, then all affected Lenders must be treated the same pursuant to this Section 1.10(b).

(c) If any Lender determines that any Change in Law after the date on which it became a Lender hereunder, will have the effect of increasing the amount of capital or liquidity required or expected to be maintained by such Lender or any corporation controlling such Lender based on the existence of such Lender's Commitments or Loans hereunder or its obligations hereunder, then the Borrower agrees to pay to such Lender, upon its written demand therefor, such additional amounts as shall be required to compensate such Lender or such other corporation for the increased cost to such Lender or such other corporation or the reduction in the rate of return to such Lender or such other corporation as a result of such increase of capital or liquidity. In determining such additional amounts, each Lender will act reasonably and in good faith and will use averaging and attribution methods which are reasonable; provided, that such Lender's determination of compensation owing under this Section 1.10(c) shall, absent manifest error, be final and conclusive and binding on all the parties hereto. Each Lender, upon determining that any additional amounts will be payable pursuant to this Section 1.10(c), will give prompt written notice thereof to the Borrower, which notice shall show in reasonable detail the basis for calculation of such additional amounts.

1 . 1 1 Compensation. The Borrower agrees to compensate each Lender, upon its written request (which request shall set forth in reasonable detail the basis for requesting such compensation), for all losses, liabilities and reasonable expenses (including, without limitation, any loss, expense or liability incurred by reason of the liquidation or reemployment of deposits or other funds required by such Lender to fund its Eurodollar Loans but excluding loss of anticipated profits) which such Lender may sustain: (i) if for any reason (other than a default by such Lender or the Administrative Agent) a Borrowing of, or conversion from or into, Eurodollar Loans does not occur on a date specified therefor in a Notice of Borrowing or Notice of Conversion/Continuation (whether or not withdrawn by the Borrower or deemed withdrawn pursuant to Section 1.10(a)); (ii) if any prepayment or repayment (including any prepayment or repayment made pursuant to Section 4.01, Section 4.02 or as a result of an acceleration of the Loans pursuant to Section 10) or conversion of any of its Eurodollar Loans occurs on a

date which is not the last day of an Interest Period with respect thereto; (iii) if any prepayment of any of its Eurodollar Loans is not made on any date specified in a notice of prepayment given by the Borrower; (iv) as a consequence of (x) any other default by the Borrower to repay Eurodollar Loans when required by the terms of this Agreement or any Note held by such Lender or (y) any election made pursuant to Section 1.10(b) or (v) as a consequence of the assignment of a Eurodollar Loan as a result of the request of the Borrower pursuant to Section 1.13; provided, that this Section 1.11 shall not apply to any scheduled repayment of Loans made pursuant to Section 4.02(B). Any Lender's determination of compensation owing to it under this Section 1.11 shall, absent manifest error, be final and conclusive and binding on all the parties hereto.

1.12 Change of Lending Office. Each Lender agrees that on the occurrence of any event giving rise to the operation of Section 1.10(a)(ii) or (iii), Section 1.10(c), or Section 4.04 with respect to such Lender, it will, if requested by the Borrower, use reasonable efforts (subject to overall policy considerations of such Lender) to designate another lending office for any Loans or Letters of Credit affected by such event; provided, that (x) such designation is made on such terms that such Lender and its lending office suffer no economic, legal or regulatory disadvantage, with the object of avoiding the consequence of the event giving rise to the operation of such Section and (y) the Borrower hereby agrees to pay all reasonable costs and expenses (if any) incurred by any Lender in connection with such designation or assignment. Nothing in this Section 1.12 shall affect or postpone any of the obligations of the Borrower or the right of any Lender provided in Sections 1.10, and 4.04.

1.13 Replacement of Lenders. (x) If any Lender becomes a Defaulting Lender or otherwise defaults in its obligations to make Loans, (y) upon the occurrence of an event giving rise to the operation of Section 1.10(a)(ii) or (iii), Section 1.10(c), or Section 4.04 with respect to any Lender which results in such Lender charging to the Borrower increased costs or (z) in the case of a refusal by a Lender to consent to certain proposed changes, waivers, discharges or terminations with respect to this Agreement which have been approved by the Required Lenders as (and to the extent) provided in Section 13.12(b), the Borrower shall have the right, if no Default or Event of Default then exists (or, in the case of preceding clause (z), will exist immediately after giving effect to such replacement), to replace such Lender with one or more other Eligible Transferees, none of whom shall constitute a Defaulting Lender at the time of such replacement (collectively, the "Replacement Lender") and each of whom shall be reasonably acceptable to the Administrative Agent (each such Lender which is replaced by a Replacement Lender is referred to herein as a "Replaced Lender"); provided, that:

(i) at the time of any replacement pursuant to this Section 1.13, the Replaced Lender and the Replacement Lender shall enter into one or more Assignment and Assumption Agreements pursuant to Section 13.04(b) (and with all fees payable pursuant to said Section 13.04(b) to be paid by the Replacement Lender and/or the Replaced Lender (as may be agreed to at such time by and among the Borrower, the Replacement Lender and the Replaced Lender)) pursuant to which the Replacement Lender shall acquire the Commitment (if any) of, all outstanding Loans owing to the Replaced Lender and in connection therewith, the Replacement Lender shall pay to the Replaced Lender in respect thereof an amount equal to the sum of an amount equal to the aggregate principal of, and all accrued and unpaid interest on, all outstanding Loans of the Replaced Lender; and

(ii) all obligations of the Borrower due and owing to the Replaced Lender at such time (other than those specifically described in clause (i) above in respect of which the assignment purchase price has been, or is concurrently being, paid) shall be paid in full to such Replaced Lender concurrently with such replacement.

Upon receipt by the Replaced Lender of all amounts required to be paid to it pursuant to this Section 1.13, the Administrative Agent shall be entitled (but not obligated) and authorized to execute an Assignment and Assumption Agreement on behalf of such Replaced Lender, and any such Assignment and Assumption Agreement so executed by the Administrative Agent and the Replacement Lender shall be effective for purposes of this Section 1.13 and Section 13.04. Upon the execution of the respective Assignment and Assumption Agreement, the payment of amounts referred to in clauses (i) and (ii) above, recordation of the assignment on the Register by the Administrative Agent pursuant to Section 13.15 and, if so requested by the Replacement Lender, delivery to the Replacement Lender of the appropriate Note executed by the Borrower, the Replacement Lender shall become a Lender hereunder and the Replaced Lender shall cease to constitute a Lender hereunder, except with respect to indemnification provisions under this Agreement (including, without limitation, Sections 1.10, 1.11, 4.04, 12.06, 13.01 and 13.06), which shall survive as to such Replaced Lender.

Section 2. [Reserved]

Section 3. Fees; Reductions of Commitment.

3.01 Fees.

(a) The Borrower agrees to pay to the Administrative Agent, for distribution to each Lender that is a Non-Defaulting Lender, a commitment commission (the "Commitment Commission") for the period from and including the Effective Date to and including the Availability Period End Date (or such earlier date on which the Total Commitment has been terminated) computed at a rate per annum equal to the Applicable Commitment Fee Percentage on the average daily Commitment of such NonDefaulting Lender as in effect from time to time. Accrued Commitment Commission shall be due and payable quarterly in arrears on each Quarterly Payment Date and on the date upon which the Total Commitment is terminated.

(b) The Borrower agrees to pay to the Administrative Agent, for distribution to each Lender, a fee (the "Duration Fee") in an amount equal to 0.25% of the aggregate outstanding principal amount of such Lender's Loans on the Duration Fee Date, which Duration Fee shall be due and payable on the Duration Fee Date; provided that at any time not less than three Business Days prior to the Duration Fee Date, the Borrower may deliver a certificate, signed by the chief financial officer of the Borrower, certifying that (x) the Borrower (i) has received financing commitments and/or (ii) is pursuing a debt or equity issuance that in the aggregate will be sufficient to refinance the aggregate outstanding principal amount of the Loans on or prior to the Latest Duration Fee Date and (y) the Borrower reasonably expects that (i) such financing commitments will be funded on or prior to the Latest Duration Fee Date and/or (ii) such bond or equity issuance will occur on or prior to the Latest Duration Fee Date, as the case may be, in which case the Duration Fee shall be due and payable on the Latest Duration Fee Date to the extent any Loans are outstanding on such date.

(c) The Borrower agrees to pay to the Administrative Agent (and/or its respective affiliates) and to the Joint Lead Arrangers such fees as may be agreed to in writing from time to time by the Borrower or any of its Subsidiaries and the Administrative Agent (and/or its respective affiliates) or the Joint Lead Arrangers.

3.02 Voluntary Termination of Commitments. Upon at least three Business Days' prior written notice to the Administrative Agent at the Notice Office (which notice the Administrative Agent shall promptly transmit to each of the Lenders), the Borrower shall have the right, at any time during the Availability Period, without premium or penalty, to terminate the Commitments in whole, or reduce the Commitments in part in an integral multiple of $1,000,000, provided that each such reduction

shall apply proportionately to permanently reduce the Commitment of each Lender. Each notice delivered by the Borrower pursuant to this Section 3.02 shall be irrevocable.

3.03 Mandatory Reduction of Commitments.

(a) The Commitments shall be automatically reduced upon the making of any Borrowing (other than a continuation or conversion of Loans) in an amount equal to the principal amount of such Borrowing.

(b) Unless previously terminated pursuant to Section 3.03(a) or reduced pursuant to Section 3.02, all Commitments shall automatically and permanently terminate on the Availability Period End Date.

Section 4. Prepayments; Payments; Taxes.

4.01 Voluntary Prepayments. (a) The Borrower shall have the right to prepay the Loans comprising the same Borrowing, without premium or penalty, in whole or in part at any time and from time to time on the following terms and conditions: (i) the Borrower shall give the Administrative Agent prior to 12:00 Noon (New York time) at the Notice Office (x) at least one Business Day's prior written notice (or telephonic notice promptly confirmed in writing) of its intent to prepay Base Rate Loans and (y) at least three Business Days' prior written notice (or telephonic notice promptly confirmed in writing) of its intent to prepay Eurodollar Loans, which notice (in each case) shall specify the amount of such prepayment and the Types of Loans to be prepaid and, in the case of Eurodollar Loans, the specific Borrowing or Borrowings pursuant to which such Eurodollar Loans were made, and which notice the Administrative Agent shall promptly transmit to each of the Lenders; (ii) each partial prepayment of Loans pursuant to this Section 4.01(a) shall be in an aggregate principal amount of at least $1,000,000 (or such lesser amount as is acceptable to the Administrative Agent); provided, that if any partial prepayment of Eurodollar Loans made pursuant to any Borrowing shall reduce the outstanding principal amount of Eurodollar Loans made pursuant to such Borrowing to an amount less than $1,000,000, then such Borrowing may not be continued as a Borrowing of Eurodollar Loans (and same shall automatically be converted into a Borrowing of Base Rate Loans) and any election of an Interest Period with respect thereto given by the Borrower shall have no force or effect and (iii) each prepayment pursuant to this Section 4.01(a) in respect of any Loans shall be applied pro rata among the Loans. Each notice delivered by the Borrower pursuant to this Section 4.01(a) shall be irrevocable; provided, that a notice of prepayment of all Loans then outstanding may state that such notice is conditioned upon the receipt of proceeds from the incurrence or issuance of Indebtedness or equity interests or the effectiveness of other credit facilities.

(b) In the event of a refusal by a Lender to consent to certain proposed changes, waivers, discharges or terminations with respect to this Agreement which have been approved by the Required Lenders as (and to the extent) provided in Section 13.12(b), the Borrower may, upon five Business Days' prior written notice to the Administrative Agent at the Notice Office (which notice the Administrative Agent shall promptly transmit to each of the Lenders) repay all Loans of such Lender, together with accrued and unpaid interest and other amounts (including all amounts, if any, owing pursuant to Section 1.11) owing to such Lender in accordance with, and subject to the requirements of, said Section 13.12(b) so long as the consents, if any, required by Section 13.12(b) in connection with the repayment pursuant to this clause (b) shall have been obtained.

4.02 [Reserved].

4.03 Method and Place of Payment. Except as otherwise specifically provided herein, all payments under this Agreement and under any Note shall be made to the Administrative Agent for the account of the Lender or Lenders entitled thereto not later than 12:00 Noon (New York time) on the date when due and shall be made in Dollars in immediately available funds at the Payment Office. Whenever any payment to be made hereunder or under any Note shall be stated to be due on a day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day and, with respect to payments of principal, interest shall be payable at the applicable rate during such extension.

4.04 Net Payments. (a) All payments made by any Credit Party under any Credit Document will be made without setoff, counterclaim or other defense. Except as provided in Section 4.04(c) and 4.04(d), all such payments will be made free and clear of, and without deduction or withholding for, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature now or hereafter imposed by any jurisdiction or by any political subdivision or taxing authority thereof or therein with respect to such payments, (but excluding, except as provided in the second succeeding sentence, (x) any tax imposed on or measured by the net income or net profits (or any franchise or similar tax imposed in lieu of a net income or net profits tax) of a Lender or the Administrative Agent (each a "Section 4.04 Indemnitee"), as the case may be, pursuant to the laws of the jurisdiction in which such Section 4.04 Indemnitee is organized or the jurisdiction in which the principal office or applicable lending office of such Section 4.04 Indemnitee is located or any subdivision thereof or therein, (y) in the case of a Lender, U.S. federal withholding Taxes imposed on amounts payable to or for the account of such Lender with respect to an applicable interest in any Credit Document pursuant to a law in effect on the date on which (i) such Lender acquires such interest in the Credit Documents (other than pursuant to an assignment request by the Borrower under Section 1.13) or (ii) such Lender changes its lending office, except in each case to the extent that, pursuant to Section 4.04, amounts with respect to such Taxes were payable either to such Lender's assignor immediately before such Lender became a party hereto or to such Lender immediately before it changed it lending office and (z) any U.S. federal withholding taxes imposed under FATCA) and all interest, penalties or similar liabilities with respect to such non excluded taxes, levies, imposts, duties, fees, assessments or other charges (all such nonexcluded taxes, levies, imposts, duties, fees, assessments or other charges being referred to collectively as "Taxes"). If any Taxes are so levied or imposed, the Borrower and any other Credit Party agrees to pay the full amount of such Taxes, and such additional amounts as may be necessary so that every payment of all amounts due under this Agreement or under any other Credit Document to any Section 4.04 Indemnitee, after withholding or deduction for or on account of any Taxes, will not be less than the amount provided for herein or in such other Credit Document. If any amounts are payable in respect of Taxes pursuant to the preceding sentence, the Borrower and each other Credit Party jointly and severally agree to reimburse each Section 4.04 Indemnitee, upon the written request of such Section 4.04 Indemnitee, for taxes imposed on or measured by the net income or net profits (or any franchise or similar tax imposed in lieu of a net income or net profits tax) of such Section 4.04 Indemnitee pursuant to the laws of the jurisdiction in which such Section 4.04 Indemnitee is organized or in which the principal office or applicable lending office of such Section 4.04 Indemnitee is located or under the laws of any political subdivision or taxing authority of any such jurisdiction in which such Section 4.04 Indemnitee is organized or in which the principal office or applicable lending office of such Section 4.04 Indemnitee is located and for any withholding of taxes as such Section 4.04 Indemnitee shall determine are payable by, or withheld from, such Section 4.04 Indemnitee in respect of such amounts so paid to or on behalf of such Section 4.04 Indemnitee pursuant to the preceding sentence and in respect of any amounts paid to or on behalf of such Section 4.04 Indemnitee pursuant to this sentence. The Borrower will furnish to the Administrative Agent within 60 days after the date the payment of any Taxes is due pursuant to applicable law certified copies of tax receipts evidencing such payment by the Borrower or the respective Credit Party reasonably satisfactory to the Administrative Agent. The Borrower and each other Credit Party jointly and severally agree to indemnify and hold harmless each Section 4.04 Indemnitee and reimburse each such Person upon its written request, for the amount of any Taxes so levied or imposed

and paid by each such Person whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority; provided, however, that the Section 4.04 Indemnitee has given notice to the Borrower prior to making such payment. A certificate as to the amount of such payment or liability delivered to any Credit Party by a Section 4.04 Indemnitee (with a copy to the Administrative Agent) shall be conclusive absent manifest error.

(b) The Credit Parties shall timely pay to the relevant governmental authority in accordance with applicable law, or at the option of the Administrative Agent timely reimburse it for the payment of, any Other Taxes.

(c) Each Non-U.S. Lender agrees to deliver to the Borrower and the Administrative Agent on or prior to the Effective Date or, in the case of a Non-U.S. Lender that is an assignee or transferee of an interest under this Agreement pursuant to Section 1.13 or 13.04(b) (unless the respective Non-U.S. Lender was already a Non-U.S. Lender hereunder immediately prior to such assignment or transfer), on the date of such assignment or transfer to such Non-U.S. Lender or, in the case of a successor Administrative Agent, the date of the appointment of such Administrative Agent, (i) two accurate and complete original signed copies of U.S. Internal Revenue Service Form W-8ECI or Form W-8BEN or W8BEN-E, as applicable (with respect to a complete exemption from, or a reduction in, withholding under an income tax treaty) (or successor forms) certifying to such Non-U.S. Lender's entitlement as of such date to a complete exemption from, or a reduction in, United States withholding tax with respect to payments to be made under this Agreement and under any other Credit Document, or (ii) if the Non-U.S. Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the Code and cannot deliver either U.S. Internal Revenue Service Form W-8ECI or Form W-8BEN or W-8BEN-E, as applicable (with respect to a complete exemption from, or a reduction in, withholding under an income tax treaty) (or any successor forms) pursuant to clause (i) above, (x) a certificate substantially in the form of Exhibit D-1 (any such certificate, a "Section 4.04(c)(ii) Certificate") and (y) two accurate and complete original signed copies of U.S. Internal Revenue Service Form W-8BEN or W-8BEN-E, as applicable (with respect to the portfolio interest exemption) (or successor form) certifying to such Non-U.S. Lender's entitlement as of such date to a complete exemption from, or a reduction in, United States withholding tax with respect to payments of interest to be made under this Agreement and under any other Credit Document. Any Non-U.S. Lender shall, to the extent it is legally entitled to do so, deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Non-U.S. Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), executed originals of any other form prescribed by applicable law as a basis for claiming exemption from or a reduction in U.S. federal withholding tax, duly completed, together with such supplementary documentation as may be prescribed by applicable law to permit the Borrower or the Administrative Agent to determine the withholding or deduction required to be made. In addition, each Non-U.S. Lender agrees that from time to time after the date such Non-U.S. Lender becomes a party to this Agreement, when a lapse in time or change in circumstance renders the previous certification obsolete or inaccurate in any material respect, such Non-U.S. Lender will deliver to the Borrower and the Administrative Agent two new accurate and complete original signed copies of U.S. Internal Revenue Service Form W-8ECI, Form W-8BEN or W8BEN-E, as applicable (with respect to the benefits of any income tax treaty), or Form W-8BEN or W8BEN-E, as applicable (with respect to the portfolio interest exemption) and a Section 4.04(c)(ii) Certificate, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Non-U.S. Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any other Credit Document, or such Non-U.S. Lender shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such form or Certificate, in which case such Non-U.S. Lender shall not be required to deliver any such form or Certificate pursuant to this Section 4.04(c). To the extent a Non-U.S. Lender is not the beneficial owner, each such Non-U.S. Lender agrees to deliver to the Borrower and the Administrative Agent executed originals of U.S. Internal Revenue Service Form W-8IMY, accompanied by Form W8ECI, Form W-8BEN or W-8BEN-E, as applicable, a Section 4.04(c)(ii) Certificate substantially in the form of Exhibit D-2 or Exhibit D-3, Form W-9, and/or other certification documents from each beneficial owner, as applicable; provided, that if the Non-U.S. Lender is a partnership and one or more direct or indirect partners of such Non-U.S. Lender are claiming the portfolio interest exemption, such Non-U.S. Lender may provide a Section 4.04(c)(ii) Certificate substantially in the form of Exhibit D-4 on behalf of each such direct and indirect partner. Each U.S. Lender (other than a Lender or the Administrative Agent, as the case may be, that may be treated as an exempt recipient based on the indicators described in U.S. Treasury Regulation section 1.6049-4(c)(1)(ii)) agrees to deliver to the Borrower and the Administrative

Agent on or prior to the Effective Date or, in the case of a U.S. Lender that is an assignee or transferee of an interest under this Agreement pursuant to Section 1.13 or 13.04(b) (unless the respective U.S. Lender was already a U.S. Lender hereunder immediately prior to such assignment or transfer), on the date of such assignment or transfer to such U.S. Lender or, in the case of a U.S. Lender that is a successor Administrative Agent, the date of the appointment of such Administrative Agent, two accurate and complete original signed copies of U.S. Internal Revenue Service Form W-9 (or successor forms) certifying to such U.S. Lender's entitlement as of such date to a complete exemption from, or reduction in, United States backup withholding tax with respect to payments to be made under this Agreement and under any other Credit Document. Notwithstanding anything to the contrary contained in Section 4.04(a), but subject to Section 13.04(b) and the immediately succeeding sentence, (x) the Borrower shall be entitled, to the extent it is required to do so by law, to deduct or withhold income (including income taxes imposed by withholding) or similar taxes imposed by the United States (or any political subdivision or taxing authority thereof or therein) from interest or other amounts payable hereunder for the account of any Lender or the Administrative Agent, as the case may be, to the extent that such Lender or such Administrative Agent, as the case may be, has not provided to the Borrower U.S. Internal Revenue Service Forms that establish a complete exemption from, or a reduction in, such deduction or withholding and (y) the Borrower shall not be obligated pursuant to Section 4.04(a) to gross-up payments to be made to, or to indemnify, a Lender or the Administrative Agent, as the case may be, in respect of income (including income taxes imposed by withholding) or similar taxes imposed by the United States if (I) such Lender or such Administrative Agent, as the case may be, has not provided to the Borrower the U.S. Internal Revenue Service Forms required to be provided to the Borrower pursuant to this Section 4.04(c) or (II) in the case of a payment, other than interest, to a Lender or the Administrative Agent, as the case may be, described in clause (ii) in the first sentence above in this Section 4.04(c), to the extent that such forms do not establish a complete exemption from, or a reduction in, withholding of such taxes. Notwithstanding anything to the contrary contained in the preceding sentence or elsewhere in this Section 4.04 and except as set forth in Section 13.04(b), the Borrower agrees to pay any additional amounts and to indemnify each Lender in the manner set forth in Section 4.04(a) (without regard to the identity of the jurisdiction requiring the deduction or withholding) in respect of any amounts deducted or withheld by it as described in the immediately preceding sentence (i) as a result of any changes that are effective after the date such Lender becomes a party to this Agreement or such Lender changes its lending office in any applicable law, treaty, governmental rule, regulation, guideline or order, or in the interpretation thereof, relating to the deducting or withholding of income (including income taxes imposed by withholding) or similar taxes or (ii) to the extent such Lender is an assignee of another Lender that was entitled, at the time the assignment became effective, to receive additional amounts under this Section 4.04 (except in each case to the extent that such Lender is legally entitled to provide a form establishing exemption, or eligibility for a reduction in, from withholding of such taxes but fails to do so).

(d) If a payment made by the Borrower or any Credit Party under this Agreement or any other Credit Document would be subject to U.S. federal withholding tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times

reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment.

(e) If the Borrower pays any additional amount under this Section 4.04 to a Section 4.04 Indemnitee, and such Section 4.04 Indemnitee determines in its sole good faith discretion that it has actually received or realized in connection therewith any refund or any reduction of, or credit against, its tax liabilities in or with respect to the taxable year in which the additional amount is paid (a "Tax Benefit"), such Section 4.04 Indemnitee shall pay to such Borrower an amount that the Section 4.04 Indemnitee shall, in its sole good faith discretion, determine is equal to the net benefit, after tax, which was obtained by such Section 4.04 Indemnitee in such year as a consequence of such Tax Benefit; provided, however, that (i) any Section 4.04 Indemnitee may determine, in its sole good faith discretion consistent with the policies of such Section 4.04 Indemnitee, whether to seek a Tax Benefit; (ii) any taxes that are imposed on a Section 4.04 Indemnitee as a result of a disallowance or reduction, (including through the expiration of any tax credit carryover or carryback of such Section 4 .04 Indemnitee that otherwise would not have expired) of any Tax Benefit with respect to which such Section 4.04 Indemnitee has made a payment to the Borrower pursuant to this Section 4.04(e) shall be treated as a Tax for which the Borrower is obligated to indemnify such Section 4.04 Indemnitee pursuant to this Section 4.04 without any exclusions or defenses, (iii) nothing in this Section 4.04(e) shall require any Section 4.04 Indemnitee to disclose any confidential information to the Borrower (including, without limitation, its tax returns), and (iv) no Section 4.04 Indemnitee shall be required to pay any amounts pursuant to this Section 4.04(e) at any time that a Default or an Event of Default exists.

(f) Each Lender shall severally indemnify the Administrative Agent, within 10 days after demand therefor, for (i) any taxes attributable to such Lender (but only to the extent that the Borrower or any Credit Party has not already indemnified the Administrative Agent for such taxes and without limiting the obligation of the Credit Parties to do so and (ii) any taxes attributable to such Lender's failure to comply with the provisions of Section 13.04(d) relating to the maintenance of a Participant Register, and any reasonable expenses arising therefrom or with respect thereto, whether or not such taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to any Lender by the Administrative Agent shall be conclusive absent manifest error. Each Lender hereby authorizes the Administrative Agent to set off and apply any and all amounts at any time owing to such Lender under any Credit Document or otherwise payable by the Administrative Agent to the Lender from any other source against any amount due to the Administrative Agent under this paragraph (f).

Section 5. Conditions Precedent to the Effective Date. The occurrence of the Effective Date pursuant to Section 13.10 is subject to the satisfaction of the following conditions:

5.01 Execution of Agreement; Notes. On or prior to the Effective Date, (i) this Agreement shall have been executed and delivered as provided in Section 13.10 and (ii) there shall have been delivered to the Administrative Agent for the account of each of the Lenders that has requested the same at least two Business Days prior to the Effective Date, a Note executed by the Borrower in the amount, maturity and as otherwise provided herein.

5.02 Officer's Certificate. On the Effective Date, the Administrative Agent shall have received a certificate, dated the Effective Date and signed on behalf of Magellan by the chairman of the board, the chief executive officer, the chief financial officer, the president or any vice president of

Magellan, certifying on behalf of Magellan that all of the conditions in Sections 5.05, 5.06, 5.07 and 6.01 have been satisfied on such date; provided that delivery of a Notice of Borrowing pursuant to Section 6.02 shall be deemed to satisfy this Section 5.02 with respect to certification of the conditions in Section 6.01.

5.03 Opinion of Counsel. On the Effective Date, the Administrative Agent shall have received from Weil, Gotshal & Manges LLP, special counsel to the Credit Parties, an opinion addressed to the Administrative Agent and each of the Lenders and dated the Effective Date, in form and substance reasonably satisfactory to the Administrative Agent.

5.04 Corporate Documents; Proceedings; etc. (a) On the Effective Date, the Administrative Agent shall have received a certificate from each Credit Party, dated the Effective Date, signed by the chairman of the board, the chief executive officer, the president, the chief financial officer or any vice president of such Credit Party, and attested to by the secretary, any assistant secretary, the general counsel or any vice president of such Credit Party, substantially in the form of Exhibit F with appropriate insertions, together with copies of the certificate or articles of incorporation and by-laws (or equivalent organizational documents) (the "Organizational Documents") to the extent that such Organizational Documents have been amended or otherwise modified since their delivery to the Administrative Agent on or around June 27, 2016 in connection with the 2016 Credit Agreement, as applicable, of such Credit Party and the resolutions of such Credit Party referred to in such certificate, and each of the foregoing shall be in form and substance reasonably acceptable to the Agents.

(b) On the Effective Date, the Administrative Agent shall have received good standing certificates (or equivalent documents) from the relevant office in each Credit Party's jurisdiction of organization (to the extent relevant, customary and available in the jurisdiction of organization of such Credit Party) dated as of a recent date prior thereto.

5.05 Financial Covenants. As of September 30, 2016, Magellan and the Borrower shall be in compliance with the financial covenants contained in Sections 9.08 and 9.09 on a Pro Forma Basis as if any Borrowing on the Effective Date had occurred on September 30, 2016 (without netting the proceeds of any Borrowing on the Effective Date).

5.06 Adverse Change, Approvals.

(a) Since September 30, 2016, there shall have been no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect, except as disclosed in any Form 8-K subsequent to September 30, 2016 and prior to the Effective Date.

(b) On or prior to the Effective Date, all necessary governmental (domestic and foreign) and material third party approvals and/or consents in connection with the Transaction (and the payment of all fees, costs and expenses in connection therewith) and the other transactions contemplated hereby shall have been obtained and remain in effect, and all applicable waiting periods with respect thereto shall have expired without any action being taken by any competent authority which, in the reasonable judgment of any Agent, restrains, prevents, or imposes materially adverse conditions upon, the consummation of the Transaction or the other transactions contemplated by the Credit Documents or otherwise referred to herein or therein. On the Effective Date, there shall not exist any judgment, order, injunction or other restraint prohibiting or imposing materially adverse conditions upon the Transaction or the other transactions contemplated by the Credit Documents or otherwise referred to herein or therein

5.07 Litigation. On the Effective Date, no litigation by any entity (private or governmental) shall be pending or threatened with respect to this Agreement or any other Credit

Document or any documentation executed in connection herewith or therewith, or with respect to the Transaction that has had, or could reasonably be expected to have, a Material Adverse Effect.

5.08 [Reserved].

5.09 Guaranties. On the Effective Date, each Guarantor shall have duly authorized, executed and delivered the Guaranty in the form of Exhibit H (as amended, modified or supplemented from time to time, the "Guaranty"), and the Guaranty shall be in full force and effect.

5.10 [Reserved].

5.11 Financial Statements. On or prior to the Effective Date, the Administrative Agent shall have received true and correct copies of the historical consolidated financial statements referred to in Section 7.05(a).

5.12 Solvency Certificate. On the Effective Date, the Administrative Agent shall have received a solvency certificate from the chief financial officer of Magellan in the form of Exhibit J.

5.13 Fees, etc. On the Effective Date, all costs, fees, expenses (including, without

limitation, reasonable legal fees and expenses) and other compensation contemplated hereby, payable to the Agents (and their respective Affiliates) and the Lenders or otherwise payable in respect of the Transaction shall have been paid by the Borrower to the extent due and, in the case of expenses, invoiced.

5.14 Patriot Act. The Administrative Agent shall have received, at least two Business Days prior to the Effective Date, all documentation and other information about the Credit Parties that shall have been reasonably requested by the Administrative Agent in writing at least 10 Business Days prior to the Effective Date and that the Administrative Agent reasonably determines is required by United States regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including without limitation the Patriot Act.

Section 6. Conditions Precedent to the making of any Loans on any Funding Date. The obligation of each Lender to make Loans on any Funding Date is subject, as of such Funding Date (except as hereinafter indicated), to the condition that the Effective Date shall have occurred and to the satisfaction of the following conditions:

6.01 No Default; Representations and Warranties. As of such Funding Date and also after giving effect to the Borrowing on such date, (i) there shall exist no Default or Event of Default and (ii) all representations and warranties contained herein and in the other Credit Documents shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on such Funding Date (it being understood and agreed that any representation or warranty which by its terms is made as of a specified date shall be required to be true and correct in all material respects only as of such specified date); provided that for purposes of Section 5.02, references in this Section 6.01 to the Funding Date shall be deemed to refer to the Effective Date.

6.02 Notice of Borrowing. (a) Prior to the making of each Loan, the Administrative Agent shall have received a Notice of Borrowing meeting the requirements of Section 1.03(a).

Section 7. Representations, Warranties and Agreements. In order to induce the Lenders to enter into this Agreement and to make the Loans as provided herein, each of Magellan and the Borrower makes the following representations, warranties and agreements, in each case after giving effect

to the Transaction, all of which shall survive the execution and delivery of this Agreement and the Notes and the making of the Loans.

7.01 Organizational Status. Each of Magellan and each of its Subsidiaries (i) is a duly organized and validly existing corporation, partnership or limited liability company, as the case may be, in good standing under the laws of the jurisdiction of its organization, (ii) has the corporate, partnership or limited liability company power and authority, as the case may be, to own its property and assets and to transact the business in which it is engaged and presently proposes to engage and (iii) is duly qualified and is authorized to do business and is in good standing in each jurisdiction where the ownership, leasing or operation of its property or the conduct of its business requires such qualifications, except, in each case of clauses (i) through (iii) (other than with respect to Magellan and the Borrower) as could not, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

7.02 Power and Authority. Each Credit Party has the corporate, partnership or limited liability company power and authority, as the case may be, to execute, deliver and perform the terms and provisions of each of the Credit Documents to which it is party and has taken all necessary corporate, partnership or limited liability company action, as the case may be, to authorize the execution, delivery and performance by it of each of such Credit Documents. Each Credit Party has duly executed and delivered each of the Credit Documents to which it is party, and each of such Credit Documents constitutes its legal, valid and binding obligation enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws generally affecting creditors' rights and by equitable principles (regardless of whether enforcement is sought in equity or at law).

7.03 No Violation. Neither the execution, delivery or performance by any Credit Party of the Credit Documents to which it is a party, nor compliance by it with the terms and provisions thereof, (i) will contravene any provision of any law, statute, rule or regulation (including, without limitation, any Health Care Law) or any order, writ, injunction or decree of any court or governmental instrumentality, (ii) (A) will conflict with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under any indenture, mortgage, deed of trust, credit agreement or loan agreement, or any other material agreement, contract or instrument, or (B) result in the creation or imposition of (or the obligation to create or impose) any Lien upon any of the property or assets of any Credit Party or any of its Subsidiaries pursuant to the terms of any indenture, mortgage, deed of trust, credit agreement or loan agreement, or any other material agreement, contract or instrument, in each case to which any Credit Party or any of its Subsidiaries is a party or by which it or any its property or assets is bound or to which it may be subject (including, without limitation, from and after the execution and delivery thereof, any Permitted Subordinated Debt Documents), or (iii) will violate any provision of the certificate or articles of incorporation, certificate of formation, limited liability company agreement or by-laws (or equivalent organizational documents), as applicable, of any Credit Party or any of its Subsidiaries, except to the extent that such contravention, conflict or violation could not reasonably be expected to result in a Material Adverse Effect.

7.04 Approvals. No order, consent, approval or authorization with, by, or from any governmental or public body or authority is required to be obtained or made by, or on behalf of, any Credit Party in connection with, (i) the execution, delivery and performance of any Credit Document or (ii) the legality, validity, binding effect or enforceability of any Credit Document, except for those that have been obtained or made and are in full force and effect.

7.05 Financial Statements; No Material Adverse Effect. (a) (i) The unaudited consolidated balance sheet of Magellan as at September 30, 2016 and the related consolidated statements of income, cash flows and retained earnings of Magellan for the fiscal quarter ended September 30, 2016

and (ii) the audited consolidated balance sheet of Magellan as at December 31, 2015, and the related audited consolidated statements of income, cash flows and retained earnings of Magellan for the fiscal year ended December 31, 2015, copies of which have been furnished to the Lenders prior to the Effective Date, present fairly in all material respects the consolidated financial position of Magellan at the respective dates of such balance sheets and the consolidated results of the operations of Magellan for the respective periods covered thereby, subject, in the case of clause (i) to the absence of footnotes and normal year-end audit adjustments. The foregoing historical financial statements have been prepared in accordance with generally accepted accounting principles consistently applied, subject, in the case of clause (i) to the absence of footnotes and normal year-end audit adjustments.

(b) On and as of the Effective Date and after giving effect to the Transaction and after giving effect to all Indebtedness (including any Loans) being issued, incurred or assumed by the Credit Parties in connection therewith (if any), (i) the sum of the assets, at a fair valuation, of Magellan and its Subsidiaries taken as a whole will exceed their respective debts, (ii) Magellan and its Subsidiaries taken as a whole have not incurred and do not intend to incur, and do not believe that they will incur, debts beyond their respective ability to pay such debts as such debts mature, and (iii) Magellan and its Subsidiaries taken as a whole will have sufficient capital with which to conduct their respective businesses. For purposes of this Section 7.05(b), "debt" means any liability on a claim, and "claim" means (a) right to payment, whether or not such a right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured or (b) right to an equitable remedy for breach of performance if such breach gives rise to a payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured. The amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

(c) [Reserved].

(d) [Reserved].

(e) Since September 30, 2016, there has been no event or circumstance, either individually or in the aggregate, that has had, or could reasonably be expected to have, a Material Adverse Effect, except as disclosed in any Form 8-K subsequent to September 30, 2016 and prior to the Effective Date.

7.06 Litigation. There are no actions, suits or proceedings pending or, to the knowledge of Magellan or the Borrower, threatened (i) with respect to any Credit Document or (ii) that could reasonably be expected, either individually or in the aggregate, to have a Material Adverse Effect.

7.07 True and Complete Disclosure. All factual information (taken as a whole) furnished by or on behalf of Magellan or the Borrower in writing to the Administrative Agent or any Lender (including, without limitation, all information contained in the Credit Documents) for purposes of or in connection with the Transaction, this Agreement and the other Credit Documents, and all other such factual information (taken as a whole) hereafter furnished by or on behalf of Magellan or the Borrower in writing to the Administrative Agent or any Lender does not or will not, when furnished, contain any untrue statement of material fact or omit to state a material fact necessary in order to make the statements therein, taken as a whole, not materially misleading, in light of the circumstances under which such information was provided.

7.08 Margin Regulations. Except as otherwise permitted by Section 9.03, no part of the proceeds of any Loans will be used to purchase or carry any Margin Stock or to extend credit for the

purpose of purchasing or carrying any Margin Stock. Neither the making of any Loan nor the use of the proceeds thereof will violate or be inconsistent with the provisions of Regulation T, U or X of the Board of Governors of the Federal Reserve System.

7.09 Tax Returns and Payments. Each of Magellan and each of its Subsidiaries has timely filed or caused to be timely filed with the appropriate taxing authority all federal and other returns, statements, forms and reports for taxes (the "Returns") required to be filed by, or with respect to the income, properties or operations of, Magellan and/or any of its Subsidiaries, except where the failure to timely file or cause to be timely filed such Returns could not reasonably be expected to have a Material Adverse Effect. The Returns accurately reflect all liability for taxes of Magellan and its Subsidiaries for the periods covered thereby, except where the failure to accurately reflect a liability for taxes could not reasonably be expected to have a Material Adverse Effect. Each of Magellan and each of its Subsidiaries has paid all taxes and assessments payable by it which have become due, other than (i) those for which the failure to pay could not reasonably be expected to have a Material Adverse Effect and (ii) those being contested in good faith and adequately disclosed and fully provided for on the financial statements of Magellan and its Subsidiaries in accordance with generally accepted accounting principles. There is no action, suit, proceeding, investigation, audit or claim now pending or, to the best knowledge of Magellan, threatened by any authority regarding any material taxes relating to Magellan or any of its Subsidiaries. As of the Effective Date and except as set forth on Schedule X, neither Magellan nor any of its Subsidiaries has entered into an agreement or waiver or been requested to enter into an agreement or waiver extending any statute of limitations relating to the payment or collection of taxes of Magellan or any of its Subsidiaries, or is aware of any circumstances that would cause the taxable years or other taxable periods of Magellan or any of its Subsidiaries not to be subject to the normally applicable statute of limitations.

7.10 Compliance with ERISA. (a) Each ERISA Plan (and each related trust, insurance contract or fund) is in substantial compliance with its terms and with all applicable laws, including, without limitation, ERISA and the Code. Except as would not reasonably be expected to have a Material Adverse Effect, each ERISA Plan (and each related trust, if any) which is intended to be qualified under Section 401(a) of the Code has received or can otherwise rely upon a determination letter from the Internal Revenue Service to the effect that it meets the requirements of Sections 401(a) and 501(a) of the Code. As of the Effective Date, neither Magellan nor any of its Subsidiaries or ERISA Affiliates has ever maintained or contributed to, or had any obligation to maintain or contribute to (or borne any liability with respect to) any "employee pension benefit plan," within the meaning of Section 3(2) of ERISA, that is a "multiemployer plan," within the meaning of Section 3(37) of ERISA, or that is subject to the minimum funding standards of Section 412 of the Code or Section 302 of ERISA or subject to Title IV of ERISA. Except as could not reasonably expected, individually or in the aggregate, to result in a Material Adverse Effect: all contributions required to be made with respect to an ERISA Plan have been timely made; neither Magellan nor any of its Subsidiaries nor any ERISA Affiliate has incurred any liability (including any indirect, contingent or secondary liability) to or on account of an ERISA Plan pursuant to Section 409, 502(i), 502(l), 515, 4204 or 4212 of ERISA or Section 4975 of the Code or expects to incur any such liability under any of the foregoing sections with respect to any ERISA Plan; no condition exists which presents a risk to Magellan or any of its Subsidiaries or any ERISA Affiliate of incurring a liability to or on account of an ERISA Plan pursuant to the foregoing provisions of ERISA and the Code; no action, suit, proceeding, hearing, audit or investigation with respect to the administration, operation or the investment of assets of any ERISA Plan (other than routine claims for benefits) is pending, expected or threatened which, if adversely determined, could reasonably be expected to result in a liability to Magellan or any of its Subsidiaries; each group health plan (as defined in Section 607(1) of ERISA or Section 4980B(g)(2) of the Code) which covers or has covered employees or former employees of Magellan or any of its Subsidiaries or ERISA Affiliates has at all times been operated in compliance with the provisions of Part 6 of subtitle B of Title I of ERISA and Section 4980B of the Code; no lien imposed

under the Code or ERISA on the assets of Magellan or any of its Subsidiaries or any ERISA Affiliate exists or is likely to arise on account of any ERISA Plan; and Magellan and its Subsidiaries may cease contributions to or terminate any employee benefit plan maintained by any of them.

(b) Except as could not reasonably be expected, individually or in the aggregate, to result in a material liability of Magellan or any of its Subsidiaries: each Foreign Pension Plan has been maintained in substantial compliance with its terms and with the requirements of any and all applicable laws, statutes, rules, regulations and orders and has been maintained, where required, in good standing with applicable regulatory authorities; all contributions required to be made with respect to a Foreign Pension Plan have been timely made; and neither Magellan nor any of its Subsidiaries has incurred any material obligation in connection with the termination of, or withdrawal from, any Foreign Pension Plan. The present value of the accrued benefit liabilities (whether or not vested) under each Foreign Pension Plan, determined as of the end of Magellan's most recently ended fiscal year on the basis of actuarial assumptions, each of which is reasonable, did not exceed the current value of the assets of such Foreign Pension Plan allocable to such benefit liabilities by a material amount.

7.11 [Reserved].

7.12 Properties. Each of Magellan and each of its Subsidiaries has good and marketable title to, or a validly subsisting leasehold interest in, all material properties owned or leased by it and used in the ordinary course of its business, except for such defects in title as could not reasonably be expected to have a Material Adverse Effect.

7.13 [Reserved].

7.14 Subsidiaries; etc. (a) Magellan has no Subsidiaries other than (i) those Subsidiaries listed on Schedule V (which Schedule identifies (x) the direct owner of each such Subsidiary on the Effective Date and their percentage ownership therein and (y) each Wholly-Owned Specified Subsidiary) and (ii) new Subsidiaries created or acquired after the Effective Date. Schedule V also sets forth, as of the Effective Date, the basis for which any Wholly-Owned Specified Subsidiary, pursuant to clause (c) of the definition thereof, of Magellan on the Effective Date cannot enter into any Credit Document.

7.15 Compliance with Statutes, etc. Each of Magellan and each of its Subsidiaries is in compliance with all applicable statutes, regulations and orders of, and all applicable restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including, without limitation, applicable Health Care Laws and statutes, regulations, orders and restrictions relating to environmental standards and controls), except such noncompliances as could not, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

7.16 Investment Company Act. Neither Magellan nor any of its Subsidiaries is an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

7.17 [Reserved].

7.18 Labor Relations. Neither Magellan nor any of its Subsidiaries is engaged in any unfair labor practice that could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. There is (i) no unfair labor practice complaint pending against Magellan or any of its Subsidiaries or, to the knowledge of Magellan, threatened against any of them, before the National

Labor Relations Board, and no grievance or arbitration proceeding arising out of or under any collective bargaining agreement is so pending against Magellan or any of its Subsidiaries or, to the knowledge of Magellan, threatened against any of them, (ii) no strike, labor dispute, slowdown or stoppage pending against Magellan or any of its Subsidiaries or, to the knowledge of Magellan and Magellan, threatened against Magellan or any of its Subsidiaries and (iii) no union representation question exists with respect to the employees of Magellan or any of its Subsidiaries, except (with respect to any matter specified in clause (i), (ii) or (iii) above, either individually or in the aggregate) such as could not reasonably be expected to have a Material Adverse Effect.

7.19 [Reserved].

7.20 [Reserved].

7.21 [Reserved].

7.22 [Reserved].

7.23 Anti-Corruption Laws and Sanctions. The Borrower has implemented and maintains in effect policies and procedures designed to ensure compliance by Magellan and its Subsidiaries and their respective directors, officers and employees with Anti-Corruption Laws and applicable Sanctions, and Magellan, its Subsidiaries and, to the knowledge of Magellan and the Borrower, their respective officers, employees, and directors, are in compliance with Anti-Corruption Laws and applicable Sanctions in all material respects. None of (i) Magellan, any Subsidiary of Magellan or, to the knowledge of Magellan, the Borrower or such Subsidiary, any of their respective directors, officers or employees, or (ii) to the knowledge of Magellan or the Borrower, any agent of Magellan, the Borrower or any Subsidiary that will act in any capacity in connection with or benefit from the credit facility established hereby, is a Sanctioned Person. No Borrowing or use of proceeds will violate AntiCorruption Laws or applicable Sanctions.

Section 8. Affirmative Covenants. Magellan and the Borrower hereby covenant and agree that on and after the Effective Date and until all Commitments have terminated and the Loans and Notes (in each case together with interest thereon) and all other Obligations (other than indemnities described in Section 13.13 (and similar indemnities described in the other Credit Documents, in each case) which are not then due and payable) incurred hereunder and thereunder, are paid in full:

8.01 Information Covenants. Magellan will furnish to the Administrative Agent for distribution to each Lender:

(a) Quarterly Financial Statements. Within 45 days after the close of each of the first three quarterly accounting periods in each fiscal year of Magellan (commencing with the fiscal quarter ending March 31, 2017), (i) the consolidated balance sheet of Magellan and its Subsidiaries as at the end of such quarterly accounting period and the related consolidated statements of income and retained earnings and statement of cash flows for such quarterly accounting period and for the elapsed portion of the fiscal year ended with the last day of such quarterly accounting period, in each case setting forth comparative figures for the corresponding quarterly accounting period in the prior fiscal year, all of which shall be certified by an Authorized Officer of Magellan that they fairly present in all material respects in accordance with generally accepted accounting principles the financial condition of Magellan and its Subsidiaries as of the dates indicated and the results of their operations for the periods indicated, subject to normal year-end audit adjustments and the absence of footnotes, and (ii) management's discussion and analysis of the important operational and financial developments during such quarterly accounting period.

(b) Annual Financial Statements. Within 90 days after the close of each fiscal year of Magellan (commencing with the fiscal year ending December 31, 2016), (i) the consolidated balance sheet of Magellan and its Subsidiaries as at the end of such fiscal year and the related consolidated statements of income and retained earnings and statement of cash flows for such fiscal year setting forth comparative figures for the preceding fiscal year and certified by Ernst & Young LLP or other independent certified public accountants of recognized national standing reasonably acceptable to the Administrative Agent, together with a report of such accounting firm (which report shall be without a "going concern" or like qualification or exception and without any qualification or exception as to scope of audit) and (ii) management's discussion and analysis of the important operational and financial developments during such fiscal year.

(c) [Reserved].

(d) [Reserved].

(e) Officer's Certificates. At the time of the delivery of the financial statements provided for in Sections 8.01(a) and (b), a compliance certificate from an Authorized Officer of Magellan in the form of Exhibit K (a "Compliance Certificate") certifying on behalf of Magellan that, to such officer's knowledge after due inquiry, no Default or Event of Default has occurred and is continuing or, if any Default or Event of Default has occurred and is continuing, specifying the nature and extent thereof, which certificate shall (i) set forth in reasonable detail the calculations required to establish whether Magellan and its Subsidiaries were in compliance with the provisions of Sections 9.08 and 9.09 at the end of such fiscal quarter or year, as the case may be and (ii) list all Wholly-Owned Specified Subsidiaries as of the end of such fiscal quarter or year, as the case may be, together with a report of the basis for which each such Wholly-Owned Specified Subsidiary, pursuant to clause (c) of the definition thereof, cannot enter into any Credit Document.

(f) Notice of Default, Litigation and Material Adverse Effect. Promptly, and in any event within three Business Days after any officer of Magellan or any of its Subsidiaries obtains knowledge thereof, notice of (i) the occurrence of any event which constitutes a Default or an Event of Default, (ii) any litigation or governmental investigation or proceeding pending against Magellan or any of its Subsidiaries (x) which, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect or (y) with respect to any Credit Document, or (iii) any other event, change or circumstance that has had, or could reasonably be expected to have, a Material Adverse Effect.

(g) Other Reports and Filings. Promptly after the filing or delivery thereof, copies of all financial information, proxy materials and reports, if any, which Magellan or any of its Subsidiaries shall publicly file with the Securities and Exchange Commission or any successor thereto (the "SEC") or deliver to holders (or any trustee, agent or other representative therefor) of any Permitted Subordinated Debt or any other material Indebtedness pursuant to the terms of the documentation governing such Indebtedness; provided, that so long as Magellan is a reporting company, the posting to the SEC's website (www.sec.gov/edgar) of financial statements or other information required by this Section 8.01 shall be deemed to satisfy the delivery requirement of such information hereunder.

(h) [Reserved].

(i) Other Information. From time to time, such other information or documents (financial or otherwise) with respect to Magellan or any of its Subsidiaries as the Administrative Agent or any Required Lenders (through the Administrative Agent) may reasonably request.

8.02 Books, Records and Inspections; Annual Meetings. Each of Magellan and the Borrower will, and will cause each of its respective Subsidiaries to, keep proper books of record and accounts in which full, true and correct entries which permit the preparation of financial statements in accordance with generally accepted accounting principles and which conform to all requirements of law shall be made of all dealings and transactions in relation to its business and activities. Each of Magellan and the Borrower will, and will cause each of its respective Subsidiaries to, permit officers and designated representatives of any Agent or the Required Lenders to visit and inspect, under guidance of officers of Magellan or such Subsidiary, any of the properties of Magellan or such Subsidiary, and to examine the books of account of Magellan or such Subsidiary and discuss the affairs, finances and accounts of Magellan or such Subsidiary with, and be advised as to the same by, its and their officers and independent accountants, all upon reasonable prior notice and at such reasonable times and intervals and to such reasonable extent as any Agent or the Required Lenders may reasonably request; provided, however, so long as no Event of Default exists, such visits shall be limited to one such visit in any fiscal year of Magellan.

8.03 Maintenance of Property; Insurance. Each of Magellan and the Borrower will, and will cause each of its respective Subsidiaries to, (i) keep all property necessary to the business of Magellan and its Subsidiaries in good working order and condition, ordinary wear and tear excepted and (ii) maintain with financially sound and reputable insurance companies insurance on all such property and against all such risks as is consistent and in accordance with industry practice for companies similarly situated owning similar properties and engaged in similar businesses as Magellan and its Subsidiaries.

8.04 Existence; Franchises. Each of Magellan and the Borrower will, and will cause each of its respective Subsidiaries to, do or cause to be done, all things necessary to preserve and keep in full force and effect its existence and its material rights, franchises, licenses, permits, copyrights, trademarks and patents; provided, however, that nothing in this Section 8.04 shall prevent (i) sales of assets and other transactions by Magellan or any of its Subsidiaries in accordance with Section 9.02 or (ii) the withdrawal by Magellan or any of its Subsidiaries of its qualification as a foreign corporation, partnership or limited liability company, as the case may be, in any jurisdiction if such withdrawal could not, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

8.05 Compliance with Statutes, etc. Each of Magellan and the Borrower will, and will cause each of its respective Subsidiaries to, comply with all applicable statutes, regulations and orders of, and all applicable restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including applicable statutes, regulations, orders and restrictions relating to Health Care Laws and environmental standards and controls), except such noncompliances as could not, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each of Magellan and the Borrower will maintain in effect and enforce policies and procedures designed to ensure compliance by Magellan, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions.

8.06 [Reserved].

8.07 ERISA. Each of Magellan and the Borrower will, and will cause each of its respective Subsidiaries to, (a) except as would not, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, comply in all material respects with the provisions of ERISA and the Code applicable to ERISA Plans and the laws applicable to any Foreign Pension Plan, (b) furnish to each Lender as soon as possible after, and in any event within ten (10) days after any responsible officer of Magellan, any of its Subsidiaries or any ERISA Affiliate knows or has reason to know that any event described in Section 10.06 has occurred or is reasonably expected to occur that, alone or together with any other event described therein that has occurred or is reasonably expected to occur, could

reasonably be expected to result in a material liability of Magellan, any of its Subsidiaries or any ERISA Affiliate, a statement of the chief financial officer of Magellan setting forth details as to such event and the action, if any, that Magellan, or any of its Subsidiaries proposes to take with respect thereto and (c) promptly and in any event within ten (10) days after the filing thereof with the (x) United States Department of Labor, furnish to the Administrative Agent copies of each Schedule SB (Actuarial Information) to the Annual Report (Form 5500 Series) and (y) PBGC, furnish to the Administrative Agent copies of material correspondence with respect to any of the events referred to in clause (b) above, in each case with respect to each ERISA Plan.

8.08 End of Fiscal Years; Fiscal Quarters. Magellan will cause (i) each of its, and each of its Subsidiaries, fiscal years to end on December 31 of each year and (ii) each of its, each of its Subsidiaries, fiscal quarters to end on March 31, June 30, September 30 and December 31 of each year; provided, however, (x) one or more of the Subsidiaries of Magellan existing on the Effective Date may have a fiscal year that ends on September 30, (y) one or more of such Subsidiaries may elect to change their fiscal year end to December 31 and (z) one or more of the Subsidiaries of Magellan acquired pursuant to a Permitted Acquisition after the Effective Date may have a fiscal year that ends on a date other than December 31 of each year and may have fiscal quarters that end on dates other than March 31, June 30, September 30 and December 31 of each year.

8.09 Performance of Obligations. Each of Magellan and the Borrower will, and will cause each of its respective Subsidiaries to, perform all of its obligations under the terms of each mortgage, indenture, security agreement, loan agreement or credit agreement and each other agreement, lease, contract or instrument by which it is bound, except such non-performances as could not, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

8.10 Payment of Taxes. Each of Magellan and the Borrower will pay and discharge, and will cause each of its respective Subsidiaries to pay and discharge, all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or upon any properties belonging to it, in each case on a timely basis, and all lawful claims which, if unpaid, might become a Lien or charge upon any properties of Magellan or any of its Subsidiaries not otherwise permitted under Section 9.01(i); provided, that neither Magellan nor any of its Subsidiaries shall be required to pay any such tax, assessment, charge, levy or claim which (i) could not, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect or (ii) is being contested in good faith and by proper proceedings if it has maintained adequate reserves with respect thereto in accordance with generally accepted accounting principles.

8.11 Use of Proceeds. The Borrower will use all proceeds of the Loans for the working capital and general corporate purposes of Magellan and its Subsidiaries, including to pay the fees and expenses incurred in connection with the Transaction, for Dividends (including share repurchases) permitted under Section 9.03, Investments permitted under Section 9.05 (including Permitted Acquisitions), repayments of any loan outstanding under the 2014 Credit Agreement, earn-out payments relating to prior acquisitions and/or any other purposes not prohibited by this Agreement.

8.12 Further Assurances; etc. Magellan will cause each Wholly-Owned Domestic Subsidiary of Magellan (whether existing on the Effective Date or thereafter created, established or acquired) that is not a Wholly-Owned Specified Subsidiary and has not entered into the Guaranty to, within 30 days (or such later date as the Administrative Agent shall agree in its reasonable discretion) of (x) such Subsidiary ceasing to be a Wholly-Owned Specified Subsidiary or (y) the formation or acquisition of such Subsidiary, execute and deliver to the Administrative Agent counterparts of the Guaranty, together with all other relevant documentation (including resolutions and officers' certificates)

of the type described in Section 5.04 as such Subsidiary would have had to deliver if it executed the Guaranty on the Effective Date.

Section 9. Negative Covenants. Each of Magellan and the Borrower hereby covenants and agrees that on and after the Effective Date and until all Commitments have terminated and the Loans and Notes (in each case, together with interest thereon) and all other Obligations (other than any indemnities described in Section 13.13 which are not then due and payable) incurred hereunder and thereunder, are paid in full:

9.01 Liens. Neither Magellan nor the Borrower will, nor will they permit any of their respective Subsidiaries to, create, incur, assume or suffer to exist any Lien upon or with respect to any property or assets (real or personal, tangible or intangible) of Magellan or any of its Subsidiaries, whether now owned or hereafter acquired; provided, that the provisions of this Section 9.01 shall not prevent the creation, incurrence, assumption or existence of the following (Liens described below are herein referred to as "Permitted Liens"):

(i) inchoate Liens for taxes, assessments or governmental charges or levies not yet due or Liens for taxes, assessments or governmental charges or levies that are immaterial in amount or are being contested in good faith and by appropriate proceedings for which adequate reserves have been established in accordance with generally accepted accounting principles;

(ii) Liens in respect of property or assets of Magellan or any of its Subsidiaries imposed by law, which were incurred in the ordinary course of business and do not secure Indebtedness for borrowed money, such as carriers', warehousemen's, materialmen's, repairmen's, supplier's and mechanics' liens and other similar Liens arising in the ordinary course of business, and (x) which do not in the aggregate materially detract from the value of Magellan's and its Subsidiaries' property or assets taken as a whole or materially impair the use thereof in the operation of the business of Magellan and its Subsidiaries taken as a whole or (y) which are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the property or assets subject to any such Lien;

(iii) Liens in existence on the Effective Date which are listed, and the property subject thereto described, in Schedule VIII, but only to the respective date, if any, set forth in such Schedule VIII for the removal, replacement and termination of any such Liens, plus renewals, replacements and extensions of such Liens to the extent set forth on such Schedule VIII; provided, that (x) the aggregate principal amount of the Indebtedness, if any, secured by such Liens does not increase from that amount outstanding at the time of any such renewal, replacement or extension and (y) any such renewal, replacement or extension does not encumber any additional assets or properties of Magellan or any of its Subsidiaries;

(iv) Liens attaching to pharmaceutical products in the ordinary course of business to secure purchase obligations (other than Indebtedness) owing to suppliers and manufacturers in respect of such products;

(v) licenses, sublicenses, leases or subleases granted to other Persons not materially interfering with the conduct of the business of Magellan or any of its Subsidiaries;

(vi) Liens upon assets of Magellan or any of its Subsidiaries subject to Capitalized Lease Obligations to the extent such Capitalized Lease Obligations are permitted by Section 9.04(v); provided, that (x) such Liens only serve to secure the payment of Indebtedness arising under such Capitalized Lease Obligation and (y) the Lien encumbering the asset giving

rise to the Capitalized Lease Obligation does not encumber any other asset of Magellan or any Subsidiary;

(vii) purchase money security interests in Real Property acquired after the Effective Date or with respect to improvements thereto, and Liens placed upon equipment acquired after the Effective Date and used in the ordinary course of business of Magellan or any of its Subsidiaries and (in each case) placed at the time of the acquisition (or construction) thereof by Magellan or such Subsidiary or within 270 days thereafter to secure Indebtedness incurred to pay all or a portion of the purchase (or construction) price thereof or to secure Indebtedness incurred solely for the purpose of financing the acquisition (or construction) of any such Real Property (or improvements thereto) or equipment or extensions, renewals or replacements of any of the foregoing for the same or a lesser amount; provided, that (x) the Indebtedness secured by such Liens is permitted by Section 9.04(v) and (y) in all events, the Lien encumbering the Real Property (or improvements thereto) or equipment so acquired (or constructed) does not encumber any other asset of Magellan or any of its Subsidiaries;

(viii) easements, rights-of-way, restrictions, encroachments and other similar charges or encumbrances, and minor title deficiencies, in each case not securing Indebtedness and not materially interfering with the conduct of the business of Magellan or any of its Subsidiaries;

(ix) Liens arising from precautionary UCC financing statement filings regarding operating leases or sales of accounts, payment intangibles, chattel paper or instruments entered into in the ordinary course of business;

(x) Liens arising out of the existence of judgments or awards in respect of which Magellan or any of its Subsidiaries shall be contesting in good faith, so long as such judgments or awards do not constitute an Event of Default hereunder;

(xi) statutory and common law landlords' liens under leases to which Magellan or any of its Subsidiaries is a party;

(xii) Liens (other than Liens imposed under ERISA) incurred in the ordinary course of business in connection with workers compensation claims, unemployment insurance, social security benefits and other similar forms of governmental insurance benefits and (y) deposits securing the performance of bids, tenders, leases (other than Capitalized Lease Obligations) and contracts (other than Indebtedness) in the ordinary course of business, statutory obligations, surety bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business (exclusive of obligations in respect of the payment for borrowed money);

(xiii) Liens on property or assets of Magellan or any of its Subsidiaries in favor of any Credit Party;

(xiv) (A) Liens on property or assets acquired pursuant to a Permitted Acquisition, or on property or assets of a Subsidiary of Magellan in existence at the time such Subsidiary is acquired pursuant to a Permitted Acquisition; provided, that (x) any Indebtedness that is secured by such Liens is permitted to exist under Section 9.04(ix), and (y) such Liens are not incurred in connection with, or in contemplation or anticipation of, such Permitted Acquisition and do not attach to any other asset of Magellan or any of its Subsidiaries; and (B) renewals, replacements and extensions of such Liens; provided, that (x) the aggregate principal amount of the Indebtedness, if any, secured by such Liens does not increase from that amount outstanding at the time of any such renewal, replacement or extension and (y) any such renewal, replacement or

extension does not encumber any additional assets or properties of Magellan or any of its Subsidiaries;

(xv) customary Liens in favor of banking institutions encumbering deposits (including the right of set-off) held by such banking institutions incurred in the ordinary course of business;

(xvi) Liens solely in the nature of restrictions imposed on certain Subsidiaries of Magellan by governmental authorities to maintain certain levels of capital or net worth requirements due to the regulated nature of such Subsidiaries' operations;

(xvii) deposit, escrow or similar accounts held by customers of Magellan or any of its Subsidiaries as security for the obligations of Magellan or any of its Subsidiaries under customer contracts entered into in the ordinary course of business on a basis consistent with past practices;

(xviii) fiduciary or similar accounts held by Magellan or any of its Subsidiaries for their respective customers and for which Magellan or its respective Subsidiaries process claims on an ASO basis, in each case so long as such accounts are funded with cash provided to Magellan or its respective Subsidiaries by their respective customers;

(xix) Liens on cash deposits pledged as collateral to secure Indebtedness permitted under Section 9.04(xii) so long as the aggregate amount of cash pledged as collateral at any time outstanding does not exceed $50,000,000;

(xx) Liens on cash collateral provided under the terms of the 2014 Credit Agreement (as in effect on the Effective Date); and

(xxi) Liens not otherwise permitted by clauses (i) through (xix) of this Section 9.01 on property or assets with an aggregate fair value not in excess of, and securing liabilities not in excess of, the greater of (A) $40,000,000 and (B) 2.25% of Consolidated Total Assets in the aggregate at any time outstanding.

9.02 Consolidation, Merger, Purchase or Sale of Assets, etc. Neither Magellan nor the Borrower will, nor will they permit any of their respective Subsidiaries to, wind up, liquidate or dissolve its affairs or enter into any partnership, joint venture, or transaction of merger or consolidation, or convey, sell, lease or otherwise dispose of all or any part of its property or assets, except that:

(i) [Reserved].

(ii) each of Magellan and its Subsidiaries may make sales of inventory in the ordinary course of business;

(iii) Investments may be made to the extent permitted by Section 9.05;

(iv) each of Magellan and its Subsidiaries may sell or otherwise dispose of obsolete, uneconomic or worn-out equipment in the ordinary course of business;

(v) Magellan and its Subsidiaries may sell assets (other than (A) the capital stock or other equity interests of the Borrower, (B) the capital stock or other equity interests of any other Subsidiary of Magellan unless all of the capital stock and other equity interests of such other Subsidiary then owned by Magellan and its Subsidiaries are sold in a sale permitted by this clause (v) or (C) all or substantially all of the assets of Magellan and its Subsidiaries taken as a

whole), so long as (a) no Default or Event of Default then exists or would result therefrom, (b) each such sale is in an arm's-length transaction and Magellan or the respective Subsidiary receives at least fair market value (as determined in good faith by Magellan or such Subsidiary, as the case may be) and (c) the consideration received by Magellan or such Subsidiary consists of at least 75% cash and is paid at the time of the closing of such sale;

(vi) each of Magellan and its Subsidiaries may lease (as lessee) or license (as licensee) real or personal property (so long as any such lease or license does not create a Capitalized Lease Obligation except to the extent permitted by Section 9.04(v));

(vii) each of Magellan and its Subsidiaries may sell or discount, in each case without recourse and in the ordinary course of business, accounts receivable arising in the ordinary course of business, but only in connection with the compromise or collection thereof and not as part of any financing transaction or bulk sale;

(viii) each of Magellan and its Subsidiaries may grant licenses, sublicenses, leases or subleases to other Persons not materially interfering with the conduct of the business of Magellan or any of its Subsidiaries;

(ix) any Subsidiary of Magellan may merge with and into, or be dissolved or liquidated into, or transfer any of its assets to, Magellan, the Borrower or a Subsidiary Guarantor so long as (i) in the case of any such merger, dissolution or liquidation involving the Borrower, the Borrower is the surviving corporation of any such transfer, merger, dissolution or liquidation, (ii) in all other cases, Magellan or a Subsidiary Guarantor is the surviving corporation of any such merger, dissolution or liquidation and (iii) in the case of any such transaction pursuant to which any consideration is paid to a Person that is not a Wholly-Owned Subsidiary of Magellan, such consideration shall be permitted to be paid at such time only to the extent that it could otherwise have been paid pursuant to (and Magellan shall be required to satisfy the provisions of) Section 9.05(xi), 9.05(xiv) or 9.05(xv), as applicable;

(x) any Foreign Subsidiary of Magellan may merge with and into, or be dissolved or liquidated into, or transfer any of its assets to, any Foreign Subsidiary of Magellan so long as (i) in the case of any such transfer, merger, dissolution or liquidation involving a Wholly-Owned Foreign Subsidiary, a Wholly-Owned Foreign Subsidiary of Magellan is the surviving corporation of any such merger, dissolution or liquidation, and (ii) in the case of any such transaction pursuant to which any consideration is paid to a Person that is not a Wholly-Owned Subsidiary of Magellan, such consideration shall be permitted to be paid at such time only to the extent that it could otherwise have been paid pursuant to (and Magellan shall be required to satisfy the provisions of) Section 9.05(xi), 9.05(xiv) or 9.05(xv), as applicable;

(xi) the Borrower or any other Subsidiary of Magellan may merge with any other Person in order to effect an Investment permitted by Section 9.05; provided, that (x) if such merger involves the Borrower (i) the Borrower shall be the continuing or surviving Person or, in the case of a merger where the Borrower is not the continuing or surviving Person, the Person formed by or surviving any such merger shall be an entity organized or existing under the laws of the United States, any state thereof, the District of Columbia or any territory thereof (the Borrower or such Person, as the case may be, being herein referred to as the "Successor Borrower") and (ii) the Successor Borrower (if other than the Borrower) shall expressly assume all the obligations of the Borrower under this Agreement and the other Credit Documents pursuant to a supplement hereto or thereto in form reasonably satisfactory to the Administrative Agent, (y) if such merger involves a Subsidiary Guarantor (and does not involve the Borrower),

the continuing or surviving entity shall be a Subsidiary Guarantor and (z) in all cases, a Wholly-Owned Subsidiary shall be the continuing or surviving entity; and

(xii) (A) any Subsidiary of Magellan (other than the Borrower) that has no assets or liabilities (other than immaterial assets or liabilities) may be dissolved or liquidated and (B) any Subsidiary of Magellan that is not a Credit Party may merge with and into, or be dissolved or liquidated into, or transfer any or all of its assets to, a Subsidiary of Magellan that is not a Credit Party so long as (i) in the case of any such transfer, merger, dissolution or liquidation involving a Wholly-Owned Subsidiary, a Wholly-Owned Subsidiary of Magellan is the surviving entity of any such transaction and (ii) in the case of any such transaction pursuant to which any consideration is paid to a Person that is neither Magellan nor a Wholly-Owned Subsidiary thereof, such consideration shall be permitted to be paid at such time only to the extent that it could otherwise have been paid pursuant to (and Magellan shall be required to satisfy the provisions of) Section 9.05(xi), 9.05(xiv) or 9.05(xv), as applicable.

9.03 Dividends. Neither Magellan nor the Borrower will, nor will they permit any of their respective Subsidiaries to, authorize, declare or pay any Dividends with respect to Magellan or any of its Subsidiaries, except that:

(i) any Subsidiary of Magellan may (x) pay Dividends to Magellan or to any Wholly-Owned Subsidiary of Magellan and (y) if such Subsidiary is not a Wholly-Owned Subsidiary of Magellan, pay Dividends to its shareholders, partners or members generally so long as Magellan or its respective Subsidiary which owns the equity interest or interests in the Subsidiary paying such Dividends receives at least its proportionate share thereof (based upon its relative holdings of equity interests in the Subsidiary paying such Dividends and taking into account that the relative preferences, if any, of the various classes of equity interests in such Subsidiary);

(ii) so long as there shall exist no Default or Event of Default (both before and after giving effect to the payment thereof), Magellan may repurchase outstanding shares of its capital stock (or options to purchase such capital stock) following the death, disability, retirement or termination of employment of employees, officers or directors of Magellan or any of its Subsidiaries; provided, that the aggregate amount of all Dividends paid by Magellan pursuant to this clause (ii) shall not exceed $5,000,000 in any fiscal year of Magellan;

(iii) Magellan may pay or make Dividends (including to repurchase shares of its capital stock) so long as (a) no Default or Event of Default then exists or would result therefrom, (b) calculations are made by Magellan with respect to the financial covenants contained in Sections 9.08 and 9.09 for the respective Calculation Period on Pro Forma Basis as if the respective Dividend (as well as all other Dividends theretofore paid or made after the first day of such Calculation Period) had occurred on the first day of such Calculation Period, and such calculations shall show (x) in the case of Section 9.08, that such financial covenant would have been complied with as of the last day of such Calculation Period and (y) in the case of Section 9.09 , that the Total Leverage Ratio would have been no greater than 2.00:1.00 as of the last day of such Calculation Period, (c) immediately after giving effect to such proposed Dividend, the sum of the Total Unutilized Revolving Loan Commitment plus the aggregate amount of all Unrestricted cash and Cash Equivalents of Magellan and its Subsidiaries at such time shall equal or exceed $50,000,000 and (d) in connection with the payment or making of cash Dividends to holders of its capital stock (but not including, for the purposes of this sub-clause (d) only, the repurchase of shares of Magellan's capital stock), Magellan shall have delivered to the Administrative Agent (with copies for each Lender) a certificate executed by one of its

Authorized Officers certifying compliance with the requirements of preceding clauses (a) through (c), inclusive, and containing the calculations (in reasonable detail) required by preceding clauses (c) and (d);

(iv) so long as no Default or Event of Default then exists or would result therefrom, Magellan may pay or make additional Dividends (including to repurchase shares of its capital stock) in an aggregate amount not to exceed $10,000,000 in any fiscal year of Magellan;

(v) (i) Magellan may redeem in whole or in part any of its capital stock for another class of its capital stock (other than Disqualified Stock) or rights to acquire its capital stock (other than Disqualified Stock) and (ii) Magellan may declare and make Dividends solely in its capital stock (other than Disqualified Stock);

(vi) Magellan may pay any Dividend within 30 days after the date of declaration thereof, if at the date of declaration such payment would have complied with the provisions of this Agreement; and

(vii) Magellan may (a) pay cash in lieu of fractional shares in connection with any Dividend, split or combination thereof and (b) honor any conversion request by a holder of convertible Indebtedness and make cash payments in lieu of fractional shares in connection with any such conversion.

9.04 Indebtedness. Neither Magellan nor the Borrower will, nor will they permit any of their respective Subsidiaries to, contract, create, incur, assume or suffer to exist any Indebtedness, except:

(i) Indebtedness incurred pursuant to this Agreement and the other Credit Documents;

(ii) Indebtedness outstanding on the Effective Date and listed on Schedule VI (as reduced by any permanent repayments of principal thereof), including any subsequent extension, renewal or refinancing thereof (except to the extent set forth on Schedule VI) ; provided, that the aggregate principal amount of the Indebtedness to be extended, renewed or refinanced does not increase from that amount outstanding at the time of any such extension, renewal or refinancing;

(iii) Indebtedness of Magellan or any of its Subsidiaries under Interest Rate Protection Agreements entered into with respect to other Indebtedness permitted under this Section 9.04 so long as the entering into of such Interest Rate Protection Agreements are bona fide hedging activities and are not for speculative purposes;

(iv) Indebtedness of Magellan or any of its Subsidiaries under Other Hedging Agreements providing protection to Magellan and its Subsidiaries against fluctuations in currency values in connection with Magellan's or any of its Subsidiaries' foreign operations so long as the entering into of such Other Hedging Agreements are bona fide hedging activities and are not for speculative purposes;

(v) Indebtedness of Magellan and its Subsidiaries evidenced by Capitalized Lease Obligations and purchase money Indebtedness described in Section 9.01(vii); provided, that in no event shall the sum of the aggregate principal amount of all Capitalized Lease Obligations and purchase money Indebtedness permitted by this clause (v) exceed $15,000,000 at any time outstanding;

(vi) intercompany Indebtedness among Magellan and its Subsidiaries to the extent permitted by Sections 9.05(viii) or (xiv);

(vii) to the extent that same constitutes Indebtedness, obligations in respect of earn-out arrangements permitted pursuant to a Permitted Acquisition;

(viii) Indebtedness consisting of guaranties by the Credit Parties of each other's Indebtedness permitted under this Agreement;

(ix) (A) Indebtedness of a Subsidiary of Magellan acquired pursuant to a Permitted Acquisition (or Indebtedness assumed at the time of a Permitted Acquisition of an asset securing such Indebtedness); provided, that (x) such Indebtedness was not incurred in connection with, or in anticipation or contemplation of, such Permitted Acquisition, (y) such Indebtedness does not constitute debt for borrowed money, it being understood and agreed that Capitalized Lease Obligations and purchase money Indebtedness shall not constitute debt for borrowed money for purposes of this clause (y) and (z) the aggregate principal amount of all Indebtedness permitted by this clause (ix) shall not exceed $25,000,000 at any one time outstanding and (B) any subsequent extension, renewal or refinancing of such Indebtedness; provided, that the aggregate principal amount of the Indebtedness to be extended, renewed or refinanced does not increase from that amount outstanding at the time of any such extension, renewal or refinancing;

(x) Indebtedness in respect of overdrafts and related liabilities arising from treasury, depository, credit or debit card, purchasing card, or cash management services (including any automated clearing house transfers of funds netting services, automatic clearinghouse arrangements, overdraft protections and similar arrangements) in each case in connection with deposit accounts incurred in the ordinary course of business;

(xi) Indebtedness of Magellan or any of its Subsidiaries which may be deemed to exist in connection with agreements providing for indemnification, purchase price adjustments and similar obligations in connection with the acquisition or disposition of assets in accordance with the requirements of this Agreement so long as any such obligations are those of the Person making the respective acquisition or sale, and are not guaranteed by any other Person except as permitted by Section 9.04(viii);

(xii) so long as no Default or Event of Default then exists or would result therefrom, Indebtedness of Magellan or any of its Subsidiaries in respect of letters of credit issued for the account of Magellan or any of its Subsidiaries in the ordinary course of business and supporting L/C Supportable Obligations (as defined in the 2014 Credit Agreement) so long as the aggregate stated amount of all such Indebtedness (including all unreimbursed drawings thereunder) does not exceed $50,000,000 at any time outstanding;

(xiii) Permitted Subordinated Debt of Magellan, and unsecured subordinated guaranties thereof by the Borrower and the Subsidiary Guarantors, so long as (i) all such Indebtedness is incurred in accordance with the requirements of the definition of Permitted Subordinated Debt, (ii) no Default or Event of Default exists at the time of incurrence thereof or would result therefrom, (iii) the Net Debt Proceeds therefrom are used to effect a Permitted Acquisition in accordance with the requirements of Section 9.05(xi), (iv) calculations are made by Magellan with respect to the financial covenants contained in Sections 9.08 and 9.09 for the respective Calculation Period on a Pro Forma Basis as if such Permitted Subordinated Debt (as well as all other Permitted Subordinated Debt theretofore incurred after the first day of such

calculation Period) had been incurred on the first day of such Calculation Period, and such calculations shall show that such financial covenants would have been complied with as of the last day of such Calculation Period and (v) Magellan shall have delivered to the Administrative Agent (with copies for each Lender) a certificate executed by one of its Authorized Officers certifying compliance with the requirements of preceding clauses (i) through (iv), inclusive, and containing the calculations (in reasonable detail) required by preceding clause (iv);

(xiv) additional Indebtedness of Magellan and its Subsidiaries so long as (x) no Default or Event of Default then exists or would result therefrom and (y) calculations are made by Magellan with respect to the financial covenants contained in Sections 9 .08 and 9.09 for the respective Calculation Period on a Pro Forma Basis as if the respective incurrence of Indebtedness (as well as all other Indebtedness theretofore incurred after the first day of such Calculation Period) had occurred on the first day of such Calculation Period, and such calculations shall show that such financial covenants would have been complied with as of the last day of such Calculation Period (without netting the proceeds of the applicable incurrence);

(xv) Indebtedness consisting of the financing of insurance premiums in the ordinary course of business;

(xvi) Indebtedness representing deferred compensation to employees of a Magellan or any of its Subsidiaries incurred in the ordinary course of business;

(xvii) Indebtedness supported by a letter of credit in a principal amount not to exceed the face amount of such letter of credit;

(xviii) unsecured Indebtedness outstanding under the 2014 Credit Agreement and including any subsequent extension, renewal or refinancing thereof with unsecured Indebtedness, in an aggregate principal amount not to exceed $700,000,000 at any time outstanding; and

(xix) unsecured Indebtedness outstanding under the 2016 Credit Agreement and including any subsequent extension, renewal or refinancing thereof with unsecured indebtedness, in an aggregate principal amount not to exceed $200,000,000 at any time outstanding.

9 . 0 5 Advances, Investments and Loans. Neither Magellan nor the Borrower will, nor will they permit any of their respective Subsidiaries to, directly or indirectly, lend money or credit or make advances to any Person, or purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, any other Person, or purchase or own a futures contract or otherwise become liable for the purchase or sale of currency or other commodities at a future date in the nature of a futures contract, or hold any cash or Cash Equivalents (each of the foregoing an "Investment" and, collectively, "Investments"), except that the following shall be permitted:

(i) Magellan and its Subsidiaries may acquire and hold accounts receivable owing to any of them, if created or acquired in the ordinary course of business;

(ii) Magellan and its Subsidiaries may acquire and hold cash and Cash Equivalents;

(iii) Magellan and its Subsidiaries may hold the Investments held by them on the Effective Date and described on Schedule IX; provided, that any additional Investments made with respect thereto shall be permitted only if permitted under the other provisions of this Section 9.05;

(iv) Magellan and its Subsidiaries may acquire and own investments (including debt obligations) received in connection with the bankruptcy or reorganization of suppliers and customers and in good faith settlement of delinquent obligations of, and other disputes with, customers and suppliers arising in the ordinary course of business;

(v) Magellan and its Subsidiaries may make loans and advances to their officers and employees in the ordinary course of business (including for the exercise of stock options and similar rights) of Magellan and its Subsidiaries in an aggregate amount not to exceed $5,000,000 at any time outstanding (determined without regard to any write-downs or write-offs of such loans and advances);

(vi) Magellan and its Subsidiaries may enter into Interest Rate Protection Agreements to the extent permitted by Section 9.04(iii);

(vii) Magellan and its Subsidiaries may enter into Other Hedging Agreements to the extent permitted by Section 9.04(iv);

(viii) Magellan and its Wholly-Owned Subsidiaries may make intercompany Investments between and among one another;

(ix) [Reserved];

(x) [Reserved];

(xi) (A) Subject to the provisions of this clause (xi), Magellan, the Borrower and each of Magellan's other Wholly-Owned Subsidiaries may from time to time effect Permitted Acquisitions, so long as (in each case except to the extent the Required Lenders otherwise specifically agree in writing in the case of a specific Permitted Acquisition): (1) no Default or Event of Default shall have occurred and be continuing at the time of the consummation of the proposed Permitted Acquisition or immediately after giving effect thereto; (2) calculations are made by Magellan with respect to the financial covenants contained in Sections 9.08 and 9.09 for the respective Calculation Period on a Pro Forma Basis as if the respective Permitted Acquisition (as well as all other Permitted Acquisitions theretofore consummated after the first day of such Calculation Period) had occurred on the first day of such Calculation Period, and such calculations shall show that such financial covenants would have been complied with as of the last day of such Calculation Period; (3) all of the representations and warranties contained herein and in the other Credit Documents shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on and as of the date of such Permitted Acquisition (both before and after giving effect thereto), unless stated to relate to a specific earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date; (4) after giving effect to such proposed Permitted Acquisition and the payment of all amounts (including fees and expenses) owing in connection therewith, the sum of the Total Unutilized Revolving Loan Commitment plus the aggregate amount of all Unrestricted cash and Cash Equivalents of Magellan and its Subsidiaries at such time shall equal or exceed the sum of (I) $50,000,000 plus (II) an amount equal to the aggregate amount reasonably likely to be payable within the 12 months following such Permitted Acquisition in respect of all post-closing purchase price adjustments, earn-out payments, noncompete payments and/or deferred purchase payments (or similar payments), in each case required or which will be required in connection with such Permitted Acquisition (and all other Permitted Acquisitions for which such purchase price adjustments and other payments may be required to be made) as determined by Magellan in good faith on the date of such acquisition; and

(5) Magellan shall have delivered to the Administrative Agent within five (5) Business Days of such Permitted Acquisition a certificate executed by one of its Authorized Officers certifying compliance with the requirements of preceding clauses (1) through (5), inclusive (to the extent applicable), and containing the calculations (in reasonable detail) required by preceding clauses (2) and (4).

(B) Magellan will cause each Wholly-Owned Domestic Subsidiary, which is formed to effect, or is acquired pursuant to, a Permitted Acquisition to comply with, and to execute and deliver all of the documentation as and to the extent required by, Section 8.12.

(xii) Magellan may acquire and hold obligations of one or more officers, directors or other employees of Magellan or any of its Subsidiaries in connection with such officers', directors' or employees' acquisition of shares of capital stock of Magellan so long as no cash is paid by Magellan or any of its Subsidiaries to such officers, directors or employees in connection with the acquisition of any such obligations;

(xiii) Magellan and its Subsidiaries may acquire and hold promissory notes and other non-cash consideration issued by the purchaser of assets in connection with a sale of such assets to the extent permitted by Section 9.02(v);

(xiv) Magellan and its Subsidiaries may make Investments so long as (i) no Default or Event of Default then exists or would result therefrom, (ii) calculations are made by Magellan with respect to the financial covenants contained in Sections 9.08 and 9.09 for the respective Calculation Period on Pro Forma Basis as if the respective Investment (as well as other Investments theretofore consummated after the first day of such Calculation Period) had occurred on the first day of such Calculation Period, and such calculations shall show that financial covenants would have been complied with as of the last day of such Calculation Period, (iii) immediately after giving effect to such proposed Investment, the sum of the Total Unutilized Revolving Loan Commitment plus the aggregate amount of all Unrestricted cash and Cash Equivalents of Magellan and its Subsidiaries at such time shall equal or exceed $50,000,000 and (iv) Magellan shall have delivered to the Administrative Agent (with copies for each Lender) a certificate executed by one of its Authorized Officers certifying compliance with the requirements of preceding clauses (i) through (iii), inclusive, and containing the calculations (in reasonable detail) required by preceding clauses (ii) and (iii);

(xv) so long as no Default or Event of Default then exists or would result therefrom, Magellan and its Subsidiaries may make Investments not otherwise permitted by clauses (i) through (xiv) of this Section 9.05 in an aggregate amount not to exceed $25,000,000 at any time outstanding (determined without regard to any write downs or write-offs of such Investments); and

(xvi) Magellan and its Subsidiaries may make Investments in joint ventures and non-Wholly-Owned Subsidiaries in an aggregate amount not to exceed $50,000,000 in any fiscal year.

9.06 Transactions with Affiliates. Neither Magellan nor the Borrower will, nor will they permit any of their respective Subsidiaries to, enter into any transaction or series of related transactions with any Affiliate of Magellan or any of its Subsidiaries involving aggregate consideration in excess of $5,000,000, other than in the ordinary course of business and on terms and conditions substantially as favorable to Magellan or such Subsidiary as would reasonably be obtained by Magellan or such Subsidiary at that time in a comparable arm's length transaction with a Person other than an Affiliate, except that:

(i) Dividends may be paid to the extent provided in Section 9.03;

(ii) loans may be made and other transactions may be entered into by Magellan and its Subsidiaries to the extent permitted by Sections 9.02, 9.04 and 9.05;

(iii) customary fees, indemnities and reimbursements may be paid to officers and directors of Magellan and its Subsidiaries;

(iv) Magellan and its Subsidiaries may enter into, and may make payments under, employment agreements, employee benefits plans, stock option plans, indemnification provisions, severance arrangements, and other similar compensatory arrangements with officers, employees and directors of Magellan and its Subsidiaries in the ordinary course of business;

(v) periodic allocations of operating and overhead expenses among Magellan and its Subsidiaries may be made;

(vi) Magellan or any Subsidiary of Magellan may pay to any Credit Party management, consulting or similar fees on a basis consistent with past practices;

(vii) Magellan and its Subsidiaries may enter into transactions that are approved by a majority of the Disinterested Directors; and

(viii) each Credit Party may enter into transactions with one or more other Credit Parties.

Notwithstanding anything to the contrary contained in this Agreement, Magellan will not, and will not permit any of its Subsidiaries to, pay any management, consulting or similar fees to any of their respective Affiliates other than as permitted by clause (vi) above.

9.07 [Reserved].

9.08 Consolidated Interest Coverage Ratio. Magellan and the Borrower will not permit the Consolidated Interest Coverage Ratio for any Test Period ending on the last day of any fiscal quarter of Magellan to be less than 3.00:1.00.

9.09 Total Leverage Ratio. Magellan and the Borrower will not permit the Total Leverage Ratio for any Test Period ending on the last day of any fiscal quarter of Magellan to be greater than 2.50:1.00.

9.10 Limitations on Payments of Permitted Subordinated Debt; Modifications of Certificate of Incorporation, By-Laws and Documents Governing Permitted Subordinated Debt. Neither Magellan nor the Borrower will, nor will they permit any of their respective Subsidiaries to:

(i) make (or give any notice in respect of) any voluntary or optional payment or prepayment on or redemption or acquisition for value of, or any prepayment or redemption as a result of any asset sale, change of control or similar event of (including, in each case without limitation, by way of depositing with the trustee with respect thereto, or with any other Person, money or securities before due for the purpose of paying when due), any Permitted Subordinated Debt; provided, however, that (A) so long as no Default or Event of Default then exists or would result therefrom, Magellan may redeem or repurchase outstanding Permitted Subordinated Debt so long as the aggregate amount expended in respect of all such redemptions and repurchases

does not exceed $10,000,000 in any fiscal year of Magellan and (B) Magellan may effect additional redemptions or repurchases of outstanding Permitted Subordinated Debt so long as (i) no Default or Event of Default then exists or would result therefrom, (ii) calculations are made by Magellan with respect to the financial covenants contained in Sections 9.08 and 9.09 for the respective Calculation Period on Pro Forma Basis as if the respective redemption or repurchase (as well as all other redemptions and repurchases theretofore consummated after the first day of such Calculation Period) had occurred on the first day of such Calculation Period, and such calculations shall show (x) in the case of Section 9.08, that such financial covenant would have been complied with as of the last day of such Calculation Period and (y) in the case of Section 9.09, that the Total Leverage Ratio would have been no greater than 2.00:1.00 as of the last day of such Calculation Period, (iii) immediately after giving effect to such proposed redemption or repurchase, the sum of the Total Unutilized Revolving Loan Commitment plus the aggregate amount of all Unrestricted cash and Cash Equivalents of Magellan and its Subsidiaries at such time shall equal or exceed $50,000,000 and (iv) Magellan shall have delivered to the Administrative Agent (with copies for each Lender) a certificate executed by one of its Authorized Officers certifying compliance with the requirements of preceding clauses (i) through (iii), inclusive and containing the calculations (in reasonable detail) required by preceding clauses (ii) and (iii);

(ii) on and after the execution and delivery of any Permitted Subordinated Debt Document, amend or modify (or permit the amendment or modification of) any Permitted Subordinated Debt Document, other than any such amendment or modification that (i) makes the provisions thereof less restrictive on Magellan and its Subsidiaries (including with respect to any representation, warranty, covenant, default or event of default), (ii) reduces interest rates, commissions or fees paid (or to be paid) by Magellan or any of its Subsidiaries in connection therewith, (iii) extends the stated maturity of any Indebtedness thereunder, (iv) reduces or eliminates any prepayment premiums or (v) is otherwise not adverse to the Lenders in any material respect (in the reasonable opinion of the Administrative Agent); provided, that no amendment or modification may be made to the subordination provisions contained in any Permitted Subordinated Debt Document without the prior written consent of the Administrative Agent; and

(iii) amend, modify or change its certificate or articles of incorporation (including, without limitation, by the filing or modification of any certificate or articles of designation), certificate of formation, limited liability company agreement or by-laws (or the equivalent organizational documents), as applicable, or any agreement entered into by it with respect to its capital stock or other equity interests (including any Shareholders' Agreement), or enter into any new agreement with respect to its capital stock or other equity interests, unless such amendment, modification, change or other action contemplated by this clause (iii) could not reasonably be expected to be adverse to the interests of the Lenders in any material respect.

9.11 Use of Proceeds. The Borrower will not request any Borrowing and the Borrower shall not directly, or, to its knowledge, indirectly use the proceeds of any Borrowing (a) in furtherance of an offer, payment, promise to pay, or authorization of the payment or giving of money, or anything else of value, to any Person in violation of any Anti-Corruption Laws, (b) for the purpose of funding, financing or facilitating any activities, business or transaction of or with any Sanctioned Person, or in any Sanctioned Country, (c) in any manner that would result in the violation of any Sanctions applicable to any party hereto or (d) in violation of Section 7.08.

9.12 Business, etc. Neither Magellan nor the Borrower will, nor will they permit any of their respective Subsidiaries to, engage in any business other than the businesses engaged in by

Magellan and its Subsidiaries as of the Effective Date and reasonable extensions thereof and businesses ancillary or complementary thereto.

Section 10. Events of Default. Upon the occurrence of any of the following specified events (each an "Event of Default"):

10.01 Payments. The Borrower shall (i) default in the payment when due of any principal of any Loan or any Note or (ii) default, and such default shall continue unremedied for three or more Business Days, in the payment when due of any interest on any Loan or Note or any other amounts owing hereunder or under any other Credit Document; or

10.02 Representations, etc. Any representation, warranty or statement made or deemed made by any Credit Party herein or in any other Credit Document or in any certificate delivered to the Administrative Agent or any Lender pursuant hereto or thereto shall prove to be untrue in any material respect on the date as of which made or deemed made; or

10.03 Covenants. Magellan or any of its Subsidiaries shall (i) default in the due performance or observance by it of any term, covenant or agreement contained in Section 8.01(f)(i), 8.04 (solely with respect to the Borrower and Magellan), 8.08, 8.11 or Section 9 or (ii) default in the due performance or observance by it of any other term, covenant or agreement contained in this Agreement or in any other Credit Document (other than those set forth in Sections 10.01 and 10.02) and such default pursuant to this sub clause (ii) shall continue unremedied for a period of 30 days after written notice thereof to the defaulting party by the Administrative Agent or the Required Lenders; or

10.04 Default Under Other Agreements. (i) Magellan or any of its Subsidiaries shall (x) default in any payment of any Indebtedness (other than the Obligations) beyond the period of grace, if any, provided in an instrument or agreement under which such Indebtedness was created or (y) default in the observance or performance of any agreement or condition relating to any Indebtedness (other than the Obligations) or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of such Indebtedness (or a trustee or agent on behalf of such holder or holders) to cause (determined without regard to whether any notice is required), any such Indebtedness to become due prior to its stated maturity, or (ii) any Indebtedness (other than the Obligations) of Magellan or any of its Subsidiaries shall be declared to be (or shall become) due and payable, or required to be prepaid other than by a regularly scheduled required prepayment, prior to the stated maturity thereof; provided, that it shall not be a Default or an Event of Default under this Section 10.04 unless the aggregate principal amount of all Indebtedness as described in preceding clauses (i) and (ii) is at least $25,000,000; or

10.05 Bankruptcy, etc. Magellan or any of its Subsidiaries shall commence a voluntary case concerning itself under Title 11 of the United States Code entitled "Bankruptcy," as now or hereafter in effect, or any successor thereto (the "Bankruptcy Code"); or an involuntary case is commenced against Magellan or any of its Subsidiaries, and the petition is not controverted within 10 days, or is not dismissed within 60 days, after commencement of the case; or a custodian (as defined in the Bankruptcy Code) is appointed for, or takes charge of, all or substantially all of the property of Magellan or any of its Subsidiaries which custodian is not dismissed within 60 days after the date of such appointment or the date such custodian takes charge, or Magellan or any of its Subsidiaries commences any other proceeding under any reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction whether now or hereafter in effect relating to Magellan or any of its Subsidiaries, or there is commenced against Magellan or any of its Subsidiaries any such proceeding which remains undismissed for a period of 60 days, or Magellan or any of its Subsidiaries is

adjudicated insolvent or bankrupt; or any order of relief or other order approving any such case or proceeding is entered; or Magellan or any of its Subsidiaries suffers any appointment of any custodian or the like for it or any substantial part of its property to continue undischarged or unstayed for a period of 60 days; or Magellan or any of its Subsidiaries makes a general assignment for the benefit of creditors; or any corporate, limited liability company or similar action is taken by Magellan or any of its Subsidiaries for the purpose of effecting any of the foregoing; or

10.06 ERISA. (a) Any ERISA Plan shall fail to satisfy the minimum funding standard required for any plan year or part thereof under Section 412 of the Code or Section 302 of ERISA or a waiver of such standard or extension of any amortization period is sought or granted under Section 412 of the Code or Section 303 or 304 of ERISA, a Reportable Event shall have occurred, a contributing sponsor (as defined in Section 4001(a)(13) of ERISA) of an ERISA Plan subject to Title IV of ERISA shall be subject to the advance reporting requirement of PBGC Regulation Section 4043.61 (without regard to subparagraph (b)(1) thereof) and an event described in subsection .62, .63, .64, .65, .66, .67 or .68 of PBGC Regulation Section 4043 shall be reasonably expected to occur with respect to such ERISA Plan within the following 30 days, any ERISA Plan which is subject to Title IV of ERISA shall have had or is likely to have a trustee appointed to administer such ERISA Plan, any ERISA Plan which is subject to Title IV of ERISA is, shall have been or is likely to be terminated or to be the subject of termination proceedings under ERISA, any ERISA Plan shall have an Unfunded Current Liability, a contribution required to be made with respect to an ERISA Plan or a Foreign Pension Plan has not been timely made, Magellan or any of its Subsidiaries or any ERISA Affiliate has incurred or is likely to incur any liability to or on account of an ERISA Plan under Section 409, 502(i), 502(l), 515, 4062, 4063, 4064, 4069, 4201, 4204 or 4212 of ERISA or Section 436(f), 4971 or 4975 of the Code or on account of a group health plan (as defined in Section 607(1) of ERISA or Section 4980B(g)(2) of the Code) under Section 4980B of the Code, or Magellan or any of its Subsidiaries has incurred or is likely to incur liabilities pursuant to one or more employee welfare benefit plans (as defined in Section 3(1) of ERISA) that provide benefits to retired employees or other former employees (other than as required by Section 601 of ERISA) or ERISA Plans or Foreign Pension Plans, a "default" within the meaning of Section 4219(c)(5) of ERISA shall occur with respect to any ERISA Plan, any Change in Law, or, as a result of a Change in Law, an event occurs following a Change in Law, with respect to or otherwise affecting any ERISA Plan; (b) there shall result from any such event or events the imposition of a lien, the granting of a security interest, or a liability or a material risk of incurring a liability; and (c) such lien, security interest or liability, either individually and/or in the aggregate, has had, or could reasonably be expected to have, in the opinion of the Required Lenders, a Material Adverse Effect; or

10.07 [Reserved].

10.08 Guaranty. The Guaranty or any provision thereof shall cease to be in full force or effect as to any Guarantor (other than any Subsidiary Guarantor that shall have been released from its obligations pursuant to Section 17 of the Guaranty), or any Guarantor or any Person acting for or on behalf of such Guarantor shall deny or disaffirm such Guarantor's obligations under the Guaranty or any Guarantor shall default in the due performance or observance of any term, covenant or agreement on its part to be performed or observed pursuant to the Guaranty; or

10.09 Judgments. One or more judgments or decrees shall be entered against Magellan or any of its Subsidiaries involving in the aggregate for Magellan and its Subsidiaries a liability (not paid or fully covered by a reputable and solvent insurance company) and such judgments and decrees either shall be final and non-appealable or shall not be vacated, discharged or stayed or bonded pending appeal for any period of 30 consecutive days, and the aggregate amount of all such judgments equals or exceeds $25,000,000; or

10.10 Change of Control. A Change of Control shall occur; then, and in any such event, and at any time thereafter, if any Event of Default shall then be continuing, the Administrative Agent, upon the written request of the Required Lenders, shall by written notice to the Borrower, take any or all of the following actions, without prejudice to the rights of the Administrative Agent, any Lender or the holder of any Note to enforce its claims against any Credit Party (provided, that, if an Event of Default specified in Section 10.05 shall occur with respect to the Borrower, the result which would occur upon the giving of written notice by the Administrative Agent as specified in clauses (i) and (ii) below shall occur automatically without the giving of any such notice): (i) declare the Commitments terminated, whereupon the Commitment of each Lender shall forthwith terminate immediately and (ii) declare the principal of and any accrued interest in respect of all Loans and the Notes and all other Obligations owing hereunder and thereunder to be, whereupon the same shall become, forthwith due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by each Credit Party.

Section 11. Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"2014 Credit Agreement" shall mean the Credit Agreement, dated as of July 23, 2014 (as amended by Consent and Amendment No. 1 to Credit Agreement, dated as of December 2, 2015, and as otherwise amended, restated, amended and restated, supplemented or modified from time to time), among the Borrower, Magellan, the Lenders (as defined therein) party thereto from time to time and Citibank, N.A., as Administrative Agent (as defined therein).

"2016 Credit Agreement" shall mean the Credit Agreement, dated as of June 27, 2016 (as amended, restated, amended and restated, supplemented or modified from time to time), among the Borrower, Magellan, the Lenders (as defined therein) party thereto from time to time and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Administrative Agent (as defined therein).

"Acquired Entity or Business" shall mean either (x) the assets constituting a business, division or product line of any Person not already a Subsidiary of Magellan or (y) 100% of the capital stock of any such Person, which Person shall, as a result of such stock acquisition, become a WhollyOwned Subsidiary of Magellan (or shall be merged with and into Magellan or a Wholly-Owned Subsidiary of Magellan, with Magellan or such Wholly-Owned Subsidiary being the surviving Person).

"Administrative Agent" shall mean The Bank of Tokyo-Mitsubishi UFJ, Ltd., in its capacity as Administrative Agent for the Lenders hereunder, and shall include any successor to the Administrative Agent appointed pursuant to Section 12.09.

"Administrative Questionnaire" shall mean an administrative questionnaire in a form approved by the Administrative Agent.

"Affiliate" shall mean, with respect to any Person, any other Person directly or indirectly controlling (including, but not limited to, all directors and officers of such Person), controlled by, or under direct or indirect common control with, such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such other Person, whether through the ownership of voting securities, by contract or otherwise; provided, however, that neither the Administrative Agent nor any Affiliate thereof shall be considered an Affiliate of Magellan or any Subsidiary thereof.

"Agent" shall mean and include each of the Administrative Agent, the Co-Syndication Agents and their respective affiliates.

"Agreement" shall mean this Credit Agreement, as modified, supplemented, amended, restated (including any amendment and restatement hereof), extended or renewed from time to time.

"Anti-Corruption Laws" shall mean the United States Foreign Corrupt Practices Act of 1977 and the UK Bribery Act, in each case, as amended.

"Applicable Commitment Fee Percentage" and "Applicable Margin" shall mean, (i) until the delivery of financial statements and the related Compliance Certificate for the first full fiscal quarter ending after the Effective Date, the percentage set forth below for a Category B Period and (ii) thereafter, the percentage set forth below opposite the Applicable Period then in effect:

	Applicable Commitment Fee	Applicable Margin	
Applicable Period	**Percentage**	**Eurodollar Loans**	**Base Rate Loans**
Category A Period	0.200 %	1.50 %	0.50 %
Category B Period	0.250 %	1.625 %	0.625 %
Category C Period	0.300 %	1.75 %	0.75 %
Category D Period	0.350 %	2.00 %	1.00 %

Any increase or decrease in the Applicable Commitment Fee Percentage or Applicable Margin pursuant to the preceding clause (ii) resulting from a change in the Total Leverage Ratio and an attendant change in the Applicable Period shall become effective as of the first Business Day immediately following the date on which the applicable Compliance Certificate is delivered pursuant to Section 8.01(e).

"Applicable Period" shall mean, on any day, the period set forth below then in effect on such day:

Applicable Period	**Criteria**
Category A Period	The Total Leverage Ratio is less than 1.00:1.00.
Category B Period	The Total Leverage Ratio is greater than or equal to 1.00:1.00 but less than 1.50:1.00.
Category C Period	The Total Leverage Ratio is greater than or equal to 1.50:1.00 but less than 2.00:1.00.
Category D Period	The Total Leverage Ratio is greater than or equal to 2.00:1.00.

Notwithstanding anything to the contrary set forth above, (x) in the event that there is an Event of Default that is continuing, the Applicable Period shall be a Category D Period and (y) at the option of the Required Lenders, the Applicable Period shall be a Category D Period as of the first

Business Day after the date on which a Compliance Certificate was required to have been delivered but was not delivered, and shall continue to so apply to and including the date on which such Compliance Certificate is so delivered (and thereafter the pricing level otherwise determined in accordance with the definition of "Applicable Commitment Fee Percentage" and "Applicable Margin" shall apply).

"Asset Sale" shall mean any sale, transfer or other disposition by Magellan or any of its Subsidiaries to any Person (including by way of redemption by such Person) other than to Magellan or a Wholly-Owned Subsidiary of Magellan of any asset (including, without limitation, any capital stock or other securities of, or equity interests in, another Person) other than sales of assets pursuant to Sections 9.02(ii), (iv), (vii) and (viii).

"Assignment and Assumption Agreement" shall mean an Assignment and Assumption Agreement substantially in the form of Exhibit L (appropriately completed).

"Attributable Debt" shall mean, as of any date of determination thereof, without duplication, (i) in connection with a Sale and Leaseback Transaction, the net present value (discounted according to generally accepted accounting principles at the cost of debt implied in the lease) of the obligations of the lessee for rental payments during the then remaining term of any applicable lease, and (ii) the principal balance outstanding under any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing (including an off-balance sheet receivables financing) product to which such Person is a party.

"Authorized Officer" shall mean, with respect to (i) delivering Notices of Borrowing, Notices of Conversion/Continuation and similar notices, any person or persons that has or have been authorized by the board of directors of the Borrower to deliver such notices pursuant to this Agreement and that has or have appropriate signature cards or incumbency certificates on file with the Administrative Agent, (ii) delivering financial information and officer's certificates pursuant to this Agreement, the chief financial officer, the treasurer or the principal accounting officer of Magellan or the Borrower, as applicable, and (iii) any other matter in connection with this Agreement or any other Credit Document, any officer (or a person or persons so designated by any two officers) of Magellan or the Borrower, as applicable.

"Availability Period" shall mean the period commencing on the Effective Date and ending on the Availability Period End Date.

"Availability Period End Date" shall mean July 3, 2017.

"Bail-In Action" shall mean the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

"Bail-In Legislation" shall mean, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

"Bankruptcy Code" shall have the meaning provided in Section 10.05.

"Base Rate" shall mean, for any day, a rate per annum equal to the highest of (i) the Prime Lending Rate in effect on such day, (ii) 1/2 of 1% in excess of the overnight Federal Funds Rate in effect on such day and (iii) the Eurodollar Rate for an Interest Period of one month commencing on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus 1%.

"Base Rate Loan" shall mean each Loan designated or deemed designated as such by the Borrower at the time of the incurrence thereof or conversion thereto.

"Board of Directors" shall mean, as to any Person, the board of directors or other governing body of such Person, or if such person is owned or managed by a single entity, the board of directors or other governing body of such entity.

"Borrower" shall have the meaning provided in the first paragraph of this Agreement.

"Borrowing" shall mean a borrowing consisting of simultaneous Loans of the same Type made by all the Lenders on the same Funding Date (or resulting from a conversion or conversions on a given date) having in the case of Eurodollar Loans the same Interest Period; provided, that Base Rate Loans incurred pursuant to Section 1.10(b) shall be considered part of the related Borrowing of Eurodollar Loan.

"Business Day" shall mean (i) for all purposes other than as covered by clause (ii) below, any day except Saturday, Sunday and any day which shall be in New York, New York, a legal holiday or a day on which banking institutions are authorized or required by law or other government action to close and (ii) with respect to all notices and determinations in connection with, and payments of principal and interest on, Eurodollar Loans, any day which is a Business Day described in clause (i) above and which is also a day for trading by and between banks in U.S. dollar deposits in the interbank Eurodollar market.

"Calculation Period" shall mean, in the case of any Permitted Acquisition or any other event expressly required to be calculated on a Pro Forma Basis pursuant to the terms of this Agreement, the Test Period most recently ended prior to the date of any such Permitted Acquisition or other event for which financial statements have been delivered to the Lenders pursuant to this Agreement.

"Capital Expenditures" shall mean, with respect to any Person, all expenditures by such Person which should be capitalized in accordance with generally accepted accounting principles and, without duplication, the amount of Capitalized Lease Obligations incurred by such Person.

"Capitalized Lease Obligations" shall mean, with respect to any Person, all rental obligations of such Person which, under generally accepted accounting principles, are or will be required to be capitalized on the books of such Person, in each case taken at the amount thereof accounted for as indebtedness in accordance with such principles.

"Cash Equivalents" shall mean, as to any Person, (i) securities issued or directly and fully guaranteed or insured by the United States or any agency, instrumentality or sponsored corporation thereof and backed by the full faith and credit of the United States, and in each case having maturities of not more than two years from the date of acquisition, (ii) Dollar denominated time deposits, certificates of deposit, overnight bank deposits and bankers' acceptances with any Lender or any commercial bank of recognized standing, having capital and surplus in excess of $250,000,000 and the commercial paper of the holding company of which, at the time of acquisition thereof, is rated at least A-2 or the equivalent thereof by S&P or at least P-2 or the equivalent thereof by Moody's (or if at such time neither is issuing ratings, then a comparable rating of another nationally recognized rating agency), or, if no such commercial paper rating is available, a long-term debt rating, at the time of acquisition thereof, of at least A or the equivalent thereof by S&P or at least A-2 or the equivalent thereof by Moody's (or if at such time neither is issuing ratings, then a comparable rating of another nationally recognized rating agency), (iii) repurchase obligations with a term of not more than 92 days for underlying securities of the types described in clause (i) above and entered into with any commercial bank meeting the qualifications specified in clause (ii) above, (iv) other investment instruments offered or sponsored by financial

institutions having capital and surplus in excess of $250,000,000 and the commercial paper of the holding company of which, at the time of acquisition thereof, is rated at least A-1 or the equivalent thereof by S&P or at least P-1 or the equivalent thereof by Moody's (or if at such time neither is issuing ratings, then a comparable rating of another nationally recognized rating agency), or, if no such commercial paper rating is available, a long-term debt rating, at the time of acquisition thereof, of at least A+ or the equivalent thereof by S&P or at least A-1 or the equivalent thereof by Moody's (or if at such time neither is issuing ratings, then a comparable rating of another nationally recognized rating agency), (v) readily marketable direct obligations issued by any state of the United States or any political subdivision thereof having, at the time of acquisition thereof, one of the two highest rating categories obtainable from either Moody's or S&P (or if at such time neither is issuing ratings, then a comparable rating of another nationally recognized rating agency), (vi) commercial paper or corporate bonds rated, at the time of acquisition thereof, at least A-1 or the equivalent thereof by S&P or at least P-1 or the equivalent thereof by Moody's (or if at such time neither is issuing ratings, then a comparable rating of another nationally recognized rating agency), in each case maturing within two years after the date of acquisition, (vii) investments in money market funds which invest substantially all their assets in securities of the types described in clauses (i) through (vi) above, and (viii) in the case of any Foreign Subsidiary of the Borrower, (x) certificates of deposit (or comparable instruments) of any bank with which such Foreign Subsidiary regularly transacts business and with maturities of not more than six months from the date of acquisition by such Foreign Subsidiary, (y) overnight deposits and demand deposit accounts maintained with any bank that such Foreign Subsidiary regularly transacts business and (z) securities of the type and maturity described in clause (i) above but issued by the principal governmental authority in which such Foreign Subsidiary is organized so long as such security has the highest rating available from either S&P or Moody's.

"CERCLA" shall mean the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as the same has been amended and may hereafter be amended from time to time, 42 U.S.C. § 9601 et seq.

"Change of Control" shall mean (i) any "Person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act as in effect on the Effective Date), (A) is or shall become the "beneficial owner" (as defined in Rules 13(d)-3 and 13(d)-5 under the Exchange Act as in effect on the Effective Date), directly or indirectly, of 35% or more of the outstanding total Voting Power of Magellan's capital stock (determined on a fully diluted basis) or (B) shall have obtained the power (whether or not exercised) to elect a majority of Magellan's directors, (ii) at any time the Board of Directors of Magellan shall cease to consist of a majority of Continuing Directors, (iii) a "change of control" (or similar event) shall occur as provided any Permitted Subordinated Debt Document or (iv) Magellan shall at any time fail to directly own, beneficially and of record, 100% of the Borrower's capital stock.

"Change in Law" shall mean the occurrence of any of the following: (i) the adoption or taking effect of any law, rule, regulation or treaty, (ii) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority, or (iii) the making or issuance of any request, rules, guideline, requirement or directive (whether or not having the force of law) by any Governmental Authority; provided however, that notwithstanding anything herein to the contrary, (a) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines, requirements and directives thereunder, issued in connection therewith or in implementation thereof, and (b) all requests, rules, guidelines, requirements and directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Change in Law" after the Effective Date regardless of the date enacted, adopted, issued or implemented.

"Co-Syndication Agents" shall mean Citibank, N.A., Compass Bank (d/b/a BBVA Compass), JPMorgan Chase Bank, N.A., SunTrust Bank and Wells Fargo Securities, LLC, in their respective capacities as co-syndication agents for the credit facilities provided for under this Agreement.

"Code" shall mean the U.S. Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated thereunder. Section references to the Code are to the Code as in effect at the date of this Agreement and any subsequent provisions of the Code amendatory thereof, supplemental thereto or substituted therefor.

"Commitment" shall mean, for any Lender at any time, the amount set forth opposite

such Lender's name in Schedule I directly below the column entitled "Commitment," as the same may be (x) reduced from time to time or terminated pursuant to Sections 3.02, 3.03 and/or 10, as applicable, or (y) adjusted from time to time as a result of assignments to or from such Lender pursuant to Section 1.13 or 13.04(b).

"Commitment Commission" has the meaning provided in Section 3.01(a).

"Communications" shall have the meaning provided in Section 13.03(b).

"Compliance Certificate" shall have the meaning provided in Section 8.01(e).

"Consolidated EBITDA" shall mean, for any period, Consolidated Net Income for such period adjusted by (x) adding thereto, without duplication and to the extent deducted in arriving at Consolidated Net Income for such period: (a) Consolidated Interest Expense; (b) provision for taxes based on income; (c) the amount of all amortization of intangibles and depreciation; (d) non-cash charges for the impairment of goodwill or other intangibles or the write-off of goodwill, intangibles or other assets; (e) the amortization or write-off of deferred financing, legal and accounting costs with respect to the Transaction or any Permitted Acquisition; and (f) the amount of all other non-cash charges or noncash losses, and (y) deducting therefrom, the amount of all cash payments during such period that are associated with any non-cash charges or non-cash losses that were added back to Consolidated Net Income in a previous period pursuant to preceding clause (x)(f); and, in each case, without giving effect to (i) any extraordinary gains, (ii) any gains or losses from sales of assets other than from sales of inventory in the ordinary course of business and (iii) any non-cash income; it being understood that in determining the Total Leverage Ratio, Consolidated EBITDA for any period shall be calculated on a Pro Forma Basis to give effect to any Acquired Entity or Business acquired during such period pursuant to a Permitted Acquisition and not subsequently sold or otherwise disposed of by Magellan or any of its Subsidiaries during such period.

"Consolidated Indebtedness" shall mean, at any time, the remainder of (A) the sum of, without duplication, (i) the aggregate principal amount of all Indebtedness (or, if greater, the aggregate face amount of any Indebtedness issued at a discount) of Magellan and its Subsidiaries at such time (including, without limitation, all Loans, letters of credit (including Letters of Credit), Capitalized Lease Obligations and guaranties of other Indebtedness) and (ii) the aggregate outstanding amount of all Attributable Debt of Magellan and its Subsidiaries at such time; provided, that for purposes of this definition, the amount of Indebtedness in respect of Interest Rate Protection Agreements and Other Hedging Agreements shall be at any time the unrealized net loss position, if any, of Magellan and/or its Subsidiaries thereunder on a marked-to-market basis determined no more than one month prior to such time, minus (B) the aggregate amount of all Unrestricted cash and Cash Equivalents of Magellan and its Subsidiaries at such time in excess of $50,000,000.

"Consolidated Interest Coverage Ratio" shall mean, for any period, the ratio of Consolidated EBITDA to Consolidated Interest Expense for such period.

"Consolidated Interest Expense" shall mean, for any period, the sum of the total consolidated interest expense of Magellan and its Subsidiaries for such period (calculated without regard to any limitations on the payment thereof) plus, without duplication, (i) that portion of Capitalized Lease Obligations of Magellan and its Subsidiaries representing the interest factor for such period, (ii) all fees accrued during such period pursuant to Sections 3.01(a), (b) and (c) of the 2014 Credit Agreement, (iii) all interest expense during such period as set forth in Section 2.05(a) of the 2014 Credit Agreement and (iv) the interest component (or imputed interest) of any lease payment or other off balance sheet financing under Attributable Debt transactions paid by Magellan and its Subsidiaries for such period; provided, that the amortization or write-off of deferred financing, legal and accounting costs with respect to the Transaction or any Permitted Acquisition in each case shall be excluded from Consolidated Interest Expense to the extent same would otherwise have been included therein.

"Consolidated Net Income" shall mean, for any period, the net income (or loss) of Magellan and its Subsidiaries for such period, determined on a consolidated basis (after any deduction for minority interests); provided, that (i) in determining Consolidated Net Income, the net income of any other Person which is not a Subsidiary of Magellan or is accounted for by Magellan by the equity method of accounting shall be included only to the extent of the payment of cash dividends or cash distributions by such other Person to Magellan or a Subsidiary thereof during such period, (ii) the net income of any Subsidiary of Magellan shall be excluded to the extent that the declaration or payment of cash dividends or similar cash distributions by that Subsidiary of that net income is not at the date of determination permitted by operation of its charter or any agreement, instrument or law applicable to such Subsidiary, and (iii) except for determinations expressly required to be made on a Pro Forma Basis, the net income (or loss) of any Person accrued prior to the date it becomes a Subsidiary of Magellan or all or substantially all of the property or assets of such Person are acquired by Magellan or a Subsidiary of Magellan shall be excluded.

"Consolidated Total Assets" shall mean, as of any date, the total assets of Magellan and its Subsidiaries on a consolidated basis, as set forth on most recent balance sheet of Magellan included in the financial statements delivered pursuant to Section 8.01(a) or 8.01(b), or, for any date prior to the date on which the first such financial statements are required to be delivered, as set forth on the balance sheet of Magellan included in Magellan's consolidated financial statements as of and for the period ending March 31, 2014 filed with the Securities and Exchange Commission on Form 10-Q.

"Contingent Obligation" shall mean, as to any Person, any obligation of such Person as a result of such Person being a general partner of any other Person, unless the underlying obligation is expressly made non-recourse as to such general partner, and any obligation of such Person guaranteeing or intended to guarantee any Indebtedness, leases, dividends or other obligations ("primary obligations") of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, any obligation of such Person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (x) for the purchase or payment of any such primary obligation or (y) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the holder of such primary obligation against loss in respect thereof; provided, however, that the term Contingent Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determinable amount of

the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof (assuming such Person is required to perform thereunder) as determined by such Person in good faith.

"Continuing Directors" shall mean the directors of Magellan on the Effective Date and each other director, if such director's nomination for election to the Board of Directors of Magellan is recommended by a majority of then Continuing Directors.

"Credit Documents" shall mean this Agreement, each Note and the Guaranty.

"Credit Party" shall mean the Borrower and each Guarantor.

"Default" shall mean any event, act or condition which with notice or lapse of time, or both, would constitute an Event of Default.

"Defaulting Lender" shall mean any Lender with respect to which a Lender Default is in effect.

"Disinterested Director" shall mean, with respect to any Person and transaction, a member of the Board of Directors of such Person who does not have any material direct or indirect financial interest in or with respect to such transaction.

"Disqualified Stock" shall mean any capital stock that, by its terms (or by the terms of any security or other capital stock into which it is convertible or for which it is exchangeable) or upon the happening of any event or condition, (a) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise, other than solely as a result of a change of control, asset sale or similar event so long as any rights of the holders thereof upon the occurrence of a change of control, asset sale or similar event shall be subject to the prior repayment in full of the Loans and all other Obligations and the termination of the Commitments, (b) is redeemable or exchangeable at the option of the holder thereof, other than as a result of a change of control, asset sale or similar event so long as any rights of the holders thereof upon the occurrence of a change of control, asset sale or similar event shall be subject to the prior repayment in full of the Loans and all other Obligations and the termination of the Commitments or (c) provides for the scheduled payment of dividends in cash, in each case prior to the date that is ninety-one (91) days after the Maturity Date.

"Dividend" shall mean, with respect to any Person, that such Person has declared or paid a dividend, distribution or returned any equity capital to its stockholders, partners or members or authorized or made any other distribution, payment or delivery of property (other than common equity of such Person) or cash to its stockholders, partners or members as such, or redeemed, retired, purchased or otherwise acquired, directly or indirectly, for a consideration any shares of any class of its capital stock or any partnership or membership interests outstanding on or after the Effective Date (or any options or warrants issued by such Person with respect to its capital stock or other equity interests), or set aside any funds for any of the foregoing purposes, or shall have permitted any of its Subsidiaries to purchase or otherwise acquire for a consideration any shares of any class of the capital stock or any partnership or membership interests of such Person outstanding on or after the Effective Date (or any options or warrants issued by such Person with respect to its capital stock or other equity interests). Without limiting the foregoing, "Dividends" with respect to any Person shall also include all payments made or required to be made by such Person with respect to any stock appreciation rights, plans, equity incentive or achievement plans or any similar plans or setting aside of any funds for the foregoing purposes.

"Dollars" and the sign "$" shall each mean freely transferable lawful money of the United States.

"Domestic Subsidiary" shall mean each Subsidiary of Magellan incorporated or organized in the United States, any State thereof or the District of Columbia other than one substantially all of whose assets are controlled foreign subsidiaries within the meaning of Section 956 of the Code.

"Duration Fee" shall have the meaning provided in Section 3.01(b).

"Duration Fee Date" shall mean October 2, 2017.

"EEA Financial Institution" shall mean (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

"EEA Member Country" shall mean any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

"EEA Resolution Authority" shall mean any public administrative authority or any person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

"Effective Date" shall have the meaning provided in Section 13.10.

"Eligible Transferee" shall mean and include a commercial bank, an insurance company, a finance company, a financial institution, any fund that invests in loans or any other "accredited investor" (as defined in Regulation D of the Securities Act), but in any event excluding (x) Magellan and its Subsidiaries and Affiliates, (y) natural persons and (z) any Defaulting Lender.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder. Section references to ERISA are to ERISA, as in effect at the date of this Agreement and any subsequent provisions of ERISA, amendatory thereof, supplemental thereto or substituted therefor.

"ERISA Affiliate" shall mean each person (as defined in Section 3(9) of ERISA) which together with Magellan or a Subsidiary of Magellan would be deemed to be a "single employer" (i) within the meaning of Section 414(b), (c), (m) or (o) of the Code or (ii) as a result of Magellan or a Subsidiary of Magellan being or having been a general partner of such person.

"ERISA Plan" shall mean any pension plan as defined in Section 3(2) of ERISA, which is maintained or contributed to by (or to which there is an obligation to contribute of) Magellan or a Subsidiary of Magellan or an ERISA Affiliate on or after the Effective Date, and each such plan for the five year period immediately following the latest date (whether before or after the Effective Date) on which Magellan, a Subsidiary of Magellan or an ERISA Affiliate maintained, contributed to or had an obligation to contribute to such plan.

"EU Bail-In Legislation Schedule" shall mean the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor person), as in effect from time to time.

"Eurodollar Loan" shall mean each Loan designated as such by the Borrower at the time of the incurrence thereof or conversion thereto.

"Eurodollar Rate" shall mean, with respect to any Eurodollar Loan for any Interest Period, the rate appearing on the LIBOR01 page of the Intercontinental Exchange Benchmark Administrative Ltd (ICE) (or on any successor or substitute page of such service) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for deposits in Dollars with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the "Eurodollar Rate" with respect to such Borrowing of Eurodollar Loans for such Interest Period shall be the rate at which dollar deposits of $10,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent to prime banks in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period. Notwithstanding for foregoing, if any of the aforesaid rates shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

"Event of Default" shall have the meaning provided in Section 10.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Existing Revolving Credit Facility" shall mean the revolving credit facility made available to the Borrower under the 2014 Credit Agreement.

"FATCA" shall mean Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable) and any current or future regulations or official interpretations thereof and any agreements entered into pursuant to Section 1471.

"Federal Funds Rate" shall mean, for any period, a fluctuating interest rate equal for each day during such period to the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by the Administrative Agent; *provided*, that, if any of the aforesaid rates shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

"Fees" shall mean all amounts payable pursuant to or referred to in Section 3.01.

"Foreign Pension Plan" shall mean each employee benefit plan, employment, bonus, incentive, stock purchase and stock option plan, program, agreement or arrangement; and each severance, termination pay, salary continuation, retention, accrued leave, vacation, sick pay, sick leave, medical, life insurance, disability, accident, profit-sharing, fringe benefit, pension, deferred compensation or other retirement or superannuation plan, fund, program, agreement, commitment or arrangement sponsored, established, maintained or contributed to, or required to be contributed to, or with respect to which any liability is borne, outside the fifty states of the United States of America, by Magellan or any of its Subsidiaries, including, without limitation, any such plan, fund, program, agreement or arrangement sponsored by a government or governmental entity.

"Foreign Subsidiary" shall mean each Subsidiary of Magellan that is not a Domestic Subsidiary.

"Funding Date" shall mean any date during the Availability Period on which the Loans are made by the Lenders.

"Governmental Authority" shall mean the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

"Guarantors" shall mean Magellan and the Subsidiary Guarantors.

"Guaranty" shall have the meaning provided in Section 5.09.

"Health Care Laws" shall mean any and all applicable current and future laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions or binding agreements issued, promulgated or entered into by the Food and Drug Administration, the Health Care Financing Administration, the Department of Health and Human Services ("HHS"), the Office of Inspector General of HHS, the Drug Enforcement Administration or any other governmental authority, including any state and/or local professional licensing laws, certificate of need laws and state reimbursement laws, relating in any way to the conduct of the business of Magellan or any Subsidiary thereof and the provision of health care services generally.

"Indebtedness" shall mean, as to any Person, without duplication, (i) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services, (ii) the maximum amount available to be drawn or paid under all letters of credit, bankers' acceptances, bank guaranties and similar obligations issued for the account of such Person and all unpaid drawings in respect of such letters of credit, bankers' acceptances and similar obligations, (iii) all Indebtedness of the types described in clause (i), (ii), (iv), (v), (vi), (vii) or (viii) of this definition secured by any Lien on any property owned by such Person, whether or not such Indebtedness has been assumed by such Person (provided, that, if the Person has not assumed or otherwise become liable in respect of such Indebtedness, such Indebtedness shall be deemed to be in an amount equal to the fair market value of the property to which such Lien relates as determined in good faith by such Person), (iv) the aggregate amount of all Capitalized Lease Obligations of such Person, (v) all obligations of such Person to pay a specified purchase price for goods or services, whether or not delivered or accepted, i.e., take-or-pay and similar obligations, (vi) all Contingent Obligations of such Person, (vii) all obligations under any Interest Rate Protection Agreement, any Other Hedging Agreement or under any similar type of agreement, and (viii) all Attributable Debt of such Person. Notwithstanding the foregoing, Indebtedness shall not include trade payables and accrued expenses incurred by any Person in accordance with customary practices and in the ordinary course of business of such Person (including pursuant to customer service contracts).

"Interest Determination Date" shall mean, with respect to any Eurodollar Loan, the second Business Day prior to the commencement of any Interest Period relating to such Eurodollar Loan.

"Interest Period" shall mean, as to any Borrowing of Eurodollar Loans, the interest period applicable to such Borrowing of Eurodollar Loans selected pursuant to, and otherwise subject to the provisions of, Section 1.09.

"Interest Rate Protection Agreement" shall mean any interest rate swap agreement, interest rate cap agreement, interest collar agreement, interest rate hedging agreement or other similar agreement or arrangement.

"Investments" shall have the meaning provided in Section 9.05.

"Joint Lead Arrangers" shall mean, collectively, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citigroup Global Markets Inc., Compass Bank (d/b/a BBVA Compass), JPMorgan Chase Bank, N.A., SunTrust Robinson Humphrey, Inc. and Wells Fargo Securities, LLC, in their respective capacities as joint lead arrangers for the credit facilities provided for under this Agreement.

"Latest Duration Fee Date" shall mean October 16, 2017.

"Leaseholds" of any Person shall mean all the right, title and interest of such Person as lessee or licensee in, to and under leases or licenses of land, improvements and/or fixtures.

"Lender" shall mean each financial institution listed on Schedule I, as well as any Person that becomes a "Lender" hereunder pursuant to Section 1.13, or 13.04(b).

"Lender Default" shall mean, as to any Lender, as reasonably determined by the Administrative Agent, that such Lender has (a) wrongfully refused (which has not been retracted) or failed to make available its portion of any Borrowing within two Business Days of the date such funding was required to be made, (b) been deemed (or whose parent company has been deemed) insolvent or become (or whose parent company has been become) the subject of a bankruptcy or insolvency proceeding, a Bail-in Action or a takeover by a regulatory authority, or (c) notified the Administrative Agent and/or any Credit Party (x) that it does not intend to comply with its obligations under Section 1.01(a) in circumstances where such non-compliance would constitute a breach of such Lender's obligations under such Section or (y) of the events described in preceding clause (b); provided, that a Lender Default shall not have be deemed to have occurred solely by virtue of any ownership interest, or the acquisition of any ownership interest, in such Lender by a Governmental Authority or instrumentality thereof; provided, further, that such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority or instrumentality) to reject, repudiate, disavow or disaffirm any contracts or agreements made by such Lender.

"Lien" shall mean any mortgage, pledge, hypothecation, collateral assignment, deposit arrangement, encumbrance, lien (statutory or other), preference, priority or other security agreement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing or similar statement or notice filed under the UCC or any other similar recording or notice statute, and any lease having substantially the same effect as any of the foregoing).

"Loan" shall have the meaning provided in Section 1.01.

"Margin Stock" shall have the meaning provided in Regulation U.

"Material Adverse Effect" shall mean (i) a material adverse effect on the assets, business, operations, property or financial condition of Magellan and its Subsidiaries, taken as a whole (except as a result of any event or circumstance disclosed in any of Magellan's public filings on Form 10-Q or 8-K (including, without limitation, the information disclosed with respect to the Purchase Agreement entered into with Veridicus Holdings, LLC on November 19, 2016) made on or following September 30, 2016

and prior to the Effective Date), (ii) a material adverse effect on the ability of the Credit Parties, taken as a whole, to perform their obligations hereunder or under any other Credit Document or (iii) a material adverse effect on the rights and remedies of the Lenders hereunder or under any other Credit Document.

"Maturity Date" shall mean December 29, 2017 (subject to the last sentence of Section 4.03).

"Moody's" shall mean Moody's Investors Service, Inc., or any successor corporation thereto.

"Net Debt Proceeds" shall mean, with respect to any incurrence or issuance of Indebtedness for borrowed money, the cash proceeds (net of underwriting discounts and commissions and other reasonable fees, expenses and costs associated therewith including, without limitation, those of attorneys, accountants and other professionals) received by the respective Person from the respective incurrence of such Indebtedness for borrowed money.

"Non-Defaulting Lender" shall mean and include each Lender other than a Defaulting Lender.

"Non-U.S. Lender" shall mean each Lender or the Administrative Agent in each case to the extent that any such Person is not a "United States person" (as such term is defined in Section 7701(a)(30) of the Code) for U.S. Federal income tax purposes.

"Note" shall have the meaning provided in Section 1.05(a).

"Notice of Borrowing" shall have the meaning provided in Section 1.03(a).

"Notice of Conversion/Continuation" shall have the meaning provided in Section 1.06.

"Notice Office" shall mean the office of the Administrative Agent located at 1221 Avenue of the Americas, New York, NY 10020, Attention: Lawrence Blat with a copy to Nicholas Lukenovich and E-mail Address: Agencydesk@us.mufg.jp with a copy to Lblat@us.mufg.jp, Telephone numbers: 212-782-4310 and 212-782-6687 or such other office or person as the Administrative Agent may hereafter designate in writing as such to the other parties hereto.

"Obligations" shall mean all amounts owing to the Administrative Agent or any Lender pursuant to the terms of this Agreement or any other Credit Document, including, without limitation, all amounts in respect of any principal, interest (including any interest accruing subsequent to the filing of a petition in bankruptcy, reorganization or similar proceeding at the rate provided for in this Agreement, whether or not such interest is an allowed claim under any such proceeding or under applicable state, federal or foreign law), penalties, fees, expenses, indemnifications, reimbursements, damages and other liabilities, and guarantees of the foregoing amounts.

"Organizational Documents" shall have the meaning provided in Section 5.04.

"Other Hedging Agreements" shall mean any foreign exchange contracts, currency swap agreements, commodity agreements or other similar arrangements, or arrangements designed to protect against fluctuations in currency values or commodity prices.

"Other Taxes" shall mean all present or future stamp, court or documentary, intangible, recording, filing or similar taxes that arise from any payment made under, from the execution, delivery,

performance, enforcement or registration of, from the receipt perfection of a security interest under, or otherwise with respect to, any Credit Document.

"Participant Register" shall have the meaning provided in Section 13.04(c).

"Patriot Act" shall have the meaning provided in Section 13.18.

"Payment Office" shall mean the office of the Administrative Agent located at 1221 Avenue of the Americas, New York, NY 10020, Attention: Lawrence Blat with a copy to Nicholas Lukenovich and E-mail Address: Agencydesk@us.mufg.jp with a copy to Lblat@us.mufg.jp or such other office as the Administrative Agent may hereafter designate in writing as such to the other parties hereto.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to Section 4002 of ERISA, or any successor thereto.

"Permitted Acquisition" shall mean the acquisition by Magellan or a Wholly-Owned Subsidiary of Magellan of an Acquired Entity or Business (including by way of merger of such Acquired Entity or Business with and into Magellan (so long as Magellan is the surviving corporation) or a WhollyOwned Subsidiary of Magellan (so long as such Wholly-Owned Subsidiary is the surviving corporation)); provided, that (in each case) (A) in the case of the acquisition of 100% of the capital stock or other equity interests of any Person (including way of merger), such Person shall own no capital stock or other equity interests of any other Person (excluding de minimis amounts) unless either (x) such Person and/or its Wholly-Owned Subsidiaries own 100% of the capital stock or other equity interests of such other Person or (y) (1) such Person and/or its Wholly-Owned Subsidiaries own at least 90% of the consolidated assets of such Person and its Subsidiaries and (2) any non-Wholly-Owned Subsidiary of such Person was nonWholly Owned prior to the date of such Permitted Acquisition of such Person, (B) the Acquired Entity or Business acquired pursuant to the respective Permitted Acquisition is in a business permitted by Section 9.12 and (C) all applicable requirements of Sections 9.02 applicable to Permitted Acquisitions are satisfied. Notwithstanding anything to the contrary contained in the immediately preceding sentence, an acquisition which does not otherwise meet the requirements set forth above in the definition of "Permitted Acquisition" shall constitute a Permitted Acquisition if, and to the extent, the Required Lenders agree in writing, prior to the consummation thereof, that such acquisition shall constitute a Permitted Acquisition for purposes of this Agreement.

"Permitted Liens" shall have the meaning provided in Section 9.01.

"Permitted Restructuring Effective Date" shall mean December 4, 2015.

"Permitted Subordinated Debt" shall mean any subordinated Indebtedness of Magellan incurred in connection with, and to finance, a Permitted Acquisition, which Indebtedness may be guaranteed on a subordinated basis by the Borrower and/or one or more Subsidiary Guarantors and all of the terms and conditions of which (including, without limitation, with respect to interest rate, amortization, redemption provisions, maturities, covenants, defaults, remedies, guaranties, standstill provisions, cash pay limitations and subordination provisions) and the documentation therefor are reasonably satisfactory to the Administrative Agent, as such Indebtedness may be amended, modified and/or supplemented from time to time in accordance with the terms hereof and thereof; provided, that in any event, unless the Required Lenders otherwise expressly consent in writing prior to the issuance thereof, (i) no such Indebtedness shall be secured by any asset of Magellan or any of its Subsidiaries, (ii) no such Indebtedness shall be guaranteed by any Person other than a Credit Party, (iii) no such Indebtedness shall be subject to scheduled amortization, redemption, sinking fund, mandatory

prepayments (other than pursuant to a customary "change of control" provision that is subject to the prior repayment of the Obligations and termination of the Commitments) or similar payment or have a final maturity, in either case prior to the date occurring one year following the Maturity Date, (iv) the documentation governing such Indebtedness shall not include any financial maintenance covenants, and (v) the subordination provisions contained therein shall provide for a permanent block on payments with respect to such Indebtedness upon the occurrence and continuation of a payment default with respect to "senior debt" and cover all obligations under Interest Rate Protection Agreements and Other Hedging Agreements. The incurrence of Permitted Subordinated Debt shall be deemed to be a representation and warranty by Magellan that all conditions thereto have been satisfied in all material respects and that the incurrence of such Permitted Subordinated Debt is permitted in accordance with the terms of this Agreement, which representation and warranty shall be deemed to be a representation and warranty for all purposes hereunder, including, without limitation, Sections 7 and 10.

"Permitted Subordinated Debt Documents" shall mean, on and after the execution and delivery thereof, each note, instrument, agreement, guaranty and other documents relating to each incurrence of Permitted Subordinated Debt, as the same may be amended, modified and/or supplemented from time to time in accordance with the terms hereof and thereof.

"Person" shall mean any individual, partnership, joint venture, firm, corporation, association, limited liability company, trust or other enterprise or any government or political subdivision or any agency, department or instrumentality thereof.

"Platform" shall have the meaning provided in Section 13.03(b).

"Prime Lending Rate" shall mean the rate of interest per annum which the Administrative Agent publicly announces from time to time as its base rate in effect at its principal office in New York City. Any change in such rate shall take effect on the day specified in the public announcement of such change.

"Pro Forma Basis" shall mean, in connection with any calculation of compliance with any financial covenant or financial term, the calculation thereof after giving effect on a pro forma basis to (w) the incurrence of any Indebtedness (other than revolving Indebtedness, except to the extent same is incurred to refinance other outstanding Indebtedness or to finance a Permitted Acquisition, a Dividend pursuant to Section 9.03(iii), an Investment pursuant to Section 9.05(xiv) or a redemption or repurchase pursuant to Section 9.10(i)(B)) after the first day of the relevant Calculation Period as if such Indebtedness had been incurred (and the proceeds thereof applied) on the first day of the relevant Calculation Period, (x) the permanent repayment of any Indebtedness (other than revolving Indebtedness except to the extent accompanied by a corresponding permanent commitment reduction) after the first day of the relevant Calculation Period as if such Indebtedness had been retired or redeemed on the first day of the relevant Calculation Period, (y) any Asset Sale consummated after the first day of the relevant Calculation Period as if such Asset Sale (and the application of the proceeds therefrom) had occurred (and the proceeds therefrom had been applied) on the first day of the relevant Calculation Period, and/or (z) the Permitted Acquisition, if any, then being consummated as well as any other Permitted Acquisition consummated after the first day of the relevant Calculation Period and on or prior to the date of the respective Permitted Acquisition then being effected, as the case may be, with the following rules to apply in connection therewith:

(i) all Indebtedness (x) (other than revolving Indebtedness, except to the extent same is incurred to refinance other outstanding Indebtedness or to finance a Permitted Acquisition, a Dividend pursuant to Section 9.03(iii), an Investment pursuant to Section 9.05(xiv) or a redemption or repurchase pursuant to Section 9.10(i)(B)) incurred or issued after the first day of

the relevant Calculation Period (whether incurred to finance a Permitted Acquisition, to refinance Indebtedness or otherwise) shall be deemed to have been incurred or issued (and the proceeds thereof applied) on the first day of the respective Calculation Period and remain outstanding through the date of determination and (y) (other than revolving Indebtedness except to the extent accompanied by a corresponding permanent commitment reduction) permanently retired or redeemed after the first day of the relevant Calculation Period shall be deemed to have been retired or redeemed on the first day of the respective Calculation Period and remain retired through the date of determination;

(ii) all Indebtedness assumed to be outstanding pursuant to preceding clause (i) shall be deemed to have borne interest at (x) the rate applicable thereto, in the case of fixed rate indebtedness, or (y) at the rate which would have been applicable thereto on the last day of the respective Calculation Period, in the case of floating rate Indebtedness (although interest expense with respect to any Indebtedness for periods while same was actually outstanding during the respective period shall be calculated using the actual rates applicable thereto while same was actually outstanding); and

(iii) in making any determination of Consolidated EBITDA, pro forma effect shall be given to any Asset Sale or Permitted Acquisition consummated during the periods described above, with such Consolidated EBITDA to be determined as if such Asset Sale or Permitted Acquisition was consummated on the first day of the relevant Calculation Period, and, in the case of any Permitted Acquisition, taking into account factually supportable and identifiable cost savings and expenses directly attributable to any such Permitted Acquisition which would otherwise be accounted for as an adjustment pursuant to Article 11 of Regulation S-X under the Securities Act, as if such cost savings or expenses were realized on the first day of the respective period.

"Quarterly Payment Date" shall mean the last Business Day of each December, March, June and September occurring after the Effective Date, commencing on March 31, 2017.

"Real Property" of any Person shall mean all the right, title and interest of such Person in and to land, improvements and fixtures, including Leaseholds.

"Register" shall have the meaning provided in Section 13.15.

"Regulation D" shall mean Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof establishing reserve requirements.

"Regulation T" shall mean Regulation T of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof.

"Regulation U" shall mean Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof.

"Regulation X" shall mean Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof.

"Release" shall mean actively or passively disposing, discharging, injecting, spilling, pumping, leaking, leaching, dumping, emitting, escaping, emptying, pouring, seeping, migrating or the like, into or upon any land or water or air, or otherwise entering into the environment.

"Replaced Lender" shall have the meaning provided in Section 1.13.

"Replacement Lender" shall have the meaning provided in Section 1.13.

"Reportable Event" shall mean an event described in Section 4043(c) of ERISA with respect to an ERISA Plan that is subject to Title IV of ERISA other than those events as to which the 30day notice period is waived under subsection .22, .23, .25, .27 or .28 of PBGC Regulation Section 4043.

"Required Lenders" shall mean, at any time, Lenders holding more than 50% of the aggregate principal amount of all outstanding Commitments and Loans at such time; provided, that for purposes of the foregoing, the Commitments and Loans of Defaulting Lenders shall be disregarded.

"Restricted" shall mean, when referring to cash or Cash Equivalents of Magellan or any of its Subsidiaries, that such cash or Cash Equivalents (i) appears (or would be required to appear) as "restricted" on a consolidated balance sheet of the Borrower or of any such Subsidiary, (ii) are subject to any Lien in favor of any Person or (iii) are not otherwise generally available for use by Magellan or any of its Subsidiaries.

"Returns" shall have the meaning provided in Section 7.09.

"S&P" shall mean Standard & Poor's Rating Services, a subsidiary of S&P Global Inc., or any successor thereto.

"Sale and Leaseback Transaction" shall mean any arrangement, directly or indirectly, whereby a seller or transferor shall sell or otherwise transfer any real or personal property and then or thereafter lease, or repurchase under an extended purchase contract, conditional sales or other title retention agreement, the same or similar property.

"Sanctioned Country" shall mean, at any time, a country or territory which is the subject or target of any comprehensive territorial Sanctions.

"Sanctioned Person" shall mean, at any time, (a) any Person listed in any Sanctions-related list of designated Persons maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the European Union, (b) any Person operating, organized or resident in a Sanctioned Country or (c) any Person controlled by any such Person or Persons.

"Sanctions" shall mean economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by (a) the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State, (b) the European Union or (c) Her Majesty's Treasury of the United Kingdom.

"SEC" shall have the meaning provided in Section 8.01(g).

"Section 4.04 Indemnitee" shall have the meaning provided in Section 4.04(a).

"Section 4.04(c)(ii) Certificate" shall have the meaning provided in Section 4.04(c)(ii).

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Specified Default" shall mean any Default under Section 10.01 or 10.05.

"Subsidiary" shall mean, as to any Person, (i) any corporation more than 50% of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person and/or one or more Subsidiaries of such Person and (ii) any partnership, limited liability company, association, joint venture or other entity in which such Person and/or one or more Subsidiaries of such Person has more than a 50% equity interest at the time.

"Subsidiary Guarantor" shall mean each Wholly-Owned Domestic Subsidiary of Magellan (other than the Borrower) other than, in each case, any such Wholly-Owned Subsidiary that is (but only for so long as it is) a Wholly-Owned Specified Subsidiary.

"Taxes" shall have the meaning provided in Section 4.04(a).

"Test Period" shall mean each period of four consecutive fiscal quarters of Magellan then last ended (in each case taken as one accounting period).

"Total Commitment" shall mean, at any time, the sum of the Commitments of each of the Lenders at such time.

"Total Leverage Ratio" shall mean, at any time, the ratio of Consolidated Indebtedness at such time to Consolidated EBITDA for the Test Period then most recently ended.

"Total Unutilized Revolving Loan Commitment" shall mean, at any time, the aggregate amount available to be drawn under the Existing Revolving Credit Facility at such time.

"Transaction" shall mean (i) the entering into of the Credit Documents and the incurrence of Loans (if any) on the Effective Date, and (ii) the payment of all fees and expenses in connection with the foregoing.

"Type" shall mean the type of Loan determined with regard to the interest option applicable thereto, i.e., whether a Base Rate Loan or a Eurodollar Loan.

"UCC" shall mean the Uniform Commercial Code as from time to time in effect in the relevant jurisdiction.

"Unfunded Current Liability" of any ERISA Plan shall mean the amount, if any, by which the value of the accumulated plan benefits under the ERISA Plan determined on a plan termination basis in accordance with actuarial assumptions at such time consistent with those prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds the fair market value of all plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contribution).

"United States" and "U.S." shall each mean the United States of America.

"Unrestricted" shall mean, when referring to cash or Cash Equivalents of Magellan or

any of its Subsidiaries, that such cash or Cash Equivalents are not Restricted.

"U.S. Lender" shall mean each Lender or the Administrative Agent that is a "United States person" (as such term is defined in Section 7701(a)(30) of the Code) for U.S. Federal income tax purposes.

"Voting Power" shall mean, with respect to any class or classes of capital stock of Magellan (or any class or classes of capital stock then convertible into such capital stock at the option of the holders thereof), the voting power entitled to vote in the election of directors of Magellan.

"Wholly-Owned Domestic Subsidiary" shall mean, as to any Person, any Wholly Owned Subsidiary of such Person which is also a Domestic Subsidiary of such Person.

"Wholly-Owned Foreign Subsidiary" shall mean, as to any Person, any Wholly Owned Subsidiary of such Person which is also a Foreign Subsidiary of such Person.

"Wholly-Owned Specified Subsidiary" shall mean (A) Magellan Rx Management, Inc., (B) any Wholly-Owned Subsidiary of Magellan Rx Management, Inc. (other than any such Person that was a Subsidiary of Magellan Rx Management, Inc. on the Permitted Restructuring Effective Date) and (C) any Wholly-Owned Subsidiary of Magellan that is prohibited from entering into any Credit Document because to do so either (x) would violate a law, regulation, rule, order, approval, license or other restriction applicable to such Wholly-Owned Subsidiary due to the regulated nature of such WhollyOwned Subsidiary's operations and issued or imposed by any governmental authority having jurisdiction over such Wholly-Owned Subsidiary or (y) would reasonably be expected to cause such Wholly-Owned Subsidiary to fail to satisfy a net worth, net equity or capital requirement or similar calculation or requirement imposed on such Wholly-Owned Subsidiary by any governmental authority having jurisdiction over such Wholly-Owned Subsidiary due to the regulated nature of such Wholly-Owned Subsidiary's operations; provided, that in no event shall the Borrower be a Wholly-Owned Specified Subsidiary.

"Wholly-Owned Subsidiary" shall mean, as to any Person, (i) any corporation 100% of whose capital stock is at the time owned by such Person and/or one or more Wholly-Owned Subsidiaries of such Person and (ii) any partnership, association, joint venture or other entity in which such Person and/or one or more Wholly-Owned Subsidiaries of such Person has a 100% equity interest at such time.

"Write-Down and Conversion Powers" shall mean, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

Section 12. The Administrative Agent.

12.01 Appointment. The Lenders hereby irrevocably designate and appoint The Bank of Tokyo-Mitsubishi UFJ, Ltd. as Administrative Agent to act as specified herein and in the other Credit Documents. Each Lender hereby irrevocably authorizes, and each holder of any Note by the acceptance of such Note shall be deemed irrevocably to authorize, the Administrative Agent to take such action on its behalf under the provisions of this Agreement, the other Credit Documents and any other instruments and agreements referred to herein or therein and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of the Administrative Agent by the terms hereof and thereof and such other powers as are reasonably incidental thereto. The Administrative Agent may perform any of its respective duties hereunder by or through its officers, directors, agents, employees or affiliates.

12.02 Nature of Duties. (a) The Administrative Agent shall not have any duties or responsibilities except those expressly set forth in this Agreement and in the other Credit Documents. Neither the Administrative Agent nor any of its officers, directors, agents, employees or affiliates shall be liable for any action taken or omitted by it or them hereunder or under any other Credit Document or in

connection herewith or therewith, unless caused by its or their gross negligence or willful misconduct (as determined by a court of competent jurisdiction in a final and non-appealable decision). The duties of the Administrative Agent shall be mechanical and administrative in nature; the Administrative Agent shall not have by reason of this Agreement or any other Credit Document a fiduciary relationship in respect of any Lender or the holder of any Note; and nothing in this Agreement or in any other Credit Document, expressed or implied, is intended to or shall be so construed as to impose upon the Administrative Agent any obligations in respect of this Agreement or any other Credit Document except as expressly set forth herein or therein.

(b) Notwithstanding any other provision of this Agreement or any provision of any other Credit Document, (i) The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citigroup Global Markets Inc., Compass Bank (d/b/a BBVA Compass), JPMorgan Chase Bank, N.A., SunTrust Robinson Humphrey, Inc. and Wells Fargo Securities, LLC are named as Joint Lead Arrangers and Joint Bookrunners for recognition purposes only and (ii) Citibank, N.A., Compass Bank (d/b/a BBVA Compass), JPMorgan Chase Bank, N.A., SunTrust Bank and Wells Fargo Securities, LLC are named as Co-Syndication Agents for recognition purposes only, and in their respective capacities as such shall have no powers, duties, responsibilities or liabilities with respect to this Agreement or the other Credit Documents or the transactions contemplated hereby and thereby; it being understood and agreed that The Bank of TokyoMitsubishi UFJ, Ltd., Citigroup Global Markets Inc., Compass Bank (d/b/a BBVA Compass), JPMorgan Chase Bank, N.A., SunTrust Bank, SunTrust Robinson Humphrey, Inc., Wells Fargo Bank, National Association and Wells Fargo Securities, LLC in such capacities shall be entitled to all indemnification and reimbursement rights in favor of the Administrative Agent as, and to the extent, provided for under Sections 12.06 and 13.01. Without limitation of the foregoing, none of The Bank of Tokyo-Mitsubishi UFJ, Ltd., Citigroup Global Markets Inc., Compass Bank (d/b/a BBVA Compass), JPMorgan Chase Bank, N.A., SunTrust Bank, SunTrust Robinson Humphrey, Inc., Wells Fargo Bank, National Association and Wells Fargo Securities, LLC, in such respective capacities shall have, solely by reason of this Agreement or any other Credit Documents, any fiduciary relationship in respect of any Lender or any other Person.

12.03 Lack of Reliance on the Administrative Agent. Independently and without reliance upon the Administrative Agent, each Lender and the holder of each Note, to the extent it deems appropriate, has made and shall continue to make (i) its own independent investigation of the financial condition and affairs of Magellan and its Subsidiaries in connection with the making and the continuance of the Loans and Letters of Credit and the taking or not taking of any action in connection herewith and (ii) its own appraisal of the creditworthiness of Magellan and its Subsidiaries and, except as expressly provided in this Agreement, the Administrative Agent shall not have any duty or responsibility, either initially or on a continuing basis, to provide any Lender or the holder of any Note with any credit or other information with respect thereto, whether coming into its possession before the making of the Loans or at any time or times thereafter. The Administrative Agent shall not be responsible to any Lender or the holder of any Note for any recitals, statements, information, representations or warranties herein or in any document, certificate or other writing delivered in connection herewith or for the execution, effectiveness, genuineness, validity, enforceability, perfection, collectability, priority or sufficiency of this Agreement or any other Credit Document or the financial condition of Magellan or any of its Subsidiaries or be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement or any other Credit Document, or the financial condition of Magellan or any of its Subsidiaries or the existence or possible existence of any Default or Event of Default.

12.04 Certain Rights of the Administrative Agent. If the Administrative Agent requests instructions from the Required Lenders with respect to any act or action (including failure to act) in connection with this Agreement or any other Credit Document, the Administrative Agent shall be entitled

to refrain from such act or taking such action unless and until the Administrative Agent shall have received instructions from the Required Lenders; and the Administrative Agent shall not incur liability to any Lender by reason of so refraining. Without limiting the foregoing, neither any Lender nor the holder of any Note shall have any right of action whatsoever against the Administrative Agent as a result of the Administrative Agent acting or refraining from acting hereunder or under any other Credit Document in accordance with the instructions of the Required Lenders.

12.05 Reliance. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, statement, certificate, telex, teletype or fax message, cablegram, radiogram, order or other document or telephone message signed, sent or made by any Person that the Administrative Agent believed to be the proper Person, and, with respect to all legal matters pertaining to this Agreement and any other Credit Document and its duties hereunder and thereunder, upon advice of counsel selected by the Administrative Agent.

12.06 Indemnification. To the extent the Administrative Agent (or any affiliate thereof) is not reimbursed and indemnified by the Borrower, the Lenders severally will reimburse and indemnify the Administrative Agent (and any affiliate thereof) in proportion to their respective "percentage" as used in determining the Required Lenders (determined as if there were no Defaulting Lenders) for and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, judgments, costs, expenses or disbursements of whatsoever kind or nature which may be imposed on, asserted against or incurred by the Administrative Agent (or any affiliate thereof) in performing its duties hereunder or under any other Credit Document or in any way relating to or arising out of this Agreement or any other Credit Document; provided, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, claims, actions, judgments, suits, costs, expenses or disbursements resulting from the Administrative Agent's (or such affiliate's) gross negligence or willful misconduct (as determined by a court of competent jurisdiction in a final and non-appealable decision).

12.07 The Administrative Agent in its Individual Capacity. With respect to its obligation to make Loans, under this Agreement, the Administrative Agent shall have the rights and powers specified herein for a "Lender" and may exercise the same rights and powers as though it were not performing the duties specified herein; and the term "Lender,", "Required Lenders," "holders of Notes" or any similar terms shall, unless the context clearly indicates otherwise, include the Administrative Agent in its respective individual capacities. The Administrative Agent and its affiliates may accept deposits from, lend money to, and generally engage in any kind of banking, investment banking, trust or other business with, or provide debt financing, equity capital or other services (including financial advisory services) to any Credit Party or any Affiliate of any Credit Party (or any Person engaged in a similar business with any Credit Party or any Affiliate thereof) as if they were not performing the duties specified herein, and may accept fees and other consideration from any Credit Party or any Affiliate of any Credit Party for services in connection with this Agreement and otherwise without having to account for the same to the Lenders.

12.08 Holders. The Administrative Agent may deem and treat the payee of any Note as the owner thereof for all purposes hereof unless and until a written notice of the assignment, transfer or endorsement thereof, as the case may be, shall have been filed with the Administrative Agent. Any request, authority or consent of any Person who, at the time of making such request or giving such authority or consent, is the holder of any Note shall be conclusive and binding on any subsequent holder, transferee, assignee or endorsee, as the case may be, of such Note or of any Note or Notes issued in exchange therefor.

12.09 Resignation by the Administrative Agent. (a) The Administrative Agent may resign from the performance of all its respective functions and duties hereunder and/or under the other

Credit Documents at any time by giving 15 Business Days' prior written notice to the Lenders and, unless a Default or an Event of Default under Section 10.05 then exists, the Borrower. Such resignation shall take effect upon the appointment of a successor Administrative Agent pursuant to clauses (b) and (c) below or as otherwise provided below.

(b) Upon any such notice of resignation by the Administrative Agent, the Required Lenders shall appoint a successor Administrative Agent hereunder or thereunder who shall be a commercial bank or trust company reasonably acceptable to the Borrower, which acceptance shall not be unreasonably withheld or delayed (provided, that the Borrower's approval shall not be required if an Event of Default then exists).

(c) If a successor Administrative Agent shall not have been so appointed within such 15 Business Day period, the Administrative Agent, with the consent of the Borrower (which consent shall not be unreasonably withheld or delayed; provided, that the Borrower's consent shall not be required if an Event of Default then exists), shall then appoint a successor Administrative Agent who shall serve as Administrative Agent hereunder or thereunder until such time, if any, as the Required Lenders appoint a successor Administrative Agent as provided above.

(d) If no successor Administrative Agent has been appointed pursuant to clause (b) or (c) above by the 20th Business Day after the date such notice of resignation was given by the Administrative Agent, the Administrative Agent's resignation shall become effective and the Required Lenders shall thereafter perform all the duties of the Administrative Agent hereunder and/or under any other Credit Document until such time, if any, as the Required Lenders appoint a successor Administrative Agent as provided above.

(e) Upon a resignation of the Administrative Agent pursuant to this Section 12.09, the Administrative Agent shall remain indemnified to the extent provided in this Agreement and the other Credit Documents and the provisions of this Section 12 shall continue in effect for the benefit of the Administrative Agent for all of its actions and inactions while serving as the Administrative Agent.

Section 13. Miscellaneous.

13.01 Payment of Expenses, etc. The Borrower hereby agrees to: (i) whether or not the transactions herein contemplated are consummated, pay all reasonable out-of-pocket costs and expenses of the Agents and their respective affiliates (including, without limitation, the reasonable fees and disbursements of Davis Polk & Wardwell LLP and the Agents' other counsel and consultants) in connection with the preparation, execution, delivery and administration of this Agreement and the other Credit Documents and the documents and instruments referred to herein and therein and any amendment, waiver or consent relating hereto or thereto, of the Agents in connection with their syndication efforts with respect to this Agreement and of the Agents and, after the occurrence of an Event of Default, each of the Lenders in connection with the enforcement of this Agreement and the other Credit Documents and the documents and instruments referred to herein and therein or in connection with any refinancing or restructuring of the credit arrangements provided under this Agreement in the nature of a "work-out" or pursuant to any insolvency or bankruptcy proceedings (including, in each case without limitation, the reasonable fees and disbursements of counsel and consultants for the Agents and, after the occurrence of an Event of Default, counsel for each of the Lenders); (ii) pay and hold the Administrative Agent and each of the Lenders harmless from and against any and all present and future stamp, excise and other similar documentary taxes with respect to the foregoing matters and save the Administrative Agent and each of the Lenders harmless from and against any and all liabilities with respect to or resulting from any delay or omission (other than to the extent attributable to the Administrative Agent or such Lender) to pay such taxes; and (iii) indemnify the Administrative Agent, each Lender, and each of their respective

officers, directors, employees, representatives, agents, affiliates, trustees and investment advisors (each such Person, an "Indemnified Person") from and hold each of them harmless against any and all liabilities, obligations (including removal or remedial actions), losses, damages, penalties, claims, actions, judgments, suits, costs, expenses and disbursements (including reasonable attorneys' and consultants' fees and disbursements) incurred by, imposed on or assessed against any of them as a result of, or arising out of, or in any way related to, or by reason of (a) any investigation, litigation or other proceeding (whether or not the Administrative Agent, or any Lender is a party thereto and whether or not such investigation, litigation or other proceeding is brought by or on behalf of any Credit Party) related to the entering into and/or performance of this Agreement or any other Credit Document or (b) the use of the proceeds of any Loans hereunder or the consummation of the Transaction or any other transactions contemplated herein or in any other Credit Document or the exercise of any of their rights or remedies provided herein or in the other Credit Documents. To the extent that the undertaking to indemnify, pay or hold harmless any Indemnified Person set forth in the preceding sentence may be unenforceable because it is violative of any law or public policy, Magellan shall make the maximum contribution to the payment and satisfaction of each of the indemnified liabilities which is permissible under applicable law. No Indemnified Person shall be liable for any damages arising from the use by others of any information or other materials obtained through the Platform or other similar information transmission systems in connection with this Agreement other than for direct or actual damages resulting from the gross negligence or willful misconduct on the part of such Indemnified Person (as determined by a court of competent jurisdiction in a final and non-appealable decision). To the fullest extent permitted by applicable law, no Indemnified Person shall have any liability for any special, punitive, indirect or consequential damages relating to this Agreement or any other Credit Documents or arising out of its activities in connection herewith or therewith (whether before or after the Effective Date).

13.02 Right of Setoff. In addition to any rights now or hereafter granted under applicable law or otherwise, and not by way of limitation of any such rights, upon the occurrence and during the continuance of an Event of Default, the Administrative Agent, and each Lender and each of their respective Affiliates, to the fullest extent permitted by applicable law, is hereby authorized at any time or from time to time, without presentment, demand, protest or other notice of any kind to any Credit Party or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and apply any and all deposits (general or special) and any other Indebtedness at any time held or owing by the Administrative Agent, or such Lender (including, without limitation, by branches and agencies of the Administrative Agent, or such Lender wherever located) to or for the credit or the account of Magellan or any of its Subsidiaries against and on account of the Obligations and liabilities of the Credit Parties to the Administrative Agent, or such Lender under this Agreement or under any of the other Credit Documents, including, without limitation, all interests in Obligations purchased by such Lender pursuant to Section 13.06(b), and all other claims of any nature or description arising out of or connected with this Agreement or any other Credit Document, irrespective of whether or not the Administrative Agent, or such Lender shall have made any demand hereunder and although said Obligations, liabilities or claims, or any of them, shall be contingent or unmatured.

13.03 Notices; Platform. (a) Except as otherwise expressly provided herein (including in Section 13.03(c)), all notices and other communications provided for hereunder shall be in writing (including telegraphic, telex, fax or cable communication) and mailed, telegraphed, telexed, faxed, cabled or delivered: if to any Credit Party, at the address specified opposite its signature below or in the other relevant Credit Documents; if to any Lender at its address specified in its Administrative Questionnaire; and if to the Administrative Agent, at the Notice Office; or, as to any Credit Party or the Administrative Agent, at such other address as shall be designated by such party in a written notice to the other parties hereto and, as to each Lender, at such other address as shall be designated by such Lender in a written notice to the Borrower and the Administrative Agent. All such notices and communications shall, when mailed, telegraphed, telexed, faxed, or cabled or sent by overnight courier, be effective when deposited in

the mails, delivered to the telegraph company, cable company or overnight courier, as the case may be, or sent by telex or fax, except that notices and communications to the Administrative Agent, Magellan and the Borrower shall not be effective until received by the Administrative Agent, Magellan or the Borrower, as the case may be, during normal business hours.

(b) Magellan and the Borrower agree that the Administrative Agent may, but shall not be obligated to, make any notices, written information, documents, instruments and other material relating to Magellan, the Borrower, any of their Subsidiaries or any other materials or matters relating to this Agreement, the Notes or any of the transactions contemplated hereby (collectively, the "Communications") available to the Lenders by posting such notices on Intralinks, DebtDomain or a substantially similar electronic system (the "Platform"). Magellan and the Borrower acknowledge that (i) the distribution of material through an electronic medium is not necessarily secure and that there are confidentiality and other risks associated with such distribution, (ii) the Platform is provided "as is" and "as available" and (iii) neither the Administrative Agent nor any of its affiliates warrants the accuracy, adequacy or completeness of the Communications or the Platform and each expressly disclaims liability for errors or omissions in the Communications or the Platform. No warranty of any kind, express, implied or statutory, including, without limitation, any warranty of merchantability, fitness for a particular purpose, non-infringement of third party rights or freedom from viruses or other code defects, is made by the Administrative Agent or any of its affiliates in connection with the Platform.

(c) Each Lender agrees that notice to it (as provided in the next sentence) specifying that any Communications have been posted to the Platform shall constitute effective delivery of such information, documents or other materials to such Lender for purposes of this Agreement; provided, that if requested by any Lender, the Administrative Agent shall deliver a copy of the Communications to such Lender by email or fax. Each Lender agrees (i) to notify the Administrative Agent in writing of such Lender's e-mail address to which a notice may be sent by electronic transmission (including by electronic communication) on or before the date such Lender becomes a party to this Agreement (and from time to time thereafter to ensure that the Administrative Agent has on record an effective e-mail address for such Lender) and (ii) that any notice may be sent to such e-mail address.

13.04 Benefit of Agreement; Assignments; Participations. (a) This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto; provided, however, the Borrower may not assign or transfer any of its rights, obligations or interest hereunder without the prior written consent of the Lenders; provided, further, that, although any Lender may transfer, assign or grant participations in its rights hereunder without the need for notice to, or consent of, the Borrower or the Administrative Agent, such Lender shall remain a "Lender" for all purposes hereunder (and may not transfer or assign all or any portion of its Loans or Commitments hereunder except as provided in Sections 1.13, and 13.04(b)) and the participant shall not constitute a "Lender" hereunder; provided, further, that no Lender shall transfer or grant any participation under which the participant shall have rights to approve any amendment to or waiver of this Agreement or any other Credit Document except to the extent such amendment or waiver would (i) extend the final scheduled maturity of any Loan or Note in which such participant is participating, or reduce the rate or extend the time of payment of interest thereon (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce or forgive the principal amount thereof or reduce or forgive any interest, fees or other amounts payable hereunder (it being understood that any amendment or modification to the financial definitions in this Agreement or to Section 13.07(a) or to the proviso following the table in the definition of "Applicable Margin" the effect of which would be to limit the applicability thereof, shall not constitute a reduction in the rate of interest payable hereunder), or increase the amount of the participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or Event of Default shall not constitute a change in the terms of such participation, and that an increase in a Commitment (or the available portion thereof) or Loan shall be

permitted without the consent of any participant if the participant's participation is not increased as a result thereof) or (ii) consent to the assignment or transfer by the Borrower or Magellan of any of its rights and obligations under this Agreement. In the case of any such participation, the participant shall not have any rights under this Agreement or any of the other Credit Documents (the participant's rights against such Lender in respect of such participation to be those set forth in the agreement executed by such Lender in favor of the participant relating thereto) and all amounts payable by the Borrower hereunder shall be determined as if such Lender had not sold such participation.

(b) Notwithstanding the foregoing, any Lender (or any Lender together with one or more other Lenders) may (x) assign all or a portion of its Commitments or outstanding Loans hereunder to (i)(A) its parent company and/or any affiliate of such Lender which is at least 50% owned by such Lender or its parent company or (B) to one or more other Lenders or any affiliate of any such other Lender which is at least 50% owned by such other Lender or its parent company (provided, that any fund that invests in loans and is managed by the same investment advisor of another fund which is a Lender (or by an Affiliate of such investment advisor) shall be treated as an affiliate of such other Lender for the purposes of this sub-clause (x)(i)(B)), or (ii) in the case of any Lender that is a fund that invests in loans, any other fund that invests in loans and is managed by the same investment advisor of any Lender or by an Affiliate of such investment advisor or (y) assign all, or if less than all, a portion equal to at least $1,000,000 in the aggregate for the assigning Lender or assigning Lenders of such Commitments or outstanding Loans hereunder to one or more Eligible Transferees (treating any fund that invests in loans and any other fund that invests in loans and is managed or advised by the same investment advisor of such fund or by an Affiliate of such investment advisor as a single Eligible Transferee), each of which assignees shall become a party to this Agreement as a Lender by execution of an Assignment and Assumption Agreement; provided, that (i) at such time, Schedule I shall be deemed modified to reflect the Commitments and/or outstanding Loans, as the case may be, of such new Lender and of the existing Lenders, (ii) upon the surrender of the relevant Note by the assigning Lender (or, upon such assigning Lender's indemnifying the Borrower for any lost Note pursuant to a customary indemnification agreement) new Notes will be issued, at the Borrower's expense, to such new Lender and to the assigning Lender upon the request of such new Lender or assigning Lender, such new Notes to be in conformity with the requirements of Section 1.05 (with appropriate modifications) to the extent needed to reflect the revised Commitments and/or outstanding Loans, as the case may be, (iii) the consent of the Administrative Agent and, so long as no Specified Default then exists, the consent of the Borrower shall be required in connection with any such assignment pursuant to clause (y) above (each of which consents shall not be unreasonably withheld or delayed and in the case of the Borrower, consent shall be deemed to have been given if the Borrower has not responded within ten Business Days of a request for such consent), (iv) the Administrative Agent shall receive at the time of each such assignment, from the assigning or assignee Lender, the payment of a non-refundable assignment fee of $3,500, unless waived by the Administrative Agent in its sole discretion and (v) no such transfer or assignment will be effective until recorded by the Administrative Agent on the Register pursuant to Section 13.15. To the extent of any assignment pursuant to this Section 13.04(b), the assigning Lender shall be relieved of its obligations hereunder with respect to its assigned Commitment and/or outstanding Loans. At the time of each assignment pursuant to this Section 13.04(b) to a Person which is not already a Lender hereunder, the respective assignee Lender shall (A) to the extent legally entitled to do so, provide to the Borrower the appropriate Internal Revenue Service Forms (and, if applicable, a Section 4.04(c)(ii) Certificate) described in Section 4.04(c) and (B) deliver to the Administrative Agent an Administrative Questionnaire. To the extent that an assignment of all or any portion of a Lender's Commitment, Loans and related outstanding Obligations pursuant to Section 1.13 or this Section 13.04(b) would, at the time of such assignment, result in increased costs under Section 1.10, or 4.04 from those being charged by the respective assigning Lender prior to such assignment, then the Borrower shall not be obligated to pay such increased costs (although the Borrower, in accordance with and pursuant to the other provisions of

this Agreement, shall be obligated to pay any other increased costs of the type described above resulting from any Change in Law after the date of the respective assignment).

(c) Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register on which it enters the name and address of each participant and the principal amounts (and stated interest) of each participant's interest in obligations under the Credit Documents (the "Participant Register"); provided, that no Lender shall have any obligation to disclose all or any portion of the Participant Register (including the identity of any participant or any information relating to a participant's interest in any commitments, loans, or its other obligations under any Credit Document) to any Person except to the extent that such disclosure is necessary to establish that such commitment, loan, letter of credit or other obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary. For the avoidance of doubt, the Administrative Agent (in its capacity as Administrative Agent) shall have no responsibility for maintaining a Participant Register.

(d) Nothing in this Agreement shall prevent or prohibit any Lender from pledging its Loans and Notes hereunder as security for the obligations of such Lender, including (i) to a Federal Reserve Bank in support of borrowings made by such Lender from such Federal Reserve Bank and (ii) with prior notification to the Administrative Agent (but without the consent of the Administrative Agent or the Borrower), in the case of any Lender which is a fund, to its trustee or to a collateral agent providing credit or credit support to such Lender in support of its obligations to such trustee, such collateral agent or a holder of such obligations, as the case may be. No pledge pursuant to this clause (d) shall release the transferor Lender from any of its obligations hereunder.

13.05 No Waiver; Remedies Cumulative. No failure or delay on the part of the Administrative Agent, or any Lender in exercising any right, power or privilege hereunder or under any other Credit Document and no course of dealing between the Borrower or any other Credit Party and the Administrative Agent, or any Lender shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or under any other Credit Document preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder or thereunder. The rights, powers and remedies herein or in any other Credit Document expressly provided are cumulative and not exclusive of any rights, powers or remedies which the Administrative Agent, or any Lender would otherwise have. No notice to or demand on any Credit Party in any case shall entitle any Credit Party to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the Administrative Agent, or any Lender to any other or further action in any circumstances without notice or demand.

13.06 Payments Pro Rata. (a) Except as otherwise provided in this Agreement, the Administrative Agent agrees that promptly after its receipt of each payment from or on behalf of the Borrower in respect of any Obligations hereunder, the Administrative Agent shall distribute such payment to the Lenders entitled thereto (other than any Lender that has consented in writing to waive its pro rata share of any such payment) pro rata based upon their respective shares, if any, of the Obligations with respect to which such payment was received.

(b) Each of the Lenders agrees that, if it should receive any amount hereunder (whether by voluntary payment, by realization upon security, by the exercise of the right of setoff or banker's lien, by counterclaim or cross action, by the enforcement of any right under the Credit Documents, or otherwise), which is applicable to the payment of the principal of, or interest on, the Loans or Commitment Commission, of a sum which with respect to the related sum or sums received by other

Lenders is in a greater proportion than the total of such Obligation then owed and due to such Lender bears to the total of such Obligation then owed and due to all of the Lenders immediately prior to such receipt, then such Lender receiving such excess payment shall purchase for cash without recourse or warranty from the other Lenders an interest in the Obligations of the respective Credit Party to such Lenders in such amount as shall result in a proportional participation by all the Lenders in such amount; provided, that if all or any portion of such excess amount is thereafter recovered from such Lenders, such purchase shall be rescinded and the purchase price restored to the extent of such recovery, but without interest provided further, the provisions of this Section 13.06(b) shall not be construed to apply to any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans to any assignee or participant other than Magellan, the Borrower or any Affiliate thereof.

(c) Notwithstanding anything to the contrary contained herein, the provisions of the preceding Sections 13.06(a) and (b) shall be subject to the express provisions of this Agreement which require, or permit, differing payments to be made to Non-Defaulting Lenders as opposed to Defaulting Lenders.

13.07 Calculations; Computations. (a) The financial statements to be furnished to the Lenders pursuant hereto shall be made and prepared in accordance with generally accepted accounting principles in the United States consistently applied throughout the periods involved (except as set forth in the notes thereto or as otherwise disclosed in writing by Magellan to the Lenders); provided, that, (i) except as otherwise specifically provided herein, all computations and all definitions (including accounting terms) used in determining compliance with Sections 9.03(iii), 9.05(xi), 9.05(xiv), 9.08, 9.09 and 9.10(i)(B) shall utilize generally accepted accounting principles and policies in conformity with those used to prepare the audited historical financial statements of Magellan referred to in Section 7.05(a) and (ii) to the extent expressly provided herein, certain calculations shall be made on a Pro Forma Basis.

(b) All computations of interest, Commitment Commission and other Fees hereunder shall be made on the basis of a year of 360 days (except for interest calculated by reference to the Prime Lending Rate, which shall be based on a year of 365 or 366 days, as applicable) for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest, Commitment Commission or other Fees are payable.

13.08 GOVERNING LAW; SUBMISSION TO JURISDICTION; VENUE; WAIVER OF JURY TRIAL. (a) THIS AGREEMENT AND THE OTHER CREDIT DOCUMENTS AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THEREUNDER AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT SHALL, EXCEPT AS TO ANY OTHER CREDIT DOCUMENT AS EXPRESSLY SET FORTH THEREIN, BE CONSTRUED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW OF THE STATE OF NEW YORK. ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT SHALL BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK OR OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK, IN EACH CASE WHICH ARE LOCATED IN THE COUNTY OF NEW YORK. EACH PARTY HERETO HEREBY IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, THE EXCLUSIVE JURISDICTION OF THE AFORESAID COURTS. EACH PARTY HERETO HEREBY FURTHER IRREVOCABLY WAIVES ANY CLAIM THAT ANY SUCH COURTS LACK PERSONAL JURISDICTION OVER SUCH PARTY, AND AGREES NOT TO PLEAD OR CLAIM, IN ANY LEGAL ACTION PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENTS BROUGHT IN ANY OF THE AFOREMENTIONED COURTS, THAT SUCH COURTS LACK PERSONAL

JURISDICTION OVER SUCH PARTY. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. EACH PARTY HERETO FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OUT OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO SUCH PARTY AT ITS ADDRESS SPECIFIED IN SECTION 13.03, SUCH SERVICE TO BECOME EFFECTIVE 30 DAYS AFTER SUCH MAILING. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES ANY OBJECTION TO SUCH SERVICE OF PROCESS AND FURTHER IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY ACTION OR PROCEEDING COMMENCED HEREUNDER OR UNDER ANY OTHER CREDIT DOCUMENT THAT SERVICE OF PROCESS WAS IN ANY WAY INVALID OR INEFFECTIVE. NOTHING HEREIN SHALL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

(b) EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY OF THE AFORESAID ACTIONS OR PROCEEDINGS ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT BROUGHT IN THE COURTS REFERRED TO IN CLAUSE (a) ABOVE AND HEREBY FURTHER IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

(c) EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE OTHER CREDIT DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

(d) MAGELLAN HEREBY IRREVOCABLY ACCEPTS THE APPOINTMENT TO RECEIVE SERVICE OF PROCESS FOR EACH SUBSIDIARY GUARANTOR (IF ANY) THAT IS A FOREIGN SUBSIDIARY OF MAGELLAN AS PROVIDED IN SECTION 16(a) OF THE GUARANTY.

13.09 Counterparts. This Agreement may be executed in any number of counterparts

and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A set of counterparts executed by all the parties hereto shall be lodged with the Borrower and the Administrative Agent.

13.10 Effectiveness. This Agreement shall become effective on the date (the "Effective Date") on which (i) Magellan, the Borrower, the Administrative Agent and each of the Lenders shall have signed a counterpart hereof (whether the same or different counterparts) and shall have delivered the same to the Administrative Agent at the Notice Office or, in the case of the Lenders, shall have given to the Administrative Agent telephonic (confirmed in writing), written or telex notice (actually received) at such office that the same has been signed and mailed to it and (ii) the conditions contained in Section 5 are met to the satisfaction of the Agents and the Required Lenders. Unless the Administrative Agent has received actual notice from any Lender that the conditions described in clause (ii) of the preceding sentence have not been met to its satisfaction, upon the satisfaction of the condition described in clause (i) of the immediately preceding sentence and upon the Administrative Agent's good faith determination that the

conditions described in clause (ii) of the immediately preceding sentence have been met, then the Effective Date shall have deemed to have occurred. The Administrative Agent will give Magellan, the Borrower and each Lender prompt written notice of the occurrence of the Effective Date.

13.11 Headings Descriptive. The headings of the several sections and subsections of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Agreement.

13.12 Amendment or Waiver; etc.

(a) Neither this Agreement nor any other Credit Document nor any terms hereof or thereof may be changed, waived, discharged or terminated unless such change, waiver, discharge or termination is in writing signed by the respective Credit Parties party hereto or thereto and the Required Lenders (although additional parties may be added to (and annexes may be modified to reflect such additions), and Subsidiaries of the Borrower may be released from, the Guaranty in accordance with the provisions hereof and thereof without the consent of the other Credit Parties party thereto or the Required Lenders); provided, that no such change, waiver, discharge or termination shall, without the consent of each Lender directly affected thereby (other than a Defaulting Lender), (i) (x) extend the final scheduled maturity of any Loan or Note in respect of the Loans, or (y) with respect to clause (x), reduce the rate or extend the time of payment of interest or Fees thereon (except in connection with the waiver of applicability of any post-default increase in interest rates), or reduce or forgive the principal amount thereof or reduce or forgive any interest, Fees or other amounts payable hereunder (it being understood that any amendment or modification to the financial definitions in this Agreement, or to Section 13.07(a), shall not constitute a reduction in the rate of interest or Fees for the purposes of this clause (i)), (ii) release all or substantially all of the aggregate value of the Guaranty of all of the Guarantors (except as expressly provided in the Credit Documents), (iii) amend, modify or waive any provision of this Section 13.12(a) (except for technical amendments with respect to additional extensions of credit pursuant to this Agreement which afford the protections to such additional extensions of credit of the type provided on the Effective Date) (iv) reduce the percentage specified in the definition of Required Lenders (it being understood that, with the consent of the Required Lenders, additional extensions of credit pursuant to this Agreement may be included in the determination of the Required Lenders on substantially the same basis as on the Effective Date), (v) consent to the assignment or transfer by the Borrower or Magellan of any of its rights and obligations under this Agreement or (vi) amend Section 13.06 in a manner that would alter the pro rata sharing of amounts required thereby; provided further, that no such change, waiver, discharge or termination shall (1) increase the Commitment of any Lender over the amount thereof then in effect, or extend the date of any mandatory reduction in the Commitment of any Lender, without the consent of such Lender (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or Events of Default shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of the Commitment of any Lender shall not constitute an increase of the Commitment of such Lender), or (2) without the consent of the Administrative Agent, amend, modify or waive any provision of Section 12 or any other provision of this Agreement as same relates to the rights or obligations of the Administrative Agent.

(b) If, in connection with any proposed change, waiver, discharge or termination of any of the provisions of this Agreement as contemplated by clauses (i) through (v), inclusive, of the first proviso to Section 13.12(a), the consent of the Required Lenders is obtained but the consent of one or more of such other Lenders whose consent is required is not obtained, then the Borrower shall have the right, so long as all non-consenting Lenders whose individual consent is required are treated as described in either clause A below, to (A) replace each such non-consenting Lender or Lenders with one or more Replacement Lenders pursuant to Section 1.13 so long as at the time of such replacement, each such Replacement Lender consents to the proposed change, waiver, discharge or termination; provided further,

that the Borrower shall not have the right to replace a Lender, terminate its Commitment or repay its Loans solely as a result of the exercise of such Lender's rights (and the withholding of any required consent by such Lender) pursuant to the second proviso to Section 13.12(a). Upon the effectiveness of any such replacement or termination, such replaced or terminated Lender shall no longer constitute a "Lender" for purposes of this Agreement, except with respect to indemnifications under this Agreement (including, without limitation, Sections 1.10, 1.11, 4.04, 12.06 and 13.01), which shall survive as to such Lender.

13.13 Survival. All indemnities set forth herein including, without limitation, in Sections 1.10, 1.11, 4.04, 12.06 and 13.01 shall survive the execution, delivery and termination of this Agreement and the Notes and the making and repayment of the Obligations.

13.14 Domicile of Loans. Each Lender may transfer and carry its Loans at, to or for the account of any office, Subsidiary or Affiliate of such Lender. Notwithstanding anything to the contrary contained herein, to the extent that a transfer of Loans pursuant to this Section 13.14 would, at the time of such transfer, result in increased costs under Section 1.10, 1.11, or 4.04 from those being charged by the respective Lender prior to such transfer, then the Borrower shall not be obligated to pay such increased costs (although the Borrower shall be obligated to pay any other increased costs of the type described above resulting from any Change in Law after the date of the respective transfer).

13.15 Register. The Borrower hereby designates the Administrative Agent to serve as its agent, solely for purposes of this Section 13.15, to maintain a register (the "Register") on which it will record, the Loans made by each of the Lenders, the amount of any principal or interest due and payable with respect to such Loans and each repayment in respect of the principal amount, and related interest amounts of the Loans of each Lender. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligations in respect of such Loans. The transfer of the Loans of any Lender and the rights to the principal of, and interest on, any Loan shall not be effective until such transfer is recorded on the Register maintained by the Administrative Agent with respect to ownership of such Loans and prior to such recordation all amounts owing to the transferor with respect to such Loans shall remain owing to the transferor. The registration of assignment or transfer of all or part of the Loans shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement pursuant to Section 13.04(b). Coincident with the delivery of such an Assignment and Assumption Agreement to the Administrative Agent for acceptance and registration of assignment or transfer of all or part of a Loan, or as soon thereafter as practicable, the assigning or transferor Lender shall surrender the Note (if any) evidencing such Loan, and thereupon one or more new Notes in the same aggregate principal amount shall be issued to the assigning or transferor Lender and/or the new Lender at the request of any such Lender. Each of Magellan and the Borrower agrees to indemnify the Administrative Agent from and against any and all losses, claims, damages and liabilities of whatsoever nature which may be imposed on, asserted against or incurred by the Administrative Agent in performing its duties under this Section 13.15 except to the extent resulting from the Administrative Agent's gross negligence or willful misconduct (as determined by a court of competent jurisdiction in a final and non-appealable decision). In addition, the Borrower shall have the right, upon its written request to the Administrative Agent, to review a copy of the Register at any reasonable time.

13.16 Confidentiality. (a) Subject to the provisions of clause (b) of this Section 13.16, each Lender agrees that it will use its reasonable efforts not to disclose without the prior consent of Magellan (other than to its employees, auditors, advisors, Affiliates or counsel or to another Lender if such Lender or such Lender's holding or parent company in its reasonable discretion determines that any such party should have access to such information; provided, that such Persons shall be subject to the provisions of this Section 13.16 to the same extent as such Lender) any information with respect to

Magellan or any of its Subsidiaries which is now or in the future furnished pursuant to this Agreement or any other Credit Document and which is designated as confidential by the Borrower; provided, that any Lender may disclose any such information (i) as has become generally available to the public other than by virtue of a breach of this Section 13.16(a) by the respective Lender or becomes available to the Administrative Agent, any Lender or any of their respective Affiliates from a source other than the Borrower that does not owe the Borrower a fiduciary duty, (ii) as may be required or appropriate in any report, statement or testimony submitted to any municipal, state or Federal regulatory body having or claiming to have jurisdiction over such Lender or to the Federal Reserve Board or the Federal Deposit Insurance Corporation or similar organizations (whether in the United States or elsewhere) or their successors, (iii) as may be required or appropriate in respect to any summons or subpoena or in connection with any litigation, (iv) in order to comply with any law, order, regulation or ruling applicable to such Lender, (v) to any other party hereto, (vi) to any actual or prospective direct or indirect contractual counterparty in any swap, hedge or similar agreement (or to any such contractual counterparty's professional advisor), so long as such contractual counterparty (or such professional advisor) agrees to be bound by an agreement containing provisions substantially the same as those of this Section 13.16, (vii) to any prospective or actual transferee or participant in connection with any contemplated transfer or participation of any of the Notes, Loans, or Commitments or any interest therein by such Lender; provided, that such prospective transferee agrees to be bound by an agreement containing provisions substantially the same as those of this Section 13.16 and (viii) in connection with the exercise of remedies hereunder or under any other Credit Document or any action or proceeding relating to this Agreement or any other Credit Document or the enforcement of rights hereunder or thereunder.

(b) Magellan hereby acknowledges and agrees that each Lender may share with any of its affiliates, and such affiliates may share with such Lender, any information related to Magellan or any of its Subsidiaries (including, without limitation, any non-public customer information regarding the creditworthiness of Magellan and its Subsidiaries); provided, that such Persons shall be subject to the provisions of this Section 13.16 to the same extent as such Lender.

13.17 No Fiduciary Duty. The Administrative Agent, each Lender and their Affiliates (collectively, solely for purposes of this paragraph, the "**Lenders**"), may have economic interests that conflict with those of the Credit Parties, their stockholders and/or their affiliates. Each of Magellan and the Borrower agrees that nothing in the Credit Documents will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty between any Lender, on the one hand, and such Obligor, its stockholders or its affiliates on the other. Each of Magellan and the Borrower acknowledges and agrees that (i) the transactions contemplated by the Credit Documents (including the exercise of rights and remedies hereunder and thereunder) are arm's-length commercial transactions between the Lenders, on the one hand, and the Credit Parties, on the other, and (ii) in connection therewith and with the process leading thereto, (x) no Lender has assumed an advisory or fiduciary responsibility in favor of any Credit Party, its stockholders or its affiliates with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender has advised, is currently advising or will advise any Credit Party, its stockholders or its Affiliates on other matters) or any other obligation to any Credit Party except the obligations expressly set forth in the Credit Documents and (y) each Lender is acting solely as principal and not as the agent or fiduciary of any Credit Party, its management, stockholders, creditors or any other Person. Each of Magellan and the Borrower acknowledges and agrees that it has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto.

13.18 Patriot Act. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the Patriot Act (Title III of Pub. L. 107 56 (signed into law October

26, 2001)) (the "Patriot Act"), it is required to obtain, verify and record information that identifies each Credit Party, which information includes the name and address of each Credit Party and other information that will allow such Lender or the Administrative Agent, as applicable, to identify each Credit Party in accordance with the Patriot Act.

13.19 Acknowledgement and Consent to Bail-In of EEA Financial Institutions. Notwithstanding anything to the contrary in any Credit Document or in any other agreement, arrangement or understanding among the parties thereto, each party hereto acknowledges that any liability of any EEA Financial Institution arising under any Credit Document, to the extent such liability is unsecured, may be subject to the Write-Down and Conversion Powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

(a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an EEA Financial Institution; and

(b) the effects of any Bail-in Action on any such liability, including, if applicable:

(i) a reduction in full or in part or cancellation of any such liability;

(ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Credit Document; or

(iii) the variation of the terms of such liability in connection with the exercise of the Write-Down and Conversion Powers of any EEA Resolution Authority.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this Agreement as of the date first above written.

Address:

55 Nod Road
Avon, CT 06001
Attention: Chief Financial Officer
Tel. No.: (860) 507-1900
Fax No.: (860) 507-1990

With a copy to:

55 Nod Road
Avon, CT 06001
Attention: General Counsel
Tel. No.: (860) 507-1906
Fax No.: (860) 507-1990

MAGELLAN PHARMACY SERVICES, INC., as Borrower

By: /s/ Linton Newlin
Name: Linton Newlin
Title: Vice President

Address:

55 Nod Road
Avon, CT 06001
Attention: Chief Financial Officer
Tel. No.: (860) 507-1900
Fax No.: (860) 507-1990

With a copy to:

55 Nod Road
Avon, CT 06001
Attention: General Counsel
Tel. No.: (860) 507-1906
Fax No.: (860) 507-1990

MAGELLAN HEALTH, INC.

By: /s/ Jonathan Rubin
Name: Jonathan Rubin
Title: Chief Financial Officer

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., as Administrative Agent and Lender

By: /s/ Anvar Hodjaev
Name: Anvar Hodjaev
Title: Director

CITIBANK, N.A., as Lender

By: /s/ Michael Vondriska
Name: Michael Vondriska
Title: Vice President

COMPASS BANK (d/b/a BBVA COMPASS), as Lender

By: /s/ Cameron Gateman
Name: CAMERON GATEMAN
Title: Senior Banker

JPMorgan Chase Bank, N.A., as
Lender

By: /s/ John Kushnerick
Name: John Kushnerick
Title: Executive Director

SunTrust Bank, as Lender

By: /s/ Katherine Bass
Name: Katherine Bass
Title: Director

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Lender

By: /s/ Matthew Olson

Name: Wells Fargo Bank, N.A.
Matthew Olson

Title: Director

U.S. Bank National Association, as
Lender

By: /s/ Jennifer Hwang
Name: Jennifer Hwang
Title: Senior Vice President

Exhibit 10.44

Execution Version

PURCHASE AGREEMENT

Dated as of November 19, 2016

among

MAGELLAN PHARMACY SERVICES, INC.,

VERIDICUS HOLDINGS, LLC AND

VERIDICUS HEALTH, LLC

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)

EXHIBITS

Exhibit 2.3: Form of Escrow Agreement

Exhibit 2.5(b): Allocation Principles

Exhibit 6.9: Permitted Related Party Transactions

Exhibit 7.2(g)(i): Form of Employment Agreement

Exhibit 7.2(g)(ii): Form of Non-Competition and Non-Solicitation Agreement

Exhibit 7.2(g)(iii): Form of Non-Solicitation Agreement

Exhibit 10.11(a): Net Working Capital Calculation

Exhibit 10.11(b): Knowledge of the Company

Exhibit 10.11(c): Form of Guaranty

Exhibit 10.11(d): Capital Leases

PURCHASE AGREEMENT

This PURCHASE AGREEMENT, dated as of November 19, 2016 (this "**Agreement**"), is by and among MAGELLAN PHARMACY SERVICES, INC., a Delaware corporation ("**Parent**"), VERIDICUS HOLDINGS, LLC, a Utah limited liability company (the "**Company**"), and VERIDICUS HEALTH, LLC, a Delaware limited liability company (the "**Seller**").

Certain terms used in this Agreement are used as defined in Section 10.11 below and all references herein to "**Sections**," "**Articles**," "**Exhibits**" or "**Schedules**" without further description shall refer to the sections, articles, exhibits or schedules of or to this Agreement.

WHEREAS, the Seller owns all of the issued and outstanding membership interests of the Company, which represent all of the issued and outstanding equity interests of the Company (the "**Interests**");

WHEREAS, the Seller wishes to sell to Parent, and Parent wishes to purchase from the Seller, all of the Interests upon the terms and subject to the conditions set forth in this Agreement (the "**Sale**");

WHEREAS, certain members of the Seller have, as a condition and inducement to Parent's entering into this Agreement, concurrently with the execution and delivery of this Agreement, entered into the Employment Agreements (as hereinafter defined) with Parent;

WHEREAS, Parent and certain members of the Seller have, as a condition and inducement to Parent entering into this Agreement, concurrently with the execution and delivery of this Agreement, entered into the Non-Compete and Non-Solicitation Agreements or the Non-Solicitation Agreement (as hereinafter defined);

WHEREAS, Parent and certain members of the Seller have, as a condition and inducement to Parent entering into this Agreement, concurrently with the execution and delivery of this Agreement, entered into the Guaranty (as hereinafter defined), pursuant to which such members of the Seller have agreed to guarantee the obligations of the Seller under this Agreement; and WHEREAS, simultaneously with the execution of this Agreement, the Seller and Magellan Healthcare, Inc. ("**Magellan Healthcare**") have entered into a Purchase Agreement, dated as of the date hereof, pursuant to which the Seller has agreed, subject to the terms and conditions thereof, to sell to Magellan Healthcare and Magellan Healthcare has agreed to purchase from the Seller, all of the issued and outstanding shares of capital stock of Granite Alliance Insurance Company (the "**Granite Agreement**").

NOW, THEREFORE, in consideration of the representations, warranties and covenants, and subject to the conditions, contained in this Agreement, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

ARTICLE I
Purchase and Sale of Interests

Section 1.1. The Purchase and Sale of the Interests. At the Closing, subject to the terms and conditions of this Agreement, Parent shall purchase from the Seller, and the Seller shall sell, transfer, convey and assign to Parent, all of the Seller's right, title and interest in and to the Interests, free and clear of all Liens, other than Liens on transfer imposed under applicable securities Laws.

Section 1.2. Closing. The closing of the transactions contemplated hereby (the "**Closing**") shall take place at 10:00 a.m. (New York City time) on a business day to be specified by Parent and reasonably acceptable to the Seller, which date shall be, subject to the satisfaction or waiver of the conditions set forth in Article VII (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions), the earlier of (i) two (2) business days following the date on which the Utah Pharmacy Licenses are obtained by Parent and (ii) December 15, 2016, unless another time or date, or both, are agreed to in writing by the parties hereto. The date on which the Closing is held is herein referred to as the "**Closing Date**." The Closing will be held at the offices of Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153, unless another place is agreed to by the parties hereto.

Section 1.3. Closing Deliveries and Actions. At the Closing, the parties hereto shall make the following deliveries and take the following actions.

(a) Deliveries by the Seller. At Closing, the Seller shall:

(i) deliver to Parent an assignment, duly executed in favor of Parent, with respect to all of the Interests owned by the Seller in satisfaction of the condition set forth in Section 7.2(k);

(ii) deliver to Parent and the Escrow Agent a duly executed signature page to the Escrow Agreement;

(iii) deliver to Parent an affidavit of non-foreign status satisfying the requirements of Section 1445 of the Code from the Seller, in satisfaction of the condition set forth in Section 7.2(h);

(iv) deliver to Parent duly authorized resolutions of the members of the Company in satisfaction of the condition set forth in Section 7.2(i);

(v) deliver to Parent duly executed resignations and releases in satisfaction of the condition set forth in Section 7.2(j);

(vi) deliver to Parent a certificate in satisfaction of the condition set forth in Section 7.2(n);

(vii) deliver to Parent UCC-3 termination statements and such other documents and instruments executed by or on behalf of the Bank Lender, McKesson and any other Person who has been granted a Lien (other than a Permitted Lien) on or a security in the assets of the Company and/or its Subsidiaries that remains in existence as of the date hereof, in satisfaction of the conditions set forth in Section 7.2(p); and

(viii) deliver to Parent all third party consents, assignments, waivers and approvals, as applicable, in satisfaction of the conditions set forth in Article VII.

(b) Deliveries by Parent. At Closing, Parent shall:

(i) pay to the Seller the Adjusted Estimated Purchase Price in accordance with Section 2.1(a)(iv);

(ii) pay to the Escrow Agent the Escrow Amount in accordance with Section 2.3;

(iii) pay to the Bank Lender the amount provided for in Section 2.1(a)(v);

(iv) deliver to the Seller and the Escrow Agent a duly executed signature page to the Escrow Agreement; and

(v) deliver to the Seller a certificate in satisfaction of the condition set forth in Section 7.3(c).

ARTICLE II
Purchase Price

Section 2.1. Purchase Price. In consideration of the sale of the Interests to Parent, Parent shall pay or deliver to the Seller the "**Purchase Price**," which shall be a cash payment equal to Seventy Two Million Five Hundred Thousand Dollars ($72,500,000) (the "**Base Amount**"), plus (i) the amount by which the Closing Date Net Working Capital exceeds the Closing Date Net Working Capital Target, if applicable, minus (ii) the amount by which the Closing Date Net Working Capital Target exceeds the Closing Date Net Working Capital, if applicable, minus, (iii) the Closing Date Indebtedness, minus (iv) the Transaction Expenses and (v) if the Closing Date is a day other than the first business day of a month, plus or minus the Gap Period Pre-Tax Net Income (Loss), as adjusted pursuant to Section 2.2.

(a) Closing Payments.

(i) Not less than two (2) business days prior to the Closing, the Company shall deliver to Parent a reasonably detailed statement (based on the balance sheet and other financial statements of the Company and its Subsidiaries as of October 31, 2016, plus all known changes and adjustments occurring since October 31, 2016) setting forth the Company's good faith estimates of (i) the Closing Date Net Working Capital ("**Estimated Closing Date Net Working Capital**"), and (ii) the Transaction Expenses (the "**Estimated Transaction Expenses**").

(ii) Such statement (the "**Estimated Closing Statement**") also shall set forth the amount of the Closing Date Indebtedness, if applicable. The Estimated Closing Statement shall be certified by the Seller and shall be accompanied by such supporting documentation as Parent shall reasonably request. The Company shall make its Representatives available to Parent during the two (2) business days referenced in the

first sentence of subsection (a)(i) to respond to any questions or requests that Parent may have with respect to the Estimated Closing Statement.

(iii) For purposes of this Agreement, the "**Estimated Purchase Price**" shall be a cash payment equal to the Base Amount, plus (i) the amount by which the Estimated Closing Date Net Working Capital exceeds the Closing Date Net Working Capital Target, if applicable, minus (ii) the amount by which the Closing Date Net Working Capital Target exceeds the Estimated Closing Date Net Working Capital, if applicable, minus (iii) the Closing Date Indebtedness, and minus (iv) the Estimated Transaction Expenses.

(iv) At the Closing, Parent shall pay to the Seller, by wire transfer of immediately available funds into accounts designated in writing by the Seller not less than three (3) business days prior to the Closing Date, (i) the Estimated Purchase Price, minus (ii) the Escrow Amount (the "**Adjusted Estimated Purchase Price**").

(v) Subject to the receipt of customary payoff letters, to the extent the Company has not previously made such payment on or prior to the Closing, at the Closing, (i) Parent shall cause wire transfers of immediately available funds to be made to an account designated by the Bank Lender under the Loan Agreement at least two (2) Business Days prior to the Closing Date, in an amount equal to the total Indebtedness under the Loan Agreement, together with all other amounts then due and payable thereunder in connection with the termination thereof and (ii) at the direction of the Seller, Parent shall cause wire transfers of immediately available funds to be made to one or more accounts designated by the Sellers at least two (2) business days prior to the Closing Date in payment of the Transaction Expenses that are reflected on the Estimated Closing Statement (including that may be due and owing to Lazard (as defined hereinafter)).

Section 2.2. Adjustments.

(a) Within one hundred-twenty (120) days after the Granite Closing Date, Parent shall prepare and deliver to the Seller a statement setting forth Parent's good faith calculations ("**Parent's Proposed Calculations**") of the Closing Date Net Working Capital, the Transaction Expenses, and Gap Period Pre-Tax Net Income (Loss) (if applicable), as well as Closing Date Net Working Capital and Gap Period Pre-Tax Net Income (Loss) under the Granite Agreement (the "**Final Closing Statement**"). Following the delivery of such statement, Parent's personnel and independent accountants shall permit the Seller and its agents, representatives and accountants, subject to the execution by the Seller and its agents, representatives and accountants of any release or indemnification agreement required by Parent's accountants, to review and make copies of all work papers, schedules and calculations used in the preparation thereof.

(b) If, within thirty (30) days after its receipt of the Final Closing Statement, the Seller disputes any aspect of the Final Closing Statement or any of Parent's Proposed Calculations, then the Seller shall, on or prior to such thirtieth (30th) day, deliver to Parent written notice of such dispute (the "**Dispute Notice**"). If the Seller does not deliver a Dispute Notice to Parent on or prior to such thirtieth (30th) day after its receipt of the Final Closing Statement, the Final Closing Statement delivered by Parent pursuant to Section 2.2(a) above shall be final and binding on the parties hereto and such thirtieth (30th) day shall be deemed to

be the "**Determination Date**." Any Dispute Notice shall be accompanied by the Seller's proposed alternative calculations (the "**Seller's Proposed Calculations**") of the Closing Date Net Working Capital and the Transaction Expenses. Parent and the Seller shall, for a period of thirty (30) days following Parent's receipt of the Seller's Proposed Calculations, cooperate in good faith to determine a mutually agreeable Final Closing Statement, which shall be final and binding upon the parties. The date upon which such Final Closing Statement is mutually agreed to by Parent and the Seller shall be deemed to be the "**Determination Date**." If no such agreement is reached within such thirty (30) day period, then within fifteen (15) days of the expiration of such period, the Seller and Parent shall select a mutually acceptable and nationally recognized independent accounting firm, other than the Company's independent accountants and Parent's independent accountants (such firm, the "**Independent Accounting Firm**") to resolve the remaining disputed items (the "**Remaining Disputed Items**"), within thirty (30) days of its appointment, by (x) conducting its own review and test of the Final Closing Statement and thereafter selecting either Parent's Proposed Calculations of the Remaining Disputed Items or the Seller's Proposed Calculations of the Remaining Disputed Items or an amount in between the two and (y) delivering to Parent and the Seller a revised Final Closing Statement reflecting the Independent Accounting Firm's final determination of the Remaining Disputed Items pursuant to clause (x), which Final Closing Statement shall be final and binding upon the parties hereto. The date on which the Independent Accounting Firm delivers such Final Closing Statement shall be deemed to be the "**Determination Date**." The fees and expenses of the Independent Accounting Firm shall be borne by the Seller and Parent in the proportion that the aggregate dollar amount of items submitted to the Independent Accounting Firm that are unsuccessfully disputed bears to the aggregate amount of all items submitted to the Independent Accounting Firm. The parties will submit such materials and respond to such questions as requested by the Independent Accounting Firm. The Independent Accounting Firm's report will be based (to the extent the Independent Accounting Firm considers it appropriate) on such information and on the accounting and other records of the Company. The Independent Accounting Firm's award will consist solely of an award with respect to the Remaining Disputed Items and will not include any other finding or award.

(c) The "**Adjustment Amount**," which may be positive or negative, shall mean (i) the difference determined by the Closing Date Net Working Capital (as finally determined pursuant to Section 2.2(b) above), minus the Estimated Closing Date Net Working Capital, minus (ii) the difference determined by the Transaction Expenses (as finally determined pursuant to Section 2.2(b) above) minus the Estimated Transaction Expenses plus or minus, as applicable, the Gap Period Pre-Tax Net Income (Loss) (as finally determined pursuant to Section 2.2(b) above), plus or minus, as applicable, the Granite Adjustment Amount (as defined in the Granite Agreement).

(d) If the Adjustment Amount is a positive number greater than the Collar Amount, then promptly following the Determination Date, and in any event within five (5) business days of the Determination Date, Parent shall pay to the Seller, by wire transfer of immediately available funds into an account designated in writing by the Seller not less than three (3) business days prior to such date, an amount equal to the Adjustment Amount. If the Adjustment Amount is a positive number equal to or less than the Collar Amount, then no payment shall be required under this Section 2.2.

(e) If the Adjustment Amount is a negative number with an absolute value greater than the Collar Amount, then promptly following the Determination Date, and in any

event within five (5) business days of the Determination Date, Parent and the Seller shall execute joint written instructions to the Escrow Agent instructing the Escrow Agent to pay to Parent out of the Escrow Fund, first from the Working Capital Escrow Amount and then, to the extent necessary, from the Indemnity Escrow Amount, an amount equal to the absolute value of the Adjustment Amount. If the Adjustment Amount is a negative number with an absolute value equal to or less than the Collar Amount, then no payment shall be required under this Section 2.2.

(f) During the first ten (10) months following the Closing Date, Parent shall use its reasonable best efforts to collect the pharmaceutical manufacturer rebate receivables of the Company and its Subsidiaries that existed on the Closing Date and the customer accounts receivable of the Company and its Subsidiaries that existed on the Closing Date. As soon as practicable, or in any event within thirty (30) days, after the beginning of the eleventh (11th) month following the Closing Date, Parent shall re-calculate the Closing Date Net Working Capital, taking into account only post-Closing events through and including the end of the tenth (10th) month following the Closing Date as they relate to pharmaceutical manufacturer rebate receivables that existed on the Closing Date, customer accounts receivable that existed on the Closing Date and the aggregate allowance for doubtful accounts with respect thereto (the "**ReCalculated Closing Date Net Working Capital**"). The Seller shall cooperate with Parent in determining a mutually agreeable figure for the Re-Calculated Closing Date Net Working Capital. In the event of a disagreement between Parent and the Seller with respect to the ReCalculated Closing Date Net Working Capital that is not resolved within thirty (30) days of the beginning of the eleventh (11th) month following the Closing Date, the Independent Accounting Firm shall be appointed to resolve such disagreement in accordance with the provisions of Section 2.2(b) hereof within thirty (30) days of its appointment, and the Independent Accounting Firm's determination of the Re-Calculated Closing Date Net Working Capital shall be final and binding on the parties. The date on which the Re-Calculated Closing Date Net Working Capital is finally determined in accordance with this Section 2.2(f) shall be referred to herein as the "**Final Re-Calculation Date**." The "**Re-Calculated Net Working Capital Adjustment Amount**," which may be positive or negative, shall be an amount equal to (i) the Re-Calculated Closing Date Net Working Capital (as finally determined pursuant to this Section 2.2(f)) minus (ii) the Closing Date Net Working Capital (as finally determined pursuant to Section 2.2(b)).

(g) If the Re-Calculated Net Working Capital Adjustment Amount is a positive number greater than the Collar Amount, then promptly following the Final ReCalculation Date, and in any event within five (5) business days of the Final Re-Calculation Date, Parent shall pay to the Seller, by wire transfer of immediately available funds into an account designated by the Seller not less than three (3) business days prior to such date, an amount equal to the Re-Calculated Net Working Capital Adjustment Amount. If the ReCalculated Net Working Capital Adjustment Amount is a negative number (with an absolute value greater than the Collar Amount), then promptly following the Final Re-Calculation Date, and in any event within five (5) business days of the Final Re-Calculation Date, Parent and the Seller shall execute joint written instructions to the Escrow Agent instructing the Escrow Agent to pay to Parent out of the Escrow Fund, first from the Working Capital Escrow Amount and then, to the extent necessary, from the Indemnity Escrow Amount, an amount equal to the absolute value of the Re-Calculated Net Working Capital Adjustment Amount.

(h) The Working Capital Escrow Amount shall serve as security for any negative Adjustment Amount or negative Re-Calculated Net Working Capital Adjustment

Amount. In the event less than all of the Working Capital Escrow Amount is paid or owed to Parent pursuant to Section 2.2(e) and the last sentence of Section 2.2(g), then Parent and the Seller shall execute joint written instructions to the Escrow Agent instructing the Escrow Agent to release to the Seller, promptly following the Final Re-Calculation Date, and in any event within five (5) business days of the Final Re-Calculation Date, an amount equal to the Working Capital Escrow Amount minus the negative Adjustment Amount, if any, and minus the negative Re-Calculated Net Working Capital Adjustment Amount, if any.

Section 2.3. Escrow.

(a) Escrow Fund. On the Closing Date, Parent shall pay a portion of the Estimated Purchase Price equal to the Escrow Amount to Wells Fargo Bank, National Association, as escrow agent of the parties hereto (the "**Escrow Agent**"), to be held in escrow. Such escrowed funds shall be held and invested by the Escrow Agent in accordance with the terms of this Agreement and an Escrow Agreement substantially in the form attached hereto as Exhibit 2.3 (the "**Escrow Agreement**").

(b) Investment of Escrow Amount. The Escrow Amount shall be invested by the Escrow Agent as set forth in the Escrow Agreement, pending payment thereof to the Seller (as applicable). Earnings from investment of the Escrow Amount shall be allocated as set forth in the Escrow Agreement.

Section 2.4. Withholding. Parent acknowledges that it does not intend, based on applicable legal requirements as of the date of this Agreement, to withhold Taxes from any consideration payable pursuant to this Agreement. Notwithstanding the foregoing, each of Parent and the Escrow Agent shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to the Seller such amounts as it reasonably determines that it is required to deduct and withhold under the Code or any provision of federal, state, local or foreign Tax Law with respect to the making of such payment. If Parent becomes aware of any tax withholding requirement which shall become applicable to any payment of consideration hereunder, it shall give notice of the same to the Seller. To the extent that amounts are so withheld and are paid over to the applicable Governmental Authority or other designated recipient, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the Seller.

Section 2.5. Purchase Price Allocation.

(a) For United States federal, state and local income tax purposes, the Seller and Parent agree that the sale of the Interests shall be treated as a deemed purchase of all of the assets of the Company.

(b) The Purchase Price payable (plus any additional amounts treated as consideration for the Interests under Treasury Regulations Section 1.1060-1(c), including, where applicable, the Closing Date Indebtedness, the "**Allocable Purchase Price**") shall be allocated among the assets of the Company and its Subsidiaries. Such allocation shall be made in accordance with the requirements of Section 1060 of the Code and the Treasury Regulations thereunder and in any event in accordance with the valuation principles set forth in Exhibit 2.5(b) (the "**Allocation Principles**").

(c) No later than thirty (30) days after the Determination Date, Parent shall prepare and deliver to the Seller its determination of the allocation of the Allocable Purchase Price (to the extent payable as of the Closing) pursuant to Section 2.5(b) ("**Allocation Schedule**"), which shall be prepared in accordance with the Allocation Principles and shall be final, binding and conclusive on the parties hereto; *provided*, *however*, if, within thirty (30) days following the delivery of the Allocation Schedule, the Seller notifies Parent in writing that the Seller disputes any allocation in the Allocation Schedule, including but not limited to an allocation to any item of property described in Section 751(a) of the Code (a "**Hot Asset**") in excess of such Hot Asset's book value, Parent and the Seller shall cooperate in good faith to resolve such dispute. Should Parent and the Seller fail to reach an agreement within thirty (30) days after the Seller notifies Parent of such dispute, the determination of the disputed item or items shall be made by the Independent Accounting Firm. The Independent Accounting Firm shall make its determination in accordance with the principles and requirements of this Section 2.5. Neither Parent nor the Seller shall take any position (whether in connection with audits, Tax Returns or otherwise) that is inconsistent with this Section 2.5 and the Allocation Schedule, except as may be required pursuant to a "determination" within the meaning of Section 1313(a) of the Code (or similar provision of state, local or foreign Tax law).

(d) In the event that there is any adjustment to the Allocable Purchase Price, Parent shall revise the Allocation Schedule to reflect any such adjustment using the same methodology as used in the preparation of the initial Allocation Schedule, consistent with the principles set forth in this Section 2.5 and shall promptly deliver such revised Allocation Schedule to the Seller.

ARTICLE III
Representations and Warranties of the Seller

The Seller hereby represents and warrants to Parent as follows, except as set forth in the Company Disclosure Schedules:

Section 3.1. Authority; Noncontravention.

(a) The Seller has all necessary power and authority to execute and deliver this Agreement and to perform its obligations hereunder and to consummate the Sale and the other Transactions. This Agreement has been duly executed and delivered by the Seller and, assuming due authorization, execution and delivery hereof by Parent, constitutes a legal, valid and binding obligation of the Seller, enforceable against the Seller in accordance with its terms, except that such enforceability (i) may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other similar laws of general application affecting or relating to the enforcement of creditors' rights generally and (ii) is subject to general principles of equity, whether considered in a proceeding at law or in equity (the "**Bankruptcy and Equity Exception**"). No other action on the part of the Seller is necessary to authorize the execution, delivery and performance by the Seller of this Agreement and the consummation by it of the Sale and the other Transactions.

(b) Neither the execution and delivery of this Agreement by the Seller nor the consummation by the Seller of the Sale and the other Transactions, nor compliance by the Seller with any of the terms or provisions hereof, will (i) violate any Law, judgment, writ, injunction or Permit of any Governmental Authority or any arbitration award applicable to the Seller or any of

its properties or assets, or (ii) violate, conflict with, result in the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation of, accelerate the performance required by, or result in the creation of any Lien upon any of the respective properties or assets of the Seller under, any of the terms, conditions or provisions of any loan or credit agreement, debenture, note, bond, mortgage, indenture, deed of trust, license, lease, insurance policy, contract or other agreement, instrument or obligation (each, a "**Contract**") or Permit, to which the Seller is a party, or by which it or any of its properties or assets may be bound or affected. Without limiting the generality of the immediately preceding sentence, the Seller does not have any unsatisfied obligation under any Contract to notify any Person of the Seller entering into, or having intended to enter into, this Agreement before doing so or to negotiate with any Person regarding a possible alternative to the Transactions.

Section 3.2. Governmental Approvals. Except for as described on Section 3.2 of the Company Disclosure Schedules, no consents or approvals of, or filings, declarations or registrations with, any Governmental Authority (each, a "**Governmental Approval**") are necessary for the execution, delivery and performance of this Agreement by the Seller and the consummation by the Seller of the Sale and the other Transactions.

Section 3.3. The Interests. The Seller has good and valid title to the Interests, free and clear of all Liens, except Liens on transfer imposed under applicable securities Laws. Assuming Parent has the requisite power and authority to be the lawful owner of the Interests, upon execution and delivery to Parent at the Closing of an assignment of Interests, and upon receipt of the Adjusted Estimated Purchase Price payable to the Seller pursuant to this Agreement, good and valid title to the Interests will pass to Parent, free and clear of any Liens, other than Liens on transfer imposed under applicable securities Laws.

Section 3.4. Litigation. There are no Legal Actions pending or, to the Knowledge of the Seller, threatened against the Seller, before any Governmental Authority which seek to prevent, enjoin or otherwise delay the consummation of the Sale or the other Transactions.

Section 3.5. Brokers and Other Advisors. Except for Lazard Middle Market LLC ("**Lazard**"), no broker, investment banker, financial advisor or other Person is or will be entitled to any broker's, finder's, financial advisor's or other similar fee or commission, or the reimbursement of expenses or indemnification or contribution, in connection with the Transactions based upon arrangements made by or on behalf of the Seller. At or prior to the Closing, all amounts payable to Lazard in connection with the Transactions will be paid in full by the Seller, the Company, or a Subsidiary of the Company, or as part of the Transaction Expenses payable pursuant to Section 2.1.

ARTICLE IV
Representations and Warranties of the Company

The Company represents and warrants to Parent that, except as set forth in the disclosure schedules (with specific reference to the Section or subsection of this Agreement to which the information stated in such disclosure relates, subject to Section 10.13) delivered by the Company to Parent simultaneously with the execution of this Agreement (the "**Company Disclosure Schedules**") and, to the extent applicable, any Supplemental Disclosure Schedule:

Section 4.1. Organization, Power, Standing and Qualification. The Company is a limited liability company duly organized, validly existing and in good standing under the Laws of the State of Utah, and has the requisite power and authority to conduct its business as it is now being conducted and to own, lease and operate the assets now owned, leased and operated by it. The Company has delivered to Parent complete and correct copies of its certificate of organization and the Company's operating agreement, each as in effect on the date hereof (collectively, the "**Company Organizational Documents**"). The Company is duly qualified to do business and in good standing in each jurisdiction where the conduct of its business or the ownership or operation of its assets requires such qualification, except in such jurisdictions where the failure to be so duly qualified or licensed or be in good standing, individually or in the aggregate, would not reasonably be expected to be adverse in a material respect to the Company. The Company Organizational Documents are in full force and effect and the Company is not in default under or in violation of any of the provisions of the Company Organizational Documents. The Company has made available to Parent and its Representatives correct and complete copies of the minutes (or, in the case of minutes that have not yet been finalized, drafts thereof) of all meetings, consents or actions of the members and the Managers of the Company held (for which minutes were taken), given or taken since January 1, 2014.

Section 4.2. Subsidiaries.

(a) Section 4.2 of the Company Disclosure Schedules sets forth (i) the name of each of the Company's Subsidiaries, (ii) a list of all holders of an equity interest in each such Subsidiary other than the Company or another Subsidiary and the amounts thereof and (iii) the jurisdiction of organization of each such Subsidiary. Other than as set forth in Section 4.2 of the Company Disclosure Schedules, the Company does not have any Subsidiaries and does not own, directly or indirectly, any equity interests in any Person. The Company is not, directly or indirectly, a participant in any joint venture, partnership, limited liability company or similar arrangement.

(b) The Company has delivered to Parent complete and accurate copies of the charter, bylaws or other organizational documents of each of its Subsidiaries (the "**Subsidiary Documents**"). The Subsidiary Documents are in full force and effect and none of the Company's Subsidiaries is in default under or in violation of any provision of its Subsidiary Documents. Each of the Company's Subsidiaries is a corporation, partnership or other entity duly organized, validly existing and in good standing under the Laws of the jurisdiction of its organization, and has the requisite corporate or entity power and authority to conduct its business as it is now being conducted and to own, lease and operate the assets now owned, leased and operated by it. Each of the Company's Subsidiaries is duly qualified to do business and in good standing in each jurisdiction where the conduct of its business or the ownership, lease or operation of its assets requires such qualification except in such jurisdictions where the failure to be so duly qualified or licensed or be in good standing, individually or in the aggregate, would not reasonably be expected to be adverse in a material respect to such Subsidiary.

(c) The outstanding shares of capital stock, membership or other equity interests of each of the Company's Subsidiaries are validly issued, fully paid and non-assessable and were not issued in violation of any purchase or call option, right of first refusal, subscription right, preemptive right or any similar right. All such shares or other equity interests represented as being owned by the Company or any of its Subsidiaries are owned by them, free and clear of any and all Liens, other than Liens on transfer imposed under applicable securities Laws. There

is no existing option, warrant, call, right or contract to which any of the Company's Subsidiaries is a party requiring, and there are no convertible securities of any of the Company's Subsidiaries outstanding which upon conversion would require, the issuance, redemption, disposition or acquisition of any shares of capital stock, membership interests or other securities of any of the Company's Subsidiaries or other securities convertible into shares of capital stock, membership interests or other securities (including debt and equity securities) of any of the Company's Subsidiaries. None of the Company, any of its Subsidiaries or any of their respective members or stockholders is party to, or otherwise bound by, any agreement affecting the voting of the capital stock, membership interests or other securities of any of the Company's Subsidiaries.

Section 4.3. Capitalization. The Interests represent all of the outstanding equity interests of the Company. All of the Interests (x) have been duly authorized and validly issued, (y) were not issued in violation of any purchase or call option, right of first refusal, subscription right, preemptive right or any similar rights and (z) were issued in compliance with applicable state and federal securities laws. There are no outstanding rights, options, warrants, convertible securities, subscription rights, conversion rights, exchange rights or other agreements that require or would require the Company to issue, sell or transfer any equity interests in the Company, including the Interests.

Section 4.4. Authority; Noncontravention; Voting Requirements.

(a) The Company has all necessary power and authority to execute and deliver this Agreement and to perform its respective obligations hereunder. The execution, delivery and performance by the Company of this Agreement have been duly authorized and approved by all necessary action on the part of the Company, and any vote, approval or consent required to be received or obtained in connection therewith from the holders of any equity interests in the Company (the "**Requisite Approval**") has been received or obtained, or will be received or obtained immediately after the execution of this Agreement, and in each case, will be delivered to Parent concurrently with the execution of this Agreement. The Requisite Approval includes any vote, consent or approval required under the Company's Organizational Documents in connection with the execution, delivery and performance of this Agreement. The Requisite Approval remains in full force and effect. No other action on the part of the Company is necessary to authorize the execution, delivery and performance by the Company, of this Agreement. This Agreement has been duly executed and delivered by the Company and, assuming due authorization, execution and delivery hereof by the other parties hereto, constitutes a legal, valid and binding obligation of each of the Company, enforceable against the Company, in accordance with its terms, subject to the Bankruptcy and Equity Exception.

(b) Neither the execution and delivery of this Agreement by the Company, nor compliance by the Company with any of the terms or provisions hereof, will (i) conflict with or violate any provision of the Company Organizational Documents or (ii) assuming that the authorizations, consents and approvals referred to in Section 4.5 are obtained and the filings referred to in Section 4.5 are made, violate any Law, judgment, writ, injunction or Permit of any Governmental Authority or any arbitration award applicable to the Company, or any of its respective properties or assets, or (iii) assuming that the authorizations, consents and approvals described in Section 4.4(b) of the Company Disclosure Schedules are obtained and the filings disclosed in said Schedule are made, violate, conflict with, result in the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation of, accelerate

the performance required by, or result in the creation of any Lien upon any of the properties or assets of the Company, under, any of the terms, conditions or provisions of any Contract or Permit to which the Company is a party, or by which they or any of their respective properties or assets may be bound or affected. Without limiting the generality of the immediately preceding sentence, the Company does not have any unsatisfied obligation under any Contract to notify any Person of the Company's entering into, or having intended to enter into, this Agreement before doing so or to negotiate with any Person regarding a possible alternative to the Transactions.

Section 4.5. Governmental Approvals. Except for as described on Section 4.5 of the Company Disclosure Schedules, no Governmental Approvals are necessary for the execution, delivery and performance of this Agreement by the Company.

Section 4.6. Financial Statements and Controls.

(a) The Company has delivered or otherwise made available to Parent copies of (i) the audited consolidated balance sheet of the Company and its Subsidiaries as of December 31, 2015 and the audited statements of income and cash flows for the period from June 19, 2015 to December 31, 2015, and related audit report of Larson & Company P.C. and (ii) the unaudited consolidated balance sheet of the Company and its Subsidiaries as of June 30, 2016 and the related unaudited statements of income and cash flows for the six (6) month period then ended (such audited and unaudited statements, including any related notes and schedules thereto, are referred to herein as the "**Financial Statements**"). Each of the Financial Statements has been prepared in accordance with GAAP consistently applied without modification of the accounting principles used in the preparation thereof throughout the periods presented (except as noted therein) and presents fairly in all material respects the financial position, results of operations and cash flows of the Company and its Subsidiaries as of the dates and for the periods indicated therein subject in the case of the unaudited statements to the absence of footnotes and other supplemental information that would be required by GAAP and to normal year-end audit adjustments. The unaudited consolidated balance sheet of the Company and its Subsidiaries as of June 30, 2016 is referred to herein as the "**Balance Sheet**" and June 30, 2016 is referred to herein as the "**Balance Sheet Date**."

(b) All books, records and accounts of the Company and its Subsidiaries are accurate and complete, in all material respects, and are maintained in all material respects in accordance with good business practice and all applicable Laws. Each of the Company and its Subsidiaries maintain systems of internal accounting controls sufficient to provide reasonable assurances that: (i) transactions are executed in accordance with management's general or specific authorization; and (ii) transactions are recorded as necessary to permit the preparation of financial statements in conformity with GAAP and to maintain accountability for assets.

Section 4.7. No Undisclosed Liabilities.

(a) Neither the Company nor any of its Subsidiaries has any Indebtedness or other Liabilities other than those (i) reflected on or reserved against in the Balance Sheet or, if not required under GAAP to be reflected on a balance sheet, disclosed in the notes thereto or pursuant to another representation or warranty of the Company contained in this Article or the Company Disclosure Schedules, including but not limited to Section 4.7(a) of the Company Disclosure Schedules, (ii) incurred after the Balance Sheet Date in the ordinary course of

business consistent with past practice, or (iii) incurred in connection with the execution of this Agreement or the performance of their respective obligations hereunder.

(b) Neither the Company nor any of its Subsidiaries is a party to, and has no commitment to become a party to, any joint venture, off-balance sheet partnership or any similar Contract (including any Contract or arrangement relating to any transaction or relationship between or among the Company or any of its Subsidiaries, on the one hand, and any unconsolidated Affiliate, including any structured finance, special purpose or limited purpose entity or Person, on the other hand, or any "**off-balance sheet arrangements**" (as defined in Item 303(a) of Regulation S-K of the SEC), where the result, purpose or effect of such Contract is to avoid disclosure of any transaction involving, or liabilities of, the Company or any of its Subsidiaries in the Financial Statements.

Section 4.8. Absence of Certain Changes or Events. Since the Balance Sheet Date there have not been any events, changes in circumstances, developments or states of facts that, individually or in the aggregate, have had or would reasonably be expected to have a material adverse impact, effect or consequence on or with respect to the Company. Since the Balance Sheet Date (a) except as specifically contemplated or permitted by this Agreement, each of the Company and its Subsidiaries have carried on and operated their businesses in the ordinary course of business consistent with past practice and (b) neither the Company nor any of its Subsidiaries have taken any action described in Section 6.1 hereof (other than Sections 6.1(b), (n), (q) or (r), or clause (i) of Section 6.1(s)) that if taken after the date hereof and prior to the Closing without the prior written consent of Parent would violate such provision. Without limiting the foregoing, since the Balance Sheet Date there has not occurred any damage, destruction or loss (whether or not covered by insurance) of any material asset of the Company or any of its Subsidiaries which materially affects the use thereof.

Section 4.9. Legal Proceedings. There is no pending or, to the Knowledge of the Company, threatened, Legal Action against, or governmental or regulatory inquiry or, to the Knowledge of the Company, investigation of, or healthcare regulatory review proceedings involving, the Company or any of its Subsidiaries, nor is there any injunction, order, writ, judgment, ruling, sanction, award or decree imposed (or, to the Knowledge of the Company, threatened to be imposed) upon the Company or any of its Subsidiaries or the assets of the Company or any of its Subsidiaries by or before any Governmental Authority or arbitrator, including any of the foregoing that challenges any of the Transactions.

Section 4.10. Compliance With Laws. Each of the Company and its Subsidiaries are (and in the last three (3) years have been) in compliance in all material respects with all Laws applicable to the Company, and each such Subsidiary, respectively, any of their properties or other assets or any of their businesses or operations. Since their commencement of business to the date hereof, each of the Company and its Subsidiaries has not (i) been charged with the violation of any Laws or (ii) received written notice to the effect that a Governmental Authority claimed or alleged that the Company was not in compliance with all Laws applicable to the Company or any of its Subsidiaries, any of their respective properties or other assets or any of their respective business or operations. The foregoing provisions of this Section 4.10 do not apply to Health Care Regulatory Compliance matters to the extent covered by Section 4.19.

Section 4.11. Taxes.

(a) All Tax Returns required to be filed by the Company or any of its Subsidiaries or the Seller with respect to the income, assets, operations or business of the Company or its Subsidiaries, respectively, have been timely filed (taking into account any extension of time to file), and all such Tax Returns are true correct and complete in all material respects. All material Taxes of the Company, its Subsidiaries and the Seller with respect to the income, assets, operations or business of the Company and its Subsidiaries that are due and payable have been fully and timely paid. The Company and its Subsidiaries have complied with all applicable Laws relating to the payment and withholding of Taxes (including withholding of Taxes pursuant to Sections 1441, 1442, 1445 and 1446 of the Code or similar provisions under any foreign law), and have timely withheld and paid over to the appropriate Taxing Authority all amounts required to be so withheld and paid under all applicable Laws.

(b) Neither the Company nor any of its Subsidiaries has ever been a member of an affiliated group of corporations within the meaning of Section 1504 of the Code (or any similar provision of Law).

(c) Neither the Company nor any of its Subsidiaries has any outstanding agreements, waivers, or arrangements extending the statutory period of limitations applicable to any claim for, or the period for the collection or assessment of Taxes or the filing of any Tax Return (other than waivers arising solely as a result of automatic extensions of time to file Tax Returns that do not require the affirmative consent of the applicable Taxing Authority). No claim has been made by a Taxing Authority in a jurisdiction where the Company or any of its Subsidiaries does not file Tax Returns that the Company or any of its Subsidiaries is or may be subject to taxation in that jurisdiction. No Liens for Taxes exist with respect to any assets or properties of the Company or any of its Subsidiaries, except for Liens for Taxes not yet due and for which adequate reserves have been posted on the Balance Sheet in accordance with GAAP.

(d) No Tax Return of the Company or any of its Subsidiaries or the Seller with respect to the income, assets, operations or business of the Company or its Subsidiaries, respectively, has ever been examined. No audit or other administrative or court proceedings are pending with any Taxing Authority with respect to Taxes of the Company or any of its Subsidiaries or the Seller with respect to the income, assets, operations or business of the Company or its Subsidiaries, respectively. No notice of any audit or other administrative or court proceeding and no notice of any deficiency or proposed Tax adjustment has been received by the Company, any of its Subsidiaries, the Seller or, to the Knowledge of the Company, any other Person with respect to the income, assets, operations or business of the Company or its Subsidiaries, respectively.

(e) Each of Company and its Subsidiaries has made available to Parent correct and complete copies of (i) all income and other material Tax Returns of the Company and its Subsidiaries for the preceding three taxable years and (ii) any audit report issued within the last three years (or otherwise with respect to any audit or proceeding in progress) relating to Taxes of the Company and its Subsidiaries. Section 4.11(e) of the Company Disclosure Schedules lists each jurisdiction in which the Company and each of its Subsidiaries is required to file a Tax Return.

(f) Neither the Company nor any of its Subsidiaries is a party to any tax sharing, allocation, indemnity or similar agreement or arrangement (whether or not written) pursuant to which such entity will have any obligation to make any payments after the Closing,

other than commercial contracts with suppliers and customers entered into in the ordinary course of business that allocate responsibility for transactional taxes other than income taxes, such as sales tax, value added tax or property tax (a "**Tax Sharing Agreement**").

(g) Neither the Company nor any of its Subsidiaries is the subject of any private letter ruling of the Internal Revenue Service or comparable rulings of other Taxing Authorities.

(h) Neither the Company nor any of its Subsidiaries has engaged in a trade or business in any country outside the United States, has a permanent establishment in any country other than the United States, or has engaged in any transaction subject to Tax in a jurisdiction outside the United States. None of the Company, any of its Subsidiaries or the Seller (solely as a result of the income, assets, operations or business of the Company and its Subsidiaries) is subject to Tax in a jurisdiction outside the United States.

(i) Neither the Company nor any of its Subsidiaries is, has ever been or up to and including the Closing Date will be (i) an "**insurance company**" as such term in defined in Section 816(a) of the Code, or (ii) liable for any U.S. federal, state or local taxes specifically assessable on insurance premiums.

(j) Neither the Company nor any of its Subsidiaries has engaged in any "**reportable transactions**" as defined in Treasury Regulation Section 1.6011-4(b).

(k) Since its inception, the Company and each of its Subsidiaries has been, and at all times up to and including the Closing Date will be, properly characterized as either a partnership or disregarded entity under Treasury Regulation Section 301.7701-3 for United States federal, state and local income tax purposes. Neither the Company nor any of its Subsidiaries has filed, and will not at any time up to and including the Closing Date file, an entity classification election pursuant to Treasury Regulation Section 301.7701-3(c) to be classified as an association taxable as a corporation.

(l) For purposes of this Agreement: (x) "**Taxes**" shall mean (A) all federal, state, local or foreign taxes, charges, fees (including, for the avoidance of doubt, the health insurer fee imposed under section 9010 of the Patient Protection and Affordable Care Act of 2010), imposts, levies or other assessments imposed by any Governmental Authority, including all net income, gross receipts, capital, sales, use, ad valorem, value added, premium, transfer, franchise, profits, inventory, capital stock, license, withholding, payroll, employment, social security, unemployment, excise, escheats, severance, stamp, occupation, property and estimated taxes, customs duties, fees, assessments and charges of any kind whatsoever, (B) all interest, penalties, fines, additions to tax or additional amounts imposed by any Governmental Authority in connection with any item described in clause (A), and (C) any liability in respect of any items described in clauses (A) or (B) payable by reason of Contract, assumption, successor or transferee liability, operation of Law, Treasury Regulation Section 1.1502-6(a) (or any similar provision of Law) or otherwise, and (y) "**Tax Returns**" shall mean any return, report, claim for refund, estimate, information return or statement or other similar document required to be filed or actually filed with any Governmental Authority with respect to Taxes, including any schedule or attachment thereto, and including any amendment thereof (including, for the avoidance of doubt, any Schedule K-1 issued by the Seller).

Section 4.12. Employee Benefits and Labor Matters.

(a) Section 4.12(a) of the Company Disclosure Schedules sets forth all material Company Plans. "**Company Plans**" means all "**employee benefit plans**" (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), whether or not subject to ERISA) and all other employee benefit plans, policies, agreements, programs, arrangements or practices, including, bonus, employment, consulting or other compensation, incentive, retention, equity or equity-based compensation, deferred compensation, change in control, termination or severance, stock purchase, severance pay, sick leave, vacation, disability, hospitalization, health or other welfare, life insurance, pension, retirement, profit sharing and scholarship plans, policies, agreements, programs, arrangements and practices sponsored or maintained by the Company or to which the Company contributes or is obligated to contribute thereunder for current or former Managers, directors, officers, employees, contractors or agents of the Company or to which the Company has any current or contingent liability, other than ordinary employment and consulting arrangements entered into in the ordinary course of business. None of the Company or any trade or business (whether or not incorporated) which is or has ever been under common control, or which is or has ever been treated as a single employer, with the Company under Section 414(b), (c), (m) or (o) of the Code ("**ERISA Affiliate**") has in the last six (6) years contributed, or been obligated to contribute, to any "**employee pension plans**," as defined in Section 3(2) of ERISA, subject to Title IV of ERISA or Section 412 of the Code, including a "**multiemployer plan**," as defined in Section 3(37) of ERISA. None of the Company Plans provide for post-employment life or health insurance, benefits or coverage for any participant or any beneficiary of a participant, except as may be required under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**"), and at the expense of the participant or the participant's beneficiary.

(b) True, correct and complete copies of the following documents, with respect to each of the Company Plans, have been made available or delivered to Parent by the Company to the extent applicable: (i) any plans, all amendments thereto and related trust documents, insurance contracts or other funding arrangements, and amendments thereto; (ii) the most recent Forms 5500 and all schedules thereto, (iii) the most recent actuarial report, if any; (iv) the most recent IRS determination letter or opinion letter, as applicable; (v) the most recent summary plan descriptions; and (vi) written summaries of all non-written Company Plans.

(c) Each Company Plan has been maintained in all material respects in accordance with its terms and with all applicable provisions of ERISA, the Code and other Laws, and neither the Company nor any "**party in interest**" or "**disqualified person**" with respect to the Company Plans has engaged in a non-exempt "**prohibited transaction**" within the meaning of Section 4975 of the Code or Section 406 of ERISA. Neither the Company, nor to the Knowledge of the Company, any other fiduciary has any liability for breach of fiduciary duty or any other failure to act or comply in connection with the administration or investment of the assets of any Company Plan.

(d) Each Company Plan providing for deferred compensation that constitutes a "**nonqualified deferred compensation plan**" (as defined in Section 409A(d)(1) of the Code and applicable Treasury Regulations thereunder) for any service provider to the Company is in documentary and operational compliance in all material respects with the requirements of Section 409A of the Code and the Treasury Regulations promulgated thereunder.

(e) The Company Plans intended to qualify under Section 401 of the Code or other tax-favored treatment under of Subchapter B of Chapter 1 of Subtitle A of the Code either has received a favorable determination letter from the IRS or may rely upon a favorable prototype opinion letter from the IRS as to its qualified status, and any trusts maintained pursuant thereto are exempt from federal income taxation under Section 501 of the Code, and to the Knowledge of the Company, no fact or circumstance exists that would reasonably be expected to adversely affect the qualification of any such Company Plans or result in liability, penalty or tax under ERISA or the Code..

(f) All contributions (including all employer contributions and employee salary reduction contributions) required to have been made under any of the Company Plans to any funds or trusts established thereunder or in connection therewith have been made by the due date thereof (including any valid extension), and all contributions for any period ending on or before the Closing Date which are not yet due will have been paid or accrued on the Balance Sheet on or prior to the Closing Date.

(g) There are no material pending actions, claims or lawsuits which have been asserted or instituted against the Company Plans, the assets of any of the trusts under such plans or the plan sponsor or the plan administrator, or against any fiduciary of the Company Plans with respect to the operation of such plans (other than routine benefit claims), nor does the Company have any Knowledge of facts that would form the basis for any such claim or lawsuit. No event has occurred, and to the Knowledge of the Company, no condition exists that would, by reason of the Company's affiliation with any of its ERISA Affiliates, subject the Company to any tax, fine, lien, penalty or other liability imposed by ERISA, the Code or other Laws.

(h) Neither the execution and delivery of this Agreement nor the consummation of the Transactions contemplated hereby (alone or in conjunction with any other event) shall (i) result in any payment becoming due to any current or former employee, director, Manager, officer or consultant of the Company or any of its Subsidiaries, (ii) increase any compensation or benefits otherwise payable under any Company Plan or otherwise, or (iii) result in the acceleration of the time of payment, vesting or funding of any such benefits under any Company Plan or otherwise.

(i) Any individual who performs services for the Company or any of its Subsidiaries (other than through a contract with an organization other than such individual) and who is not treated as an employee of the Company or any of its Subsidiaries for federal income tax or benefit plan purposes by the Company or any of its Subsidiaries is not an employee for such purposes.

(j) Except as set forth on Section 4.12(a) of the Company Disclosure Schedules, (i) none of the employees of the Company or any of its Subsidiaries is represented in his or her capacity as an employee of the Company or any of its Subsidiaries by any labor organization, (ii) the Company and its Subsidiaries have not recognized any labor organization, nor has any labor organization been elected as the collective bargaining agent of any employees, nor has the Company or any of its Subsidiaries entered into any collective bargaining agreement or union contract recognizing any labor organization as the bargaining agent of any employees; (iii) there is no union organization activity involving any of the employees of the Company or any of its

Subsidiaries pending or, to the Knowledge of the Company, threatened, nor has there ever been union representation involving any of the employees of the Company or any of its Subsidiaries; (iv) there is no picketing pending or, to the Knowledge of the Company, threatened, and there are no strikes, slowdowns, work stoppages, other job actions, lockouts, arbitrations, grievances or other labor disputes involving any of the employees of the Company or any of its Subsidiaries pending or, to the Knowledge of the Company, threatened; (v) there are no complaints, charges or claims against the Company or any of its Subsidiaries pending or, to the Knowledge of the Company, threatened that could be brought or filed with any Governmental Authority or arbitrator based on, arising out of, in connection with, or otherwise relating to the employment or termination of employment or failure to employ by the Company or any of its Subsidiaries, of any individual; (vi) the Company and its Subsidiaries are in material compliance with all Laws relating to the employment of labor, including all such Laws relating to wages, hours, the Fair Labor Standards Act, the Worker Adjustment and Retraining Notification Act and any similar state or local "**mass layoff**" or "**plant closing**" law ("**WARN**"), collective bargaining, discrimination, civil rights, safety and health, workers' compensation and the collection and payment of withholding and/or social security taxes and any similar tax; (vii) there has been no "**mass layoff**" or "**plant closing**" as defined by WARN with respect to the Company or any of its Subsidiaries within the six (6) months prior to Closing.

Section 4.13. Environmental Matters. The representations and warranties set forth in this Section 4.13 are the sole and exclusive representations in this Agreement regarding environmental matters.

(a) (A) Each of the Company and its Subsidiaries is, and has been, in material compliance with all applicable Environmental Laws, (B) each of the Company and its Subsidiaries has obtained all licenses, certificates, approvals, permits, consents, waivers or other authorizations required under Environmental Laws for the conduct and operation of their businesses and is in material compliance with the terms and conditions thereof, (C) there is no suit, claim, action, proceeding or, to the Knowledge of the Company, investigation relating to or arising under Environmental Laws that is pending or, to the Knowledge of the Company, threatened against or affecting the Company or any of its Subsidiaries or, to the Knowledge of the Company, any real property formerly owned, operated or leased by the Company, (D) neither the Company nor any of its Subsidiaries has received any notice of or entered into or assumed by Contract or operation of Law or otherwise, any obligation, liability, order, settlement, judgment, injunction or decree relating to or arising under Environmental Laws, and (E) no facts, circumstances or conditions exist with respect to the Company, any of its Subsidiaries or any property currently (or, to the Knowledge of the Company, formerly) owned, operated or leased by the Company or any of its Subsidiaries or any property to or at which the Company transported or arranged for the disposal or treatment of Hazardous Materials that would reasonably be expected to result in the Company or any of its Subsidiaries incurring Environmental Liabilities. Without in any way limiting the generality of the foregoing, to the Knowledge of the Company and except as in material compliance with Environmental Laws, none of the real property currently leased by the Company or any of its Subsidiaries contains any underground storage tanks, deed restrictions or other engineering controls due to environmental conditions, underground injection wells, waste management units, or septic tanks or waste disposal pits or lagoons in which process wastewater or any Hazardous Materials have been discharged or disposed. The Company has provided to Parent copies of all existing environmental reports, reviews, assessments, surveys, claims and audits and all written information in its possession pertaining to (i) environmental conditions of the real properties and

operations of the Company or any of its Subsidiaries, and (ii) actual or potential Environmental Liabilities asserted against the Company or any of its Subsidiaries.

(b) For purposes of this Agreement:

(i) "**Environmental Laws**" means all Laws relating in any way to the environment, preservation or reclamation of natural resources, the presence, management or Release of, or exposure to, Hazardous Materials, or to human health and safety, including the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. § 9601 et seq.), the Hazardous Materials Transportation Act (49 U.S.C. § 5101 et seq.), the Resource Conservation and Recovery Act (42 U.S.C. § 6901 et seq.), the Clean Water Act (33 U.S.C. § 1251 et seq.), the Clean Air Act (42 U.S.C. § 7401 et seq.), the Safe Drinking Water Act (42 U.S.C. § 300f et seq.), the Toxic Substances Control Act (15 U.S.C. § 2601 et seq.), the Federal Insecticide, Fungicide and Rodenticide Act (7 U.S.C. § 136 et seq.), and the Occupational Safety and Health Act (29 U.S.C. § 651 et seq.) (but only as such law relates to or regulates workplace exposures to Hazardous Materials), each of their state and local counterparts or equivalents, each of their foreign and international equivalents, and any transfer of ownership notification or approval statute (including the Industrial Site Recovery Act (N.J. Stat. Ann. § 13:1K-6 et seq.), as each has been amended and the regulations promulgated pursuant thereto.

(ii) "**Environmental Liabilities**" means, with respect to any Person, all liabilities, obligations, responsibilities, remedial actions, losses, damages, punitive damages, consequential damages, treble damages, costs and expenses (including all reasonable fees, disbursements and expenses of counsel, experts and consultants and costs of investigation and feasibility studies), fines, penalties, sanctions and interest incurred as a result of any claim or demand by any other Person or in response to any violation of Environmental Law, whether known or unknown, accrued or contingent, whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute, to the extent based upon, related to, or arising under or pursuant to any Environmental Law, environmental permit, order or agreement with any Governmental Authority or other Person, which relates to any environmental, health or safety condition, violation of Environmental Law or a Release or threatened Release of Hazardous Materials.

(iii) "**Hazardous Materials**" means any material, substance of waste that is regulated, classified, or otherwise characterized under or pursuant to any Environmental Law as "**hazardous**," "**toxic**," a "**pollutant**," a "**contaminant**," "**radioactive**" or words of similar meaning or effect, including petroleum and its byproducts, asbestos, polychlorinated biphenyls, radon, mold, urea formaldehyde insulation, chlorofluorocarbons and all other ozone-depleting substances.

(iv) "**Release**" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing of or migrating into or through the environment or any natural or man-made structure.

Section 4.14. Contracts.

(a) Set forth in Section 4.14(a) of the Company Disclosure Schedules is a list of each Contract of the following types or having the following terms to which the Company or any of its Subsidiaries is a party, unless otherwise provided in this Section 4.14, whether such Contract is based on a written or oral agreement, and which are in effect, or under which the Company or any of its Subsidiaries has any Liabilities, on the date hereof:

(i) a Contract that purports to limit, curtail or restrict the ability of the Company, any of its existing or future Subsidiaries or Affiliates or the Seller to compete in any geographic area or line of business or restrict the Persons to whom the Company, any of its existing or future Subsidiaries or Affiliates or the Seller may sell products or deliver services;

(ii) a partnership or joint venture agreement;

(iii) a Contract for the acquisition, sale or lease of material properties or assets (by merger, purchase or sale of stock, membership interests, assets or otherwise);

(iv) a Contract with any (x) Governmental Authority or (y) Manager director or officer of the Company, any of its Subsidiaries, or any Affiliate of the Company;

(v) a loan or credit agreement, mortgage, indenture, note or other Contract or instrument evidencing Indebtedness of the Company or any of its Subsidiaries or any Contract or instrument pursuant to which Indebtedness may be incurred or is guaranteed by the Company or any of its Subsidiaries;

(vi) a financial derivatives master agreement or confirmation, or futures account opening agreements and/or brokerage statements, evidencing financial hedging or similar trading activities;

(vii) an agreement relating to the transfer or voting of, or providing for registration rights with respect to, member interests, shares of capital stock, security or equity interests in the Company or any of its Subsidiaries;

(viii) a mortgage, pledge, security agreement, deed of trust, hypothecation, or similar Contract granting a Lien on any material property or material assets of the Company or any of its Subsidiaries, other than Permitted Liens;

(ix) any Contract with any customer of the Company or any of its Subsidiaries (a "**Customer Contract**");

(x) a Contract with a pharmaceutical manufacturer, including any such Contract involving any drug rebates (a "**Manufacturer Contract**");

(xi) a Contract (other than one with an employee or consultant or a Customer Contract or Manufacturer Contract) that involves consideration (whether or not measured in cash) of greater than $50,000 on an annual basis or has a duration extending beyond December 31, 2016 unless it may be terminated by the Company or its

Subsidiary, as the case may be, without penalty on not more than ninety (90) days' notice;

(xii) a collective bargaining agreement;

(xiii) a "**standstill**" or similar agreement;

(xiv) a Contract for the employment of any individual on a full-time, part-time, consulting or other basis, in which the amount to be paid by the Company or any of its Subsidiaries is equal to or greater than $50,000 on an annual basis;

(xv) a Contract providing for severance, retention, change in control or similar payments to any current or former employee, consultant or independent contractor;

(xvi) a Contract by which any Person other than the Seller is entitled to receive any portion of the Purchase Price;

(xvii) any lease for real property;

(xviii) to the extent material to the business or financial condition of the Company and its Subsidiaries, taken as a whole, any (1) lease or rental Contract, (2) product design or development Contract, (3) consulting Contract, (4) indemnification Contract, (5) license or royalty Contract, or (6) merchandising, sales representative or distribution Contract;

(xix) Contracts granting a right of first refusal or first negotiation; and

(xx) commitments or agreements to enter into any of the foregoing.

In addition, to the Knowledge of the Company, no employee of the Company or any of its Subsidiaries is a party to or is bound by any agreement or other obligation which prevents him or her from providing the services currently provided to the Company or its Subsidiaries, respectively, by him or her or that are contemplated to be provided after the Closing pursuant to the applicable Employment Agreement. Each of the Contracts and other documents required to be listed on Section 4.14(a) of the Company Disclosure Schedules, together with each other Contract of such type entered into in accordance with Section 6.1, is a "**Material Contract**." The Company has heretofore made available to Parent correct and complete copies of each Material Contract in existence as of the date hereof, together with any and all amendments and supplements thereto and material "**side letters**" and similar documentation relating thereto.

(b) Each of the Material Contracts is valid, binding and in full force and effect and is enforceable in all material respects in accordance with its terms by the Company and its Subsidiaries party thereto, as the case may be, subject to the Bankruptcy and Equity Exception. Section 4.14(b) of the Company Disclosure Schedules sets forth an accurate and complete list of all Customer Contracts that contain provisions that would give rise to a right of termination by such customer as a result of the entry into this Agreement or the consummation of the Transactions, i.e., as a result of change in control provisions (the "**Change In Control Customer Contracts**").

(c) Except as identified in Section 4.14(b) of the Company Disclosure Schedules, no approval, consent or waiver of, or notice to, any Person is needed in order for any Material Contract (including any Change In Control Customer Contract) to continue in full force and effect following the consummation of the Transactions. Neither the Company nor any of its Subsidiaries is in default in any material respect under any Material Contract or other Contract to which the Company or any of its Subsidiaries, as the case may be, is a party (collectively, the "**Company Contracts**"), nor does any condition exist that, with notice or lapse of time or both, would constitute a default in any material respect thereunder by the Company or any of its Subsidiaries. To the Knowledge of the Company, no other party to any Company Contract is in default thereunder, nor does any condition exist that with notice or lapse of time or both would constitute a default by any such other party thereunder. Neither the Company nor any of its Subsidiaries has received any notice of termination or cancellation under any Material Contract, received any notice of breach or default under any Material Contract which breach has not been cured, or granted to any third party any rights, adverse or otherwise, that would constitute a breach of any Material Contract.

(d) To the Knowledge of the Company, each of the Company and its Subsidiaries, as applicable, has satisfied, or is satisfying, in all material respects, all performance standards and other obligations under any Material Contract where it is required to do so in order to receive any fees, bonuses, rebates, incentives, or other payments at the levels at which it has received fees or payments under such Material Contract in the last or the current fiscal year and is not required to return any fees or payments received by it or to provide credits against any future fees or payment that would otherwise be due to it under any Material Contract, nor is it subject to any penalties under any such Material Contract, by reason of its failure to satisfy any performance standard and other obligation contained in such Material Contract.

Section 4.15. Title to Properties. Neither the Company nor any of its Subsidiaries owns any real property. Each of the Company and its Subsidiaries, as applicable, (i) has good and valid title to all material personal property which is reflected on the Balance Sheet as being owned by the Company or any of its Subsidiaries (or acquired after the date thereof) (except properties sold or otherwise disposed of since the date thereof in the ordinary course of business consistent with past practice and not in violation of this Agreement), free and clear of all Liens except (x) statutory liens securing payments not yet due, (y) security interests, mortgages and pledges that secure Indebtedness that is reflected in the Balance Sheet and (z) such other imperfections or irregularities of title or other Liens that, individually or in the aggregate, do not and would not reasonably be expected to materially impair the use of the properties or assets subject thereto or otherwise materially impair business operations as presently conducted by the Company or any of its Subsidiaries (any Lien described in (x), (y) or (z) above, a "**Permitted Lien**"), and (ii) holds pursuant to valid and enforceable leases or subleases all such material properties or material assets which are used in its business and not owned by it as referred to in the foregoing clause (i), free and clear of all Liens except Permitted Liens. Each of the Company and its Subsidiaries enjoys peaceful and undisturbed possession under all such leases or subleases in all material respects. The representations and warranties set forth in this Section 4.15 shall not apply to Intellectual Property Rights, which are covered exclusively in Section 4.16.

Section 4.16. Intellectual Property.

(a) For purposes of this Agreement:

(i) "**Company Intellectual** Property" means all Intellectual Property Rights used in the conduct of the business of the Company or any of its Subsidiaries, or owned or held for use by the Company or any of its Subsidiaries.

(ii) "**Company Technology**" means all Technology used in or necessary for the conduct of the business of the Company or any of its Subsidiaries or owned or held for use by the Company or any of its Subsidiaries.

(iii) "**Intellectual Property Rights**" shall mean all of the rights arising from or in respect of the following, whether protected, created or arising under the Laws of the United States or any foreign jurisdiction: (A) patents, provisional patents and utility models and applications therefor, any reissues, reexaminations, divisionals, continuations, continuations-in-part and extensions thereof, and equivalent or similar rights anywhere in the world in inventions and discoveries, including invention disclosures, invention certificates, and the like (collectively, "**Patents**"); (B) trademarks, service marks, trade names (whether registered or unregistered), service names, industrial designs, brand names, brand marks, trade dress rights, Internet domain names, identifying symbols, logos, emblems, signs or insignia and including all goodwill associated with the foregoing (collectively, "**Marks**"); (C) copyrights, whether registered or unregistered (including copyrights in computer software programs), mask work rights, database rights, works of authorship and other rights corresponding thereto (collectively, "**Copyrights**"); (D) confidential and proprietary information, or non-public processes, designs, specifications, technology, know-how, techniques, formulas, inventions, concepts, trade secrets, discoveries, ideas and technical data and information, in each case excluding any rights in respect of any of the foregoing that comprise or are protected by Copyrights or Patents (collectively, "**Trade Secrets**"); and (E) all applications, registrations, renewals, extensions and permits related to any of the foregoing clauses (A) through (D).

(iv) "**Publicly Available Software**" means any open source or free Software (including any Software licensed pursuant to a GNU public license) or other Software that requires as a condition of use, modification or distribution that other Software incorporated into, derived from or distributed with such Software (a) be disclosed or distributed in source code form, (b) be licensed for the purpose of making derivative works or (c) be redistributable at no charge.

(v) "**Software**" means computer programs, including any and all software implementations of algorithms, models and methodologies whether in source code, object code or other form, databases and compilations, including any and all data and collections of data, descriptions, flow-charts and other documentation used in the ordinary course of business in the use thereof.

(vi) "**Technology**" means, collectively, all information, technical data, programs, designs, formulas, algorithms, procedures, processes, specifications, techniques, ideas, know-how, Software (whether in source code, object code or human readable form), databases and data collections, Internet websites and web content, tools, inventions (whether patentable or unpatentable and whether or not reduced to practice), invention disclosures, developments, creations, improvements, works of authorship, other similar materials and all recordings, graphs, drawings, reports, analyses, other writings

and any other embodiment of the above, in any form or media, whether or not specifically listed herein.

(b) Section 4.16(b) of the Company Disclosure Schedules sets forth an accurate and complete list of all Patents, registered Marks, pending applications for registrations of any Marks and any unregistered Marks, registered Copyrights and pending applications for registration of any Copyrights, in each case, owned or filed by the Company or any of its Subsidiaries. Section 4.16(b) of the Company Disclosure Schedules lists (i) the record owner of each such item, (ii) the jurisdictions in which each such Intellectual Property Right has been issued or registered or in which any application for such issuance and registration has been filed and (iii) the date and number of any such registrations or applications. To the Knowledge of the Company, (A) there are no overdue filings or unpaid filings, maintenance or renewal fees currently overdue with respect to any Company Intellectual Property and no filings or fees due to be submitted or paid with respect to any Company Intellectual Property within ninety (90) days after the date of this Agreement and (B) no material Company Intellectual Property has lapsed or been cancelled or expired other than in the reasonable business judgment of the Company in the ordinary course of business.

(c) The Company or its Subsidiaries, as applicable, is the sole and exclusive owner of, or has valid and continuing rights to use, sell and license, all of the Company Intellectual Property and Company Technology, in each case, owned or purported to be owned by or licensed to the Company or its Subsidiaries, as the case may be, free and clear of any Liens except Permitted Liens; under the condition that, in the case of Company Intellectual Property and Company Technology licensed to the Company or its Subsidiaries, any such rights to use, sell, and license the foregoing may be subject to reasonable licensing restrictions entered into in the ordinary course of business, or as otherwise set forth in Section 4.14(a)(i). To the Knowledge of the Company, the use, practice or other commercial exploitation of the Company Intellectual Property by the Company or any of its Subsidiaries and the manufacturing, licensing, marketing, importation, offer for sale, sale or use of the Company Technology, and the operation of the Company's, and its Subsidiaries' businesses do not infringe, constitute an unauthorized use of, violate, or misappropriate any Intellectual Property Rights of any third Person. None of the Company or any of its Subsidiaries is a party to or the subject of any pending or, to the Knowledge of the Company, threatened suit, action, proceeding or, to the Knowledge of the Company, investigation which involves a claim (A) against the Company or any of its Subsidiaries, of infringement, unauthorized use, or violation of any Intellectual Property Rights of any Person, or challenging the ownership, use, validity or enforceability of any Company Intellectual Property or (B) contesting the right of the Company or any of its Subsidiaries to use, sell, exercise, license, transfer or dispose of any Company Intellectual Property or Company Technology, or any products, processes or materials covered thereby in any manner. None of the Company or any of its Subsidiaries has received written notice of any such threatened claim nor to the Knowledge of the Company are there any facts or circumstances that would form the basis for any claim against the Company or any of its Subsidiaries of infringement, unauthorized use, or violation of any Intellectual Property Rights of any Person, or challenging the ownership, use, validity or enforceability of any Company Intellectual Property or Company Technology.

(d) To the Knowledge of the Company, no Person (including employees and former employees of the Company, or any of its Subsidiaries) is infringing, violating, misappropriating or otherwise misusing any Company Intellectual Property, and none of the Company or any of its Subsidiaries has made any such claims against any Person (including

employees and former employees of the Company or any of its Subsidiaries) nor, to the Knowledge of the Company, is there any basis for such a claim.

(e) No Trade Secret or any other non-public, proprietary information of the Company or any of its Subsidiaries as presently conducted has been authorized to be disclosed or, has been actually disclosed by the Company or any of its Subsidiaries to any employee or any third Person other than pursuant to a confidentiality or non-disclosure agreement restricting the disclosure and use of the Company Intellectual Property or Company Technology. Each of the Company and its Subsidiaries has taken all reasonably necessary and appropriate steps to protect and preserve the confidentiality of all Trade Secrets and any other non-public, proprietary or confidential information of the Company or any Person to whom the Company has a confidentiality obligation.

(f) Except with respect to (i) licenses of off-the-shelf Software or (ii) any payments required of the Company or any of its Subsidiaries under any Material Contract, neither the Company nor any of its Subsidiaries is required, obligated or under any liability whatsoever to make any payments by way of royalties, fees or otherwise to any Person with respect to the use of any Company Intellectual Property or Company Technology in the conduct of the business as currently conducted.

(g) Section 4.16(g) of the Company Disclosure Scheduled sets forth a correct and complete list of all Software that is (i) owned exclusively by the Company or any of its Subsidiaries; or (ii) used by the Company or any of its Subsidiaries in its businesses and not exclusively owned by the Company or any of its Subsidiaries or available on reasonable terms through commercial distributors or in consumer retail stores.

(h) No Publicly Available Software (including, all derivative works thereof) is, in whole or in part, embodied or incorporated into any of the Company's or any of its Subsidiaries' products, which Company or any of its Subsidiaries makes generally available in any manner that would materially restrict the ability to protect the proprietary interests of Company or any of its Subsidiaries in any such products.

(i) Each of the Company and its Subsidiaries owns, leases or licenses all Software, hardware, databases, computer equipment and other information technology (collectively, "**Computer Systems**") that are necessary for the operations of the Company's and its Subsidiaries' businesses. The Computer Systems used by the Company and its Subsidiaries have functioned consistently and accurately since being installed. The data storage and transmittal capability, functionality and performance of each item of the Computer Systems and the Computer Systems as a whole are adequate for the Company's and its Subsidiaries' businesses. The Computer Systems have not failed to any material extent and the data which they process has not been corrupted. The Company and its Subsidiaries have taken all reasonable steps in accordance with industry standards to preserve the availability, security and integrity of the Computer Systems and the data and information stored on the Computer Systems. Each of the Company and its Subsidiaries maintains comprehensive and clear documentation regarding all Computer Systems, their methods of operation, and their support and maintenance.

Section 4.17. Insurance. Section 4.17 of the Company Disclosure Schedules sets forth a correct and complete summary of the material insurance and reinsurance policies held by, or for the benefit of, the Company or any of its Subsidiaries as of the date of this

Agreement, including the underwriter of such policies and the amount of the coverage thereunder) maintained by the Company or any of its Subsidiaries (the "**Policies**"). The Policies (i) have been issued by insurers or reinsurers which, to the Knowledge of the Company, are reputable and financially sound, (ii) provide coverage for the operations conducted by the Company and its Subsidiaries of a scope and coverage consistent with customary practice in the industries in which the Company and its Subsidiaries operate and (iii) are in full force and effect subject to the Bankruptcy and Equity Exception. Neither the Company nor any of its Subsidiaries is in breach or default, and has not taken any action or failed to take any action which, with notice or the lapse of time, would constitute such a breach or default, or permit termination or modification, of any of the Policies. No notice of cancellation or termination has been received by the Company or any of its Subsidiaries with respect to any of the Policies. The consummation of the Transactions will not, in and of itself, cause the revocation, cancellation or termination of any Policy. All appropriate insurers under the Policies have been timely notified of all potentially insurable material losses known to the Company and its Subsidiaries, and all appropriate actions have been taken, if any, to timely make all claims in respect of such insurable matters.

Section 4.18. Brokers and Other Advisors. Except for Lazard, no broker, investment banker, financial advisor or other Person is or will be entitled to any broker's, finder's, financial advisor's or other similar fee or commission, or the reimbursement of expenses or indemnification or contribution, in connection with the Transactions based upon arrangements made by or on behalf of the Company or any of its Subsidiaries. At or prior to the Closing, all amounts payable to Lazard in connection with the Transactions will be paid in full by the Seller, the Company, or a Subsidiary of the Company, or as part of the Transaction Expenses payable pursuant to Section 2.1.

Section 4.19. Health Care Regulatory Compliance.

(a) Governmental Authorizations and Consents. Except as otherwise disclosed on Section 4.19(a) of the Company Disclosure Schedules, no action by, consent, approval, permit or authorization of, or designation, declaration or filing with, any Governmental Authority is required on the part of the Company or any of its Subsidiaries with respect to the Company's authorization, execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby.

(b) Permits. Section 4.19(b) of the Company Disclosure Schedules lists all material Permits maintained by the Company and its Subsidiaries in the conduct of their business. The Company and its Subsidiaries have obtained all of the Permits necessary under applicable Laws to permit the Company and its Subsidiaries to own, operate, use and maintain their properties and assets in the manner in which they are now operated and maintained and to conduct their business and operations as currently conducted. Each such Permit is in full force and effect. Each Manager, director, officer, employee, agent and contractor of the Company or any of its Subsidiaries possesses all Permits necessary for the lawful conduct of his or her duties and obligations in the operation of the business of the Company and its Subsidiaries. The operation of the business of the Company and its Subsidiaries as currently conducted is not in violation of, nor is the Company or any of its Subsidiaries in default or violation under, any Permit required to be listed on Section 4.19(b) of the Company Disclosure Schedules. Neither of the Company nor any of its Subsidiaries has received notice of any breach or violation from any Governmental Authority regarding any Permit and is not involved in any litigation, proceeding or, to the Knowledge of the Company, investigation by or with any Governmental Authority

relating to any Permit, which if resolved adversely would have an adverse impact on the ability of the Company or any of its Subsidiaries to conduct their business as currently conducted. There has been no decision by the Company or, any of its Subsidiaries to not maintain or renew any Permit currently held for the operation of its business.

(c) Compliance with Health Regulatory Laws.

(i) The Company and its Subsidiaries are, and at all times since January 1, 2014 (or, if later, since its date of formation), have been, in material compliance with, and are not and have not been in violation of during the specified period, all Health Regulatory Laws, including (but not limited to), to the extent applicable, any federal or state Law regulating (A) fraud and abuse, (B) referral and financial relationships with providers, (C) insurance, (D) prompt payment of claims, (E) recordkeeping, (F) patient charges and billing, (G) quality, (H) safety, (I) network access, (J) privacy, (K) security and (L) disclosure of payments. Without limiting the foregoing, none of the Company, any of its Subsidiaries or any of their respective Managers, directors, officers, employees, contractors or agents has engaged in any conduct that is prohibited under, or fails to comply with the requirements of, any Health Regulatory Law. Except as set forth on Section 4.19(c) of the Company Disclosure Schedules, since January 1, 2015 (or, if later, since the date of its formation), neither the Company nor any of its Subsidiaries has received or been subject to, and to the Knowledge of the Company there does not exist any fact, circumstance or condition that would give rise to, any written notice, charge, claim or assertion alleging any violations of Health Regulatory Laws or related Governmental Orders, and to the Knowledge of the Company, no charge, claim, assertion or action alleging any violation of any Law, Governmental Order, or Permit by the Company or any of its Subsidiaries is currently threatened against the Company or any of its Subsidiaries.

(ii) None of the Company, any of its Subsidiaries, or any of their respective Managers, directors, officers, employees, contractors or agents acting on their behalf: (A) are or have been convicted of or charged or threatened with prosecution or under investigation by a Governmental Authority for any violation of a Health Regulatory Law, including any Law applicable to a health care program defined in 42 U.S.C. §1320a-7b(f) ("**Federal Health Care Program**"); (B) are or have been convicted of, charged with, or investigated for any violation of Law related to fraud, theft, embezzlement, breach of fiduciary responsibility, financial misconduct, obstruction of an investigation, or manufacture, storage, distribution or sale of controlled substances; (C) are excluded, suspended or debarred from participation, or are otherwise ineligible to participate, in any Federal Health Care Program, any federal, state, or local governmental procurement or non-procurement program, or any other federal or state government program or activity; or (D) have committed any violation of Law that is reasonably expected to serve as the basis for any such exclusion, suspension, debarment or other ineligibility.

(iii) To the Knowledge of the Company, neither the Company nor any of its Subsidiaries has failed to comply with Federal Health Care Program requirements applicable to the Company or any of its Subsidiaries.

(iv) Neither the Company nor any of its Subsidiaries has, directly or indirectly, received, paid or delivered any fee, commission or other sum of money or remuneration, however characterized, to any Governmental Authority or any other Person which in any manner is related to any Contract of the Company or any of its Subsidiaries and which is illegal under any applicable Law. Without limiting the foregoing, none of the Company, any of its Subsidiaries, or any of their respective Managers, directors, officers, employees, contractors or agents, or any other Person acting on behalf of the Company or any of its Subsidiaries, acting alone or together, has directly or indirectly (A) made any illegal or unethical contribution, gift, bribe, rebate, payoff, commissions, promotional allowances, influence payment, kickback, or other payment or economic benefit to any person, private or public, regardless of what form, whether in money, property, or services; (B) established or maintained any fund or asset that has not been recorded in the books and records of the Company or its Subsidiaries; (C) engaged in any business practices or conducted any dealings that are contrary to accepted industry standards; or (D) aided, abetted, caused (directly or indirectly), participated in, or otherwise conspired with, any Person to violate the terms of any judgment, sentence, order or decree of any court or Governmental Authority.

(v) None of the Company, any of its Subsidiaries, or any of their respective Managers, directors, officers, employees, contractors or agents, or any other Person acting on behalf of the Company or any of its Subsidiaries has made an untrue or fraudulent statement, including, but not limited to certification, to any Governmental Authority or agent thereof, failed to disclose a fact required to be disclosed to a Governmental Authority or agent thereof, or committed an act, made a statement, or failed to make a statement that would reasonably be expected to provide a basis for any Governmental Authority or agent thereof, to cause the Company or any of its Subsidiaries to invoke their policy respecting "**Fraud, Untrue Statements of Material Facts, Bribery, and Illegal Gratuities**" as set forth in 56 Fed. Reg. 46191 (Sept. 10, 1991), or to initiate any other legal action relating to fraud, false claims, or false statements.

(d) Corporate Compliance Program. Each of the Company and its Subsidiaries has adopted and maintains a compliance program that is intended to assist it to be in compliance with all Law, standards and guidelines relevant to its business, including but not limited all Health Regulatory Laws, and includes each of the following elements: (i) a code of conduct and other applicable policies and procedures; (ii) training on the code of conduct, policies and procedures; (iii) an auditing and monitoring function; (iv) disciplinary guidelines to enforce compliance standards; (v) an anonymous reporting process for potential violations of Law or the compliance program; (vi) designation of a compliance officer; and (vii) a mechanism for ensuring the effectiveness of the compliance program. Neither the Company nor any of its Subsidiaries, nor to the Knowledge of the Company, any of their respective Managers, directors, officers, employees, contractors or agents has violated such compliance program.

(e) Privacy Compliance. The Company and its Subsidiaries are in material compliance with all applicable security and privacy standards regarding protected health and employee information, or any applicable local, state, provincial or federal privacy Laws, including but not limited to HIPAA. Any employee or patient information that has been collected, used or disclosed has been done so with the consent of each individual to whom the information relates, if such consent, implied or otherwise, was required under applicable privacy Law or has been used only for the purposes for which such information was initially collected or

as otherwise permitted by applicable Law and/or agreement. The Company and its Subsidiaries have developed and implemented policies, procedures and training programs to help assure past, current, and ongoing compliance with HIPAA's privacy, security, enforcement and breach notification regulations and state privacy and security laws. The Company and its Subsidiaries maintain all necessary "**business associate**" agreements with "**covered entities**" as required under HIPAA, and are in compliance with all such "**business associate**" agreements. No violation of any applicable privacy Law, including but not limited to HIPAA, has been alleged or, to the Knowledge of the Company, threatened against the Company or any of its Subsidiaries by any Governmental Authority, including but not limited to the Office of Civil Rights of the U.S. Department of Health and Human Services, a patient or any other Person since January 1, 2013.

(f) Manufacturer Discounts and Rebates. Each of the Company or its Subsidiaries has properly documented, accounted for and disclosed to its customers all manufacturer discounts, rebates, incentive payments, administrative fees and remuneration from pharmaceutical manufacturers and is in compliance with Health Regulatory Laws (including the provisions of ERISA and state and federal Anti-Kickback statutes), and policies and contractual requirements of manufacturers and customers regarding such manufacturer discounts, rebates, incentive payments, administrative fees and remuneration.

(g) Drug/Pharmaceutical Purchases. The purchase of drugs and pharmaceuticals by the Company and its Subsidiaries has at all times been conducted pursuant to the proper classification of the identity and status of the purchaser of such drugs and pharmaceuticals and in accordance with all applicable Health Regulatory Laws and policies of drug/pharmaceutical manufacturers.

(h) Drug/Pharmaceutical Inventory. With respect to the drugs and pharmaceutical inventories of the Company and its Subsidiaries: (i) all of such inventory is merchantable in accordance with the Federal Food Drug and Cosmetic Act or any other Law, including such applicable requirements as are imposed by the FDA or any state pharmacy board, (ii) all of such inventory other than written off inventory, except to the extent of reserves shown on the face of the Balance Sheet, consists of a quality and quantity usable and salable in its ordinary course, (iii) none of such inventory is slow moving, obsolete, damaged or defective, (iv) the quantities of each item of such inventory are not excessive and are reasonable in the present circumstances of the Company and its Subsidiaries, (v) all of such inventory not written off has been priced at the lower of cost or net realizable value on a first in, first out basis, except in each case subject to the reserve shown on the face of the Balance Sheet, (vi) none of such inventory is on consignment; and (vii) such inventory is appropriately sourced in accordance with all applicable Law, including all applicable FDA requirements.

(i) Drug Dispensing. With respect to the dispensing of drugs and related products by the Company and its Subsidiaries: (i) all dispensing has been duly authorized in accordance with applicable state and federal Law, including Laws regulating controlled substances and drug diversion, (ii) no therapeutic interchanges, redispensing of returned merchandise, and/or pill splitting programs have been implemented except in accordance with applicable Law and good clinical practice, (iii) all dispensing has been by duly licensed pharmacists and/or other individuals authorized and appropriately supervised under applicable Law to dispense such products.

Section 4.20. Accounts and Notes Receivable and Payable. All accounts and notes receivable of the Company and its Subsidiaries have arisen from bona fide transactions in the ordinary course of business consistent with past practice and are payable on ordinary trade terms. All accounts and notes receivable of the Company and its Subsidiaries reflected on the Balance Sheet are at the aggregate recorded amounts thereof, net of any applicable reserve for returns or doubtful accounts reflected thereon, which reserves are adequate and were calculated in a manner consistent with past practice and in accordance with GAAP, consistently applied. All accounts and notes receivable of the Company and its Subsidiaries arising after the Balance Sheet Date and existing on the date hereof are at the aggregate recorded amounts thereof, net of any applicable reserve for returns or doubtful accounts, which reserves are adequate and were calculated in a manner consistent with past practice and in accordance with GAAP, consistently applied. None of the accounts or the notes receivable of the Company and any of its Subsidiaries (i) are subject to any setoffs or counterclaims or (ii) represent obligations for goods or services subject to any repurchase, return, refund or rebate arrangement.

Section 4.21. Related Party Transactions. Except as set forth on Section 4.21 of the Company Disclosure Schedules, no employee, officer, director, Manager or member of the Company or any of its Subsidiaries, or, to the Knowledge of the Company, any member of his or her immediate family or any of their respective Affiliates ("**Related Persons**") (i) owes any amount to the Company or any of its Subsidiaries, nor does the Company or any of its Subsidiaries owe any amount to, or has the Company or any of its Subsidiaries made or committed to make any loan or guarantee of any credit or performance to or for the benefit of, any Related Person except for salary, wages and other amounts payable to or for the benefit of employees pursuant to any Company Plan, (ii) is involved in any business arrangement or other relationship with the Company or any of its Subsidiaries (whether written or oral) other than employment, ownership, or management relationships with the Company and/or its Subsidiaries that have been disclosed to Parent in the Company Disclosure Schedules, (iii) owns any property or right, tangible or intangible, that is used by the Company or any of its Subsidiaries, (iv) has any claim or cause of action against the Company or any of its Subsidiaries, (v) owns any direct or indirect interest of any kind in, or controls or is a director, Manager, officer, employee or partner of, or consultant to, or lender to or borrower from or has the right to participate in the profits of, any Person which is a competitor, supplier, customer, landlord, tenant, creditor or debtor of the Company or any of its Subsidiaries.

Section 4.22. Banks; Power of Attorney. Section 4.22 of the Company Disclosure Schedules contains a complete and correct list of the names and locations of all banks in which the Company or any of its Subsidiaries have accounts or safe deposit boxes and the names of all persons authorized to draw thereon or to have access thereto. Except as set forth on Section 4.22 of the Company Disclosure Schedules, no person holds a power of attorney to act on behalf of the Company or any of its Subsidiaries.

Section 4.23. Customers and Suppliers.

(a) Section 4.23(a) of the Company Disclosure Schedules sets forth a list of the top ten (10) customers and the top ten (10) suppliers of the Company and its Subsidiaries, showing the approximate total sales by the Company and its Subsidiaries to each such customer and the approximate total purchases by the Company and its Subsidiaries from each such supplier, during the 2015 fiscal year of the Company and its Subsidiaries. Section 4.23(a) of the Company Disclosure Schedules also sets forth the approximate total sales by the Company and

its Subsidiaries to Deseret Mutual Benefits Administrators and its affiliates, during the twelve (12)-month period ending as of the end of the month preceding the date hereof.

(b) Since the Balance Sheet Date, no customer or any supplier of the Company or any of its Subsidiaries has terminated its relationship with the Company or its Subsidiaries or reduced or changed the pricing or other terms of its business with the Company or its Subsidiaries and, to the Knowledge of the Company, (i) no customer has notified the Company or any of its Subsidiaries that it intends to terminate or reduce the pricing or change, in any material respect, the other terms of its business with the Company or its Subsidiaries, as the case may be, (ii) no supplier has notified the Company or any of its Subsidiaries that it intends to terminate or increase or change, in any material respect, the pricing or other terms of its business with the Company or its Subsidiaries, as the case may be, and (iii) to the actual knowledge of the individuals listed on Exhibit 10.11(b), there is no existing fact, circumstance or condition that would be expected to give rise to such a notice.

Section 4.24. Certain Payments. Neither the Company nor any of its Subsidiaries, or the Seller or, to the Knowledge of the Company, any Manager, director, officer, employee, or other Person associated with or acting on behalf of any of them, has directly or indirectly (a) made any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment to any Person, private or public, regardless of form, whether in money, property, or services in violation of any Law, or (b) established or maintained any fund or asset with respect to the Company or its Subsidiaries that has not been recorded in the books and records of the Company or its Subsidiaries, as applicable.

Section 4.25. Sales Personnel. Each sales agent employed with the Company, or any Subsidiary of the Company is properly licensed to sell the products and services of the Company and its Subsidiaries, as applicable. The compensation payable by the Company or its Subsidiaries, as the case may be, to such employees complies with applicable Health Regulatory Laws.

Section 4.26. Recoupment Proceedings. Except as set forth on Section 4.26 of the Company Disclosure Schedules, there are no material Program recoupments or material recoupments of any third-party payor being sought, requested or claimed, or to the Knowledge of the Company, threatened against the Company or any of the Company's Subsidiaries.

Section 4.27. Capital or Surplus Management. Except as set forth on Section 4.27 of the Company Disclosure Schedules, to the Knowledge of the Company, neither the Company nor any of its Subsidiaries are subject to any requirement to maintain capital or surplus amounts or levels, or is subject to any restriction on the payment of dividends or other distributions on its membership interests or shares of capital stock, except for such requirements or restrictions under insurance or other Laws of general application.

Section 4.28. Entire Business; Sufficiency of Assets and Employees. The assets and employees of the Company and its Subsidiaries constitute all of the assets (including contractual rights with service vendors) and employees used in or employed by the business of the Company and its Subsidiaries as such business is currently conducted and no asset or employee of any Affiliate of the Company (other than the assets or employees of the Subsidiaries of the Company and Granite) is necessary for the conduct of the business of the Company and its Subsidiaries.

ARTICLE V
Representations and Warranties of Parent

Parent makes to the Seller the representations and warranties contained in this Article V:

Section 5.1. Organization, Standing and Corporate Power. Parent is a corporation or limited liability company duly organized, validly existing and in good standing under the Laws of the jurisdiction in which it is incorporated.

Section 5.2. Authority; Noncontravention.

(a) Parent has all necessary power and authority to execute and deliver this Agreement and to perform its obligations hereunder and to consummate the Transactions. The execution, delivery and performance by Parent of this Agreement, and the consummation by Parent of the Transactions, have been duly authorized and approved by its Board of Directors and no other corporate action on the part of Parent is necessary to authorize the execution, delivery and performance by Parent of this Agreement and the consummation by it of the Transactions. This Agreement has been duly executed and delivered by Parent and, assuming due authorization, execution and delivery hereof by the Company and the Seller, constitutes a legal, valid and binding obligation of Parent, enforceable against it in accordance with its terms, subject to the Bankruptcy and Equity Exception.

(b) Neither the execution and delivery of this Agreement by Parent, nor the consummation by Parent of the Transactions, nor compliance by Parent with any of the terms or provisions hereof, will (i) conflict with or violate any provision of the certificate of incorporation or bylaws of Parent or (ii) assuming that the authorizations, consents and approvals referred to in Section 5.3 are obtained and the filings referred to in Section 5.3 are made, (x) violate any Law, judgment, writ or injunction of any Governmental Authority or any arbitration award applicable to Parent or any of its Subsidiaries or any of their respective properties or assets, or (y) violate, conflict with, result in the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien upon any of the respective properties or assets of, Parent under, any of the terms, conditions or provisions of any Contract to which Parent is a party, or by which it or any of its properties or assets may be bound or affected that, individually or in the aggregate, could reasonably be expected to adversely affect the ability of Parent to perform, in a timely manner, its obligations under this Agreement or to consummate the Transactions.

Section 5.3. Governmental Approvals. Except for the approvals or filings referred to in Schedule 5.3 delivered by Parent to the Company, no consents or approvals of, or filings, declarations or registrations with, any Governmental Authority are necessary for the execution and delivery of this Agreement by Parent or the consummation by Parent of the Transactions, other than such other consents, approvals, filings, declarations or registrations that, if not obtained, made or given, could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect with respect to Parent.

Section 5.4. Brokers and Other Advisors. No broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other

similar fee or commission in connection with the Transactions based upon arrangements made by or on behalf of Parent or any of its Subsidiaries.

Section 5.5. Litigation. There is no suit, claim, action, proceeding or investigation pending or, to the Knowledge of Parent, threatened against Parent and Parent is not subject to any outstanding order, writ, judgment, injunction or decree of any Governmental Authority that would be reasonably likely, individually or in the aggregate, to (a) prevent or materially delay the consummation of the Sale or (b) otherwise prevent or materially delay performance by Parent of any closing condition set forth in Section 7.3 or of its material obligations under this Agreement.

Section 5.6. Sufficient Funds. Parent has sufficient funds available (through existing credit arrangements, commitment letters or otherwise) to fully fund all of Parent's obligations under this Agreement, including payment of the Purchase Price, the Adjustment Amount, if applicable, and all fees and expenses of Parent related to the transactions contemplated by this Agreement. Parent acknowledges that the availability of funding is not a condition precedent (under Section 7.2 or otherwise) to its obligations to close the transactions contemplated by this Agreement.

Section 5.7. Reliance. Except for the representations and warranties expressly made by the Company and the Seller in Article III, Article IV and the certificate delivered pursuant to Section 7.2(n) of this Agreement, (a) (i) neither the Company nor the Seller is making or has made any representation or warranty, express or implied, at law or in equity, in respect of the Company or the Company's business, assets, Liabilities, operations, or condition (financial or otherwise), the nature or extent of any liabilities, the prospects of the Company's business, the effectiveness or the success of any operations, or the accuracy or completeness of any confidential information memoranda, projections, forecasts or estimates of earnings, or other information (financial or otherwise) regarding the Company furnished to Parent or its representatives or otherwise made available to Parent and its representatives, in management presentations or in any other form in expectation of, or in connection with, the transactions contemplated hereby, and (ii) no officer, agent, representative or employee of the Company or the Seller has any authority, express or implied, to make any representations, warranties or agreements not set forth in this Agreement and (b) Parent is acquiring the Company subject only to the representations and warranties set forth in Article III, Article IV and the certificate delivered pursuant to Section 7.2(n) of this Agreement.

Section 5.8. Investment. Parent is aware that the Interests being acquired by Parent pursuant to the transactions contemplated hereby have not been registered under the Securities Act of 1933, as amended (the "**Securities Act**"), or under any state securities Law. Parent qualifies as an "accredited investor" as such term is defined in Rule 501(a) promulgated under the Securities Act, and Parent is acquiring the Interests to be acquired by Parent hereunder solely for investment and not with a view toward, or for sale in connection with, any distribution thereof within the meaning of the Securities Act, nor with any present intention of distributing or selling any of the Interests. Neither Parent nor or any of its Affiliates will sell or otherwise dispose of the Interests except in compliance with the registration requirements or exemption provisions under the Securities Act and the rules and regulations promulgated thereunder, or any other applicable securities Law.

Section 5.9. Information. Parent acknowledges that it has been furnished with such documents, materials and information as Parent deems necessary or appropriate for evaluating the purchase of the Interests. Parent confirms that it has made such further investigation of the business of the Company and its Subsidiaries as was deemed appropriate to evaluate the merits and risks of this purchase. Parent further acknowledges that it has had the opportunity to ask questions of, and receive answers from, the Managers and the officers of the Company, its Subsidiaries, the Seller and Persons acting on behalf of the Company, its Subsidiaries, the Seller concerning the terms and conditions of the purchase of the Interests.

ARTICLE VI
Additional Covenants and Agreements

Section 6.1. Conduct of Business. Except as expressly required or permitted by this Agreement, as required by applicable Law or as permitted by the prior written consent of Parent, during the period from the date of this Agreement until the earlier of the Closing or the termination of this Agreement pursuant to Article VIII, the Company shall, and shall cause each of its Subsidiaries to, (i) conduct its business in the ordinary course consistent with past practice, (ii) comply in all material respects with all applicable Laws and the requirements of all Material Contracts, (iii) use commercially reasonable efforts to maintain and preserve intact its business organization and the goodwill of those having business relationships with it and retain the services of its present officers and key employees, in each case, to the end that its goodwill and ongoing business shall not be materially impaired at the Closing, and (iv) keep in full force and effect or renew all material insurance policies maintained by the Company and its Subsidiaries other than changes to such policies made in the ordinary course of business. Without limiting the generality of the foregoing, except as expressly required or permitted by this Agreement, required by applicable Law, specified in Section 6.1 of the Company Disclosure Schedules or permitted by the prior written consent of Parent, during the period from the date of this Agreement to the earlier of the Closing or the termination of this Agreement pursuant to Article VIII, the Company shall not, and shall not permit any of its Subsidiaries to:

(a) (i) issue, sell, grant, dispose of, pledge or otherwise encumber any of the Interests, other shares of capital stock, membership interest, securities or equity interests in or of the Company or any of its Subsidiaries, or any securities, rights or options convertible into, or exchangeable or exercisable for, or evidencing the right to subscribe for, or any calls, commitments or any other agreements of any character to purchase or acquire, any Interests, or any membership interests, shares of capital stock, membership interest, securities or equity interests in or of the Company or any of its Subsidiaries; (ii) redeem, purchase or otherwise acquire any of the foregoing; or (iii) declare, set aside for payment or pay any distribution on, or make any other distribution in respect of, the foregoing;

(b) incur or assume any material Indebtedness (or enter into a "**keep well**" or similar agreement) or issue or sell any debt securities or options, warrants, calls or other rights to acquire any debt securities;

(c) sell, transfer, assign, lease, mortgage, encumber, license (other than non-exclusive licenses received from or granted to customers in the ordinary course of business consistent with past practice) or otherwise dispose of or subject to any Lien (including pursuant to a sale-leaseback transaction or an asset securitization transaction), other than a Permitted Lien, any of its properties or assets to any Person, except (i) pursuant to Contracts in force on the date

of this Agreement and listed on Section 6.1(c) of the Company Disclosure Schedules, correct and complete copies of which have been made available to Parent or (ii) dispositions of obsolete or worthless assets;

(d) make any capital expenditures, except in the ordinary course of business consistent with past practice and in an amount not in excess of $50,000 in the aggregate for the Company and its Subsidiaries taken as a whole;

(e) (i) directly or indirectly acquire, by merging or consolidating with, or by purchasing all of or a substantial equity interest in, or by any other manner, any Person or any division or business of any Person or (ii) except pursuant to Section 6.1(d), otherwise acquire any properties or assets except in the ordinary course of business consistent with past practice, *provided*, that no such acquisition in the ordinary course of business of any assets (other than inventory) that, individually, have a purchase price in excess of $40,000 or any group of related assets that, in the aggregate, have a purchase price in excess of $80,000, shall be made without reasonable prior notice to Parent and shall not be made without Parent's prior written consent (for purposes of clarity, purchases of inventory in the ordinary course of business in any amount do not require notice to Parent or consent from Parent);

(f) make any investment (by contribution to capital, property transfers, purchase of securities or otherwise) in, or loan or advance (other than travel and similar advances to its employees in the ordinary course of business consistent with past practice) to, any Person other than in the ordinary course of business consistent with past practice;

(g) (i) enter into, terminate or amend any Material Contract, or make any proposal to enter into, terminate, or amend any Material Contract, or, other than in the ordinary course of business consistent with past practice, any other Contract that is material to the Company and its Subsidiaries, taken as a whole, (ii) enter into any Contract that would be breached by, or require the consent of any third party in order to continue in full force and effect following consummation of the Transactions, or (iii) release any Person from, or modify or waive any provision of, any confidentiality, standstill or similar agreement or fail to take all action reasonably necessary to enforce each such confidentiality, standstill and similar agreement (in each case, other than any such agreement with Parent);

(h) (i) increase in any manner the compensation or benefits of any of its current or former Managers, directors, officers, employees or consultants outside of the ordinary course of business consistent with past practice, (ii) hire or terminate any Manager, director, officer or employee outside of the ordinary course of business consistent with past practice, (iii) take any action to accelerate the vesting or payment of any compensation or benefits of any of its current or former Managers, directors, officers, employees or consultants, other than as required by a Company Plan, or (iv) enter into, establish, amend or terminate, outside of the ordinary course of business consistent with past practice, any employment, consulting, retention, change in control, collective bargaining, bonus or other incentive compensation, profit sharing, health or other welfare, option or other equity (or equity-based), pension, retirement, vacation, severance, deferred compensation or other compensation or benefit plan, policy, program, agreement, trust, fund or arrangement with, for or in respect of, any current or former Manager, director, officer, employee, consultant or Affiliate;

(i) make, change or revoke any Tax election (including making an entity classification election pursuant to Treasury Regulation Section 301.7701-3(c) to be classified as an association taxable as a corporation); file any amended Tax Return; file any Tax Return unless such Tax Return shall have been prepared consistent with past practice; enter into any closing agreement pursuant to Section 7121 of the Code (or any similar provisions of applicable Law) or any Tax Sharing Agreement; settle or compromise any claim, liability or assessment relating to Taxes; surrender any right to claim a refund of Taxes, or obtain any Tax ruling;

(j) make any changes in financial or tax accounting methods, principles or practices (or change an annual accounting period), except insofar as may be required by a change in GAAP or applicable Law;

(k) amend the Company Organizational Documents or any organization document of any Subsidiary of the Company;

(l) adopt a plan or agreement of complete or partial liquidation, dissolution, restructuring, recapitalization, merger, consolidation or other reorganization;

(m) pay, discharge, settle or satisfy any material claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge, settlement or satisfaction in accordance with their terms of liabilities, claims or obligations reflected or reserved against in the Balance Sheet; provided that debt payments required under the Loan Agreement may be made when due;

(n) issue any broadly distributed communication of a general nature to employees (including general communications relating to benefits and compensation) or customers or clients without the prior written approval of Parent, except for communications in the ordinary course of business that do not relate to the Transactions and do not provide to any Person any information regarding the Company, that might be considered material non-public information (within the meaning of Regulation FD under the Exchange Act) if the Company's securities were registered under Section 12(b) of the Exchange Act;

(o) acquire any material properties or assets or sell, assign, license (other than non-exclusive licenses received from or granted to customers in the ordinary course of business consistent with past practice), transfer, convey, lease or otherwise dispose of any material properties or assets;

(p) enter into, modify or terminate any labor or collective bargaining agreement or, through negotiation or otherwise, make any commitment or incur any liability to any labor organization;

(q) enter into, or modify, amend or terminate, any Contract which would (i) cause the Company or any Subsidiary to incur a liability in excess of $20,000 or receive revenues in excess of $50,000, or (ii) have a term of more than one year (unless the Company or its Subsidiaries, as applicable, may cancel such Contract in its discretion without incurring a liability in excess of $20,000) or (iii) reasonably be expected to have a Material Adverse Effect on the Company (*provided, however*, that in no event will the Company be considered in breach of this clause (iii) in connection with entering into a Contract after the date hereof as to which it has received the written consent of Parent); notwithstanding the foregoing, Parent hereby agrees

that the Company or its Subsidiaries may enter into standard pharmacy services management agreements or similar agreements to provide services and/or products to the following entities: McKee Foods Corporation, Colorado Choice Health Plan, Bristol Bay Native Corporation, Synergy Rx, Nu Skin Enterprises, Freedom Oilfield Services, and Ball Enterprises; provided that such Contracts are on terms substantially comparable to the terms therefor previously disclosed to Parent;

(r) take any actions outside the ordinary course of business that would affect Closing Date Indebtedness or Closing Date Working Capital from the respective amounts thereof as of 11:59 P.M. on the Business Day immediately prior to the Closing Date to the time of the Closing; or

(s) agree, in writing or otherwise, to take any of the foregoing actions, or take any action or agree, in writing or otherwise, to take any action which would (i) cause any of the representations or warranties of the Company set forth in this Agreement to be untrue in any material respect or (ii) in any material respect impede or delay the ability of the parties to satisfy any of the conditions to the Sale set forth in this Agreement.

Section 6.2. No Solicitation by the Company; Etc.

(a) Neither the Company nor the Seller shall, and shall cause the Company's Managers, directors, officers, employees, investment bankers, financial advisors, attorneys, accountants, contractors, agents and other representatives (collectively, "**Representatives**") to not, directly or indirectly (i) solicit, initiate, cause, facilitate or knowingly encourage (including by way of furnishing information) any inquiries or proposals that constitute, or would reasonably be expected to lead to, a Takeover Proposal, (ii) participate in any discussions or negotiations with any Person regarding any Takeover Proposal or (iii) enter into any agreement related to any Takeover Proposal.

(b) The Company or the Seller, as applicable, shall promptly notify Parent, orally and in writing if, and in no event later than two (2) business days after, any proposal, offer, inquiry or other contact is received by, any information is requested from, or any discussions or negotiations (or continuation of discussions or negotiations) are sought to be initiated with, the Company, or the Seller in respect of any Takeover Proposal, and shall, in any such notice to Parent, indicate the identity of the Person making such proposal, offer, inquiry, request or other contact and the terms and conditions of any proposals or offers or the nature of any inquiries, requests or other contacts (and shall include with such notice copies of any written materials received from or on behalf of such Person relating to such proposal, offer, inquiry, request or other contact).

(c) For purposes of this Agreement, "**Takeover Proposal**" means any inquiry, proposal or offer from any Person relating to any (A) direct or indirect acquisition (whether in a single transaction or a series of related transactions) of assets of the Company, (B) direct or indirect acquisition (whether in a single transaction or a series of related transactions) of Interests or other equity interests in the Company or (C) merger, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or similar transaction involving the Company, other than the Transactions.

Section 6.3. Commercially Reasonable Efforts.

(a) Subject to the terms and conditions of this Agreement (including Section 6.3(c)), each of the parties hereto shall cooperate with the other parties and use their commercially reasonable efforts to (i) take, or cause to be taken, all actions, and do, or cause to be done, all things, necessary, proper or advisable to cause the conditions to Closing to be satisfied as promptly as practicable and to consummate the Transactions, including (A) notifying each third party to the Change In Control Customer Contracts listed on Section 4.14(b) of the Company Disclosure Schedules of the Transactions and requesting a waiver, if required, of any termination rights arising as a result of the Transactions from each such party, and (B) preparing and filing promptly and fully all documentation to effect all necessary filings, notices, petitions, statements, registrations, submissions of information, applications and other documents, and (ii) obtain all approvals, consents, registrations, permits, authorizations and other confirmations from any Governmental Authority or third party necessary, proper or advisable to consummate the Transactions.

(b) Each of the parties hereto shall use commercially reasonable efforts to (i) cooperate in all respects with each other party in connection with any filing or submission with or to a Governmental Authority in connection with the Transactions and in connection with any investigation or other inquiry by or before a Governmental Authority relating to the Transactions, including any proceeding initiated by a private party, and (ii) keep the other parties informed in all material respects and on a reasonably timely basis of any material communication received by such party from, or given by such party to, any Governmental Authority and of any material communication received or given in connection with any proceeding by a private party, in each case regarding any of the Transactions. Subject to applicable Laws relating to the exchange of information, each of the parties hereto shall have the right to review in advance, and to the extent reasonably practicable each will consult the other on, all information relating to the other party, as the case may be, that appears in any filing made with, or written materials submitted to, any third party and/or any Governmental Authority in connection with the Transactions.

(c) In furtherance and not in limitation of the covenants of the parties contained in this Section 6.3, each of the parties hereto shall use commercially reasonable efforts to resolve such objections, if any, as may be asserted by a Governmental Authority or other Person with respect to the Transactions. Notwithstanding the foregoing or any other provision of this Agreement, the Company shall not, without Parent's prior written consent, commit to any divestiture transaction or agree to any change of or restriction on its business, and nothing in this Section 6.3 shall (i) limit any applicable rights a party may have to terminate this Agreement pursuant to Section 8.1 so long as such party has up to then complied in all material respects with its obligations under this Section 6.3 or (ii) require Parent to offer, accept or agree to (A) dispose of or hold separate any part of its or the Company's business, operations, assets or product lines (or a combination of Parent's and the Company's respective businesses, operations, assets or product lines), (B) not compete in any geographic area or line of business, and/or (C) restrict or change the manner in which, or whether, Parent or the Company or any of their Affiliates may carry on business in any part of the world.

(d) The commercially reasonable efforts required the Company and its Subsidiaries and the Seller under this Section 6.3 shall not require any such party to commence any litigation or arbitration proceeding, to offer or grant or otherwise provide any accommodation (financial or otherwise) to any Person, or to provide financing to Parent for the completion of the Transactions.

Section 6.4. Public Announcements. The initial press release with respect to the execution of this Agreement shall be a joint press release to be reasonably agreed upon by Parent and the Seller. Thereafter, none of the Company, the Seller or Parent shall issue or cause the publication of any press release or other public announcement (to the extent not previously issued or made in accordance with this Agreement) with respect to the Sale, this Agreement or the other Transactions without the prior consent of the other party (which consent shall not be unreasonably withheld or delayed), except as may be required by Law or in the case of Parent by its listing agreement with any securities exchange as determined in its good faith judgment (in which case such party shall not issue or cause the publication of such press release or other public announcement without prior consultation insofar as practicable with the Seller).

Section 6.5. Access to Information; Confidentiality. Subject to applicable Laws relating to the exchange of information, the Company agrees that, prior to the Closing or the termination of this Agreement in accordance with Article VIII, Parent and its Representatives shall be entitled to make such investigation of the properties, assets, businesses and operations of the Company and its Subsidiaries and such examination of the books, records and financial condition of the Company and its Subsidiaries as Parent reasonably requests, and to make extracts and copies of such books and records (provided, however, that the foregoing shall not require the Company or its Subsidiaries to provide any such access or disclose any information to the extent the provision of such access or such disclosure would contravene applicable Law or jeopardize the loss of an attorney-client privilege). No investigation by Parent prior to or after the date of this Agreement shall diminish or obviate any of the representations, warranties, covenants or agreements of the Company or the Seller contained in this Agreement or the Company Documents. Any such investigation by Parent shall occur during the normal business hours of the Company and its Subsidiaries but shall not unreasonably interfere with any of the businesses or operations of the Company or its Subsidiaries. In order that Parent may have full opportunity to make such physical, business, accounting and legal review, examination or investigation as it may reasonably request regarding the affairs of the Company and its Subsidiaries, the Company shall use commercially reasonable efforts to cause its Representatives to cooperate fully with Parent's Representatives in connection with such review and examination. Parent and its Representatives shall hold information received from the Company and its Subsidiaries pursuant to this Section 6.5 in confidence in accordance with the terms of the Confidentiality Agreement.

Section 6.6. Notification of Certain Matters. The Company and the Seller shall give prompt written notice to Parent, and Parent shall give prompt written notice to the Seller, of (i) any notice or other communication received by such party from any Governmental Authority in connection with the Transactions or from any Person alleging that the consent of such Person is or may be required in connection with the Transactions, (ii) any actions, suits, claims, investigations or proceedings commenced or, to such party's knowledge, threatened against or otherwise involving such party or any of its Subsidiaries or Affiliates which relate to the Transactions, (iii) the discovery of any fact or circumstance that, or the occurrence or nonoccurrence of any event the occurrence or non-occurrence of which, would cause any representation or warranty made by such party contained in this Agreement (A) that is qualified as to materiality to be untrue or (B) that is not so qualified to be untrue in any material respect or, in the case of the Company would cause any of the information provided in the Company Disclosure Schedules to not be true and correct as of the time such information was provided in light of such discovery or occurrence or non-occurrence, and (iv) any material failure of such

party to comply with or satisfy any covenant or agreement to be complied with or satisfied by it hereunder; *provided, however,* that the delivery of any notice pursuant to this Section 6.6 shall not (x) cure any breach of any representation of warranty of the party giving such notice or any non-compliance by the party giving such notice with any covenant, agreement or other provision contained in this Agreement or (y) limit the remedies available to the party receiving such notice in respect of such breach or non-compliance.

Section 6.7. Fees and Expenses. Except as may otherwise be provided herein, all fees and expenses incurred in connection with this Agreement, the Sale and the Transactions shall be paid by the party incurring such fees or expenses, whether or not the Sale is consummated.

Section 6.8. Tax Matters.

(a) The Seller shall, at its own expense, prepare and file or cause to be prepared and filed all Pass-Through Tax Returns that are required to be filed by or with respect to the Company for any Pre-Closing Tax Period or Straddle Period. The Seller shall deliver to Parent copies of each such Pass-Through Tax Return at least twenty (20) days prior to the due date for filing such Pass-Through Tax Return, and shall permit Parent to review and comment on such Tax Return prior to filing and the Seller shall consider Parent's comments in good faith.

(b) The Company or any of its Subsidiaries, as applicable, shall prepare (or cause to be prepared) all Tax Returns (other than any Pass-Through Tax Return described in Section 6.8(a)) of the Company or its Subsidiaries for Pre-Closing Tax Periods. All such Tax Returns shall be prepared in a manner consistent with past practice; *provided*, that there is a reasonable basis for the positions claimed on such Tax Returns. The Company or any of its Subsidiaries, as applicable, shall deliver to Parent, in the case of any such Tax Return required to be filed on or prior to the Closing Date, or to the Seller, in the case of any such Tax Return required to be filed after the Closing Date, copies of each such Tax Return at least twenty (20) days prior to the due date for filing such Tax Return, and shall permit Parent or the Seller, as applicable, to review and approve such Tax Return prior to filing (which approval shall not be unreasonably withheld or delayed). To the extent that any such Tax Return is required to be filed on or prior to the Closing Date, the Seller shall cause the Company or any of its Subsidiaries, as applicable, to timely file such Tax Return. If any such Tax Return is required to be filed by the Company or any of its Subsidiaries after the Closing Date, Parent shall cause the Company or any of its Subsidiaries, as applicable, to timely file such Tax Return. If the parties have not resolved any dispute relating to any Tax Return governed by this Section 6.8(b) prior to the due date for filing such Tax Return, then the Seller or Parent, as applicable, shall file (or cause to be filed) such Tax Return as prepared by the Company or any Subsidiary of the Company, as applicable, but such filing shall not prejudice the rights of any party to pursue such dispute. The Company or any of its Subsidiaries, as applicable, shall timely pay (or cause to be paid) to the applicable Taxing Authority all Taxes shown to be due on any Tax Return described in this Section 6.8(b); *provided* that, with respect to any Tax Return required to be filed after the Closing Date, the Seller shall pay to Parent the amount of Taxes for which the Seller is responsible pursuant to Section 9.2(a)(iii) not later than five (5) days prior to the due date for filing such Tax Return (taking into account all extensions properly obtained), notwithstanding any dispute with respect to such Tax Return.

(c) Following the Closing, the Company or any of its Subsidiaries, as applicable, shall prepare (or cause to be prepared) and file (or cause to be filed) when due (taking into account all extensions properly obtained) all Tax Returns (other than any Pass-Through Tax Return described in Section 6.8(a)) required to be filed by or with respect to the Company or any of its Subsidiaries after the Closing Date in respect of any Straddle Period. In the case of an income Tax Return with respect to a Straddle Period, a copy thereof shall be delivered to the Seller at least twenty (20) days prior to the due date for filing such Tax Return, the Seller shall be permitted to review and approve such Tax Return prior to filing (which approval shall not be unreasonably withheld or delayed) and if the parties have not resolved any dispute relating to any such Tax Return prior to the due date for filing such Tax Return, then the Company or any of its Subsidiaries, as applicable, shall file such Tax Return as prepared, but such filing shall not prejudice the rights of any party to pursue such dispute. The Seller shall remit to Parent the amount of Taxes for which the Seller is responsible pursuant to Section 9.2(a)(iii) (taking into account Section 6.8(d)) not later than five (5) days prior to the due date for filing all Tax Returns described in this Section 6.8(c) (taking into account all extensions properly obtained), notwithstanding any dispute with respect to such Tax Return.

(d) In order to apportion appropriately any Taxes relating to Straddle Periods, the parties hereto will, to the extent permitted by applicable Law, elect with the relevant Taxing Authority to treat for all purposes the Closing Date as the last day of a taxable period of the Company and its Subsidiaries (a "**Short Period**"). In any case where applicable Law does not permit the Company or any of its Subsidiaries to treat the Closing Date as the last day of a Short Period, then for purposes of this Agreement, the portion of each Tax that is attributable to the operations of the Company or any of its Subsidiaries for the period which would have qualified as a Short Period if such election had been permitted by applicable Law (an "**Interim Period**") shall be (i) in the case of any property Tax, ad valorem Tax, or exemption, allowance or deduction that is calculated on an annual basis (including, but not limited to, depreciation and amortization deductions), the total amount of such Tax or item for the period in question multiplied by a fraction, the numerator of which is the number of days in the Interim Period, and the denominator of which is the total number of days in such Straddle Period, and (ii) in the case of any Tax or item not described in clause (i), the Tax that would be due with respect to the Interim Period if such Interim Period were a Short Period determined based upon an interim closing of the books of the Company or any of its Subsidiaries, as applicable. Notwithstanding the foregoing, any Tax attributable to actions taken or allowed by Parent on the Closing Date but after the time of Closing that are outside the ordinary course of business and are not expressly contemplated by this Agreement shall be borne by Parent and not by the Seller.

(e) Tax Contests.

(i) The Seller shall have the right to control, through counsel of its own choosing, the defense or settlement of any claim or proceeding relating to a Tax matter for a Pre-Closing Tax Period; *provided* that the Seller (i) shall keep Parent apprised of all developments relating to such claim or proceeding, (ii) shall provide Parent with copies of all correspondence from any Taxing Authority relating to any such claim or proceeding, (iii) shall provide Parent in advance with any proposed submission relating to such claim or proceeding, (iv) shall consult with Parent in good faith concerning any such submission and the conduct of the proceeding, and (v) shall not finally settle any such claim or proceeding without the prior written consent of Parent (which consent shall not be unreasonably withheld or delayed).

(ii) Parent shall have the right to control, through counsel of its own choosing, the defense or settlement of any claim or proceeding relating to a Tax matter other than for a Pre-Closing Tax Period; *provided* that, with respect to any such matter for which the Seller could be liable under the indemnification provisions hereunder, Parent (i) shall keep the Seller apprised of all developments relating to such claim or proceeding, (ii) shall provide the Seller with copies of all correspondence from any Taxing Authority relating to any such claim or proceeding, (iii) shall provide the Seller in advance with any proposed submission relating to such claim or proceeding, (iv) shall consult with the Seller in good faith concerning any such submission and the conduct of the proceeding, and (v) shall not finally settle any such claim or proceeding without the prior written consent of Seller (which consent shall not be unreasonably withheld or delayed).

(iii) In the event of any conflict between the terms of this Section 6.8(e) and Section 9.5, the terms of this Section 6.8(e) shall govern.

(f) Each party hereto agrees to co-operate fully, as and to the extent reasonably requested by the other party, in connection with the filing of any Tax Returns, any audit, litigation or other proceeding with respect to Taxes. The parties further agree, upon request, to use their commercially reasonable efforts to obtain any certificate or other document from any Taxing Authority or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed with respect to the transactions contemplated in this Agreement.

(g) Without the prior written consent of the Seller, which consent may be withheld in the sole discretion of the Seller, none of Parent, the Company, or any Subsidiary shall file any amended Pass-Through Tax Return with respect to any Pre-Closing Tax Period, unless otherwise required by applicable Law. Without the prior written consent of the Seller, which consent shall not be unreasonably withheld or delayed, none of Parent, the Company, or any Subsidiary shall file any amended Tax Return (other than a Pass-Through Tax Return) with respect to any Pre-Closing Period or any amended Tax Return with respect to the pre-Closing portion of any Straddle Period for which the Seller would reasonably expect to be liable under the indemnification provisions hereunder, unless otherwise required by applicable Law.

(h) Except to the extent included in the calculation of the Closing Date Net Working Capital, any Tax refunds actually received (in cash or through a reduction in Tax paid) by the Company or any of its Subsidiaries for any Pre-Closing Tax Period or the pre-Closing portion of any Straddle Period shall be for the account of the Seller, and any such refund (net of all out-of-pocket expenses, including Taxes, and without interest) shall be paid over to the Seller not later than five (5) business days after receipt.

Section 6.9. Related Party Transactions. Except with respect to the transactions, agreements, relationships and payments set forth on Exhibit 6.9, which shall remain in place, as of the Closing Date, all transactions, agreements, relationships and payments set forth on Section 4.21 of the Company Disclosure Schedules shall be terminated without any further obligation of the Company or any of its Subsidiaries.

Section 6.10. Post-Closing Access; Preservation of Records.

(a) On the Closing Date, the Seller shall deliver or cause to be delivered to Parent all contracts, books, records, Tax Returns, documents and files of the Company and its Subsidiaries in the possession of the Seller, including records and files stored on computer disks or tapes or any other storage medium relating to the business and operations of the Company and its Subsidiaries. From and after the Closing, Parent will make or cause to be made available to the Seller all books, records, Tax Returns and documents of the Company and its Subsidiaries relating to the period prior to the Closing during regular business hours as may be reasonably necessary for (i) investigating, settling, preparing for the defense or prosecution of, defending or prosecuting any Legal Action (other than a Legal Action between the parties to this Agreement), (ii) preparing reports to any Governmental Authority or (iii) such other purposes for which access to such documents is reasonably believed by the Seller to be necessary, including preparing and delivering any accounting or other statement provided for under this Agreement or otherwise, preparing Tax Returns or responding to or disputing any Tax audit; provided, however, that access to such books, records, Tax Returns and documents shall only be upon reasonable notice and shall not unreasonably disrupt personnel and operations of the business of the Company or its Subsidiaries and shall be at the Seller's sole cost and expense. Parent will cause the Company and its Subsidiaries to maintain and preserve all such Tax Returns, books, records and other documents for a period equal to Parent's standard retention period.

(b) From and after the Closing, the Seller will make or cause to be made available to Parent all books, records and documents of the Seller relating to the business of the Company and its Subsidiaries during regular business hours for the same purposes, to the extent applicable, as set forth in Section 6.10(a); provided, however, that access to such books, records and documents shall only be upon reasonable notice and shall not unreasonably disrupt personnel and operations of the business of the Seller and shall be at Parent's sole cost and expense. The Seller will maintain and preserve all such Tax Returns, books, records and other documents for a period equal to the Seller's standard retention period. The provisions of this Section 6.10(b) shall not affect the obligations of the Seller pursuant to Section 6.10(a) hereof.

Section 6.11. Parent's Obligations with Respect to Employee Benefits.

(a) After the Closing Date, subject to the other provisions of this Section 6.11, Parent agrees that individuals who are employees of the Company or its Subsidiaries immediately prior to the Closing ("**Continuing Employees**") shall remain on the Company's payroll system and shall be entitled to receive their current salaries and benefits under Company Benefit Plans (but excluding any benefits under the arrangements described in Section 4.12(a)(1)(c) of the Company Disclosure Schedules) until such date, as is mutually agreed upon by Parent and the Company, upon which the Company's payroll and benefits are able to be integrated with those of Parent, which shall in no case be later than ninety (90) days following the Closing (the "**Continuation Period**"). Following the end of the Continuation Period until the first anniversary following the Closing, Continuing Employees shall be entitled to receive benefits under the employee benefit plans of Parent (subject to the terms and conditions of such employee benefit plans) that are available to similarly situated employees of Parent. In addition, Parent agrees to cause the Company and its Subsidiaries to give Continuing Employees service credit for all periods of employment with the Company or any of its Subsidiaries prior to the Closing Date for purposes of vesting and eligibility under any plan adopted or maintained by the Company or its Subsidiaries after the Closing Date in which such employees participate, but only to the extent required by Law and to the extent credited under a comparable Company Plan or applicable plan of Parent; provided, however, that such service shall not be recognized under

defined benefit pension plans or to the extent that such recognition would result in any duplication of benefits. With respect to the plan year in which the Closing occurs, Parent agrees to cause the Company to (i) waive any limitations with respect to Continuing Employees regarding preexisting conditions and (ii) give full credit for any co-payments made and deductibles fully or partially satisfied prior to the Closing Date under any welfare or other applicable employee benefit plans maintained by the Company or any of its Subsidiaries after the Closing Date for the benefit of eligible Company employees, but only to the extent that such limitations were waived and credit was given under the terms of the analogous Company Plan prior to the Closing Date.

(b) During the period commencing on the date hereof and ending at the Closing, Parent and the Seller shall consult with each other before issuing any communications or making any public statements to employees of the Company or its Subsidiaries regarding the effect of this Agreement and the transactions contemplated hereby on their continued employment, and Parent and the Seller shall cooperate in good faith to determine whether any notice may be required under WARN, any successor United States federal Law, or any other applicable plant closing notification law with respect to a layoff or plant closing relating to the business of the Company or any of its Subsidiaries to employees of the Company or its Subsidiaries as a result of the transactions contemplated by this Agreement. Parent shall assume all obligations and liabilities for the provision of notice or payment in lieu of notice or any applicable penalties with respect to the Continuing Employees under such worker notification laws arising as a result of actions taken by Parent after the Closing Date, so long as the Seller provides all information arising on or prior to Closing reasonably necessary to so comply. Parent shall assume all obligations and liabilities for the provision of notice or payment in lieu of notice or any applicable penalties with respect to the employees of the Company or its Subsidiaries that are not Continuing Employees under such worker notification laws arising as a result of actions taken by Parent on, prior to, or after the Closing Date. The Seller shall retain or assume all obligations and liabilities for the provision of notice or payment in lieu of notice or any applicable penalties with respect to the employees of the Company or its Subsidiaries under such worker notification laws arising as a result of actions taken by the Seller on or prior to the Closing Date. The Seller shall promptly provide Parent with such information as is reasonably requested by Parent in order to determine whether any actions taken by the Seller prior to the Closing Date will, if aggregated with actions that may be taken by Parent or its Affiliates after the Closing Date, require the provision of notice or payment in lieu of notice to the Continuing Employees.

(c) To the extent permitted under applicable Law, the Company will permit employees of the Company and its Subsidiaries to carry over and take up to five (5) accrued or earned, but unused, vacation days or time off with pay in accordance with the applicable policies as in effect as of the date of this Agreement, to the extent such earned, but unused, vacation days and time off with pay is reflected as a current liability for purposes of the Closing Date Net Working Capital.

(d) It is understood and agreed between the parties hereto that all provisions contained in this Section 6.11 are included for the sole benefit of the respective parties hereto and do not and shall not create any right in any other person, including any employee of the Company or its Subsidiaries, any participant in any benefit or compensation plan or any beneficiary thereof. Nothing in this Section 6.11 constitutes a contract of employment or guarantees any person continued employment or particular compensation or employee benefits

after the Closing. In addition, nothing contained herein shall (i) be treated as an amendment of any benefit plan, policy or program, or (ii) give any third party any right to enforce the provisions of this Section 6.11.

Section 6.12. Director and Officer Indemnification.

(a) For six (6) years from and after the Closing, Parent shall cause the Company and its Subsidiaries to maintain indemnification provisions in its organizational documents that are no less favorable to the Managers and officers of the Company and its Subsidiaries who held any such position prior to the Closing (the "**D&O Indemnified Parties**") than those in effect with respect to the Company and the applicable Subsidiary of the Company immediately prior to the execution of this Agreement. For the avoidance of doubt, Parent's obligations under this Section 6.12 shall include the obligation to honor (or cause another of its Affiliates to honor) the Company's and its Subsidiaries' indemnification and other obligations referenced in this Section 6.12 in circumstances where the Company or the applicable Subsidiary of the Company fails to honor, or is incapable of honoring, such obligations.

(b) Parent hereby acknowledges that certain D&O Indemnified Parties may have rights to indemnification, advancement of expenses and/or insurance provided by Persons other than the Company or its Subsidiaries (collectively, the "**Indemnitors**"). Parent hereby agrees (i) that Parent, the Company, and the Company's Subsidiaries are the indemnitors of first resort (i.e., their obligations to the D&O Indemnified Parties are primary and any obligation of the Indemnitors are secondary), (ii) that Parent, the Company, and the Company's Subsidiaries shall be required to honor their respective obligations as set forth in subsection (a) above, without regard to any rights the D&O Indemnified Party may have against the Indemnitors, and (iii) that Parent, the Company, and the Company's Subsidiaries irrevocably waive, relinquish and release the Indemnitors from any and all claims against the Indemnitors for contribution, subrogation or any other recovery of any kind in respect thereof. Each of Parent, the Company, and the Company's Subsidiaries further agree that no advancement or payment by an Indemnitor on behalf of a D&O Indemnified Party with respect to any claim for which a D&O Indemnified Party has sought indemnification from the Seller, the Company or any of the Company's Subsidiaries shall affect the foregoing. The parties hereto agree the Indemnitors are express third party beneficiaries of the terms of this Section 6.12.

(c) If subsequent to the Closing, Parent, the Company, any Subsidiary of the Company, or any of their respective successors or assigns, (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity in such consolidation or merger, or (ii) transfers all or substantially all of its properties and assets to any Person, then, and in each case, proper provision shall be made so that the successors and assigns of Parent, the Company, and the Subsidiaries of the Company, as the case may be, honor the obligations set forth in this Section 6.12.

(d) The obligations of Parent, the Company and the Subsidiaries of the Company under this Section 6.12 shall not be terminated or modified in such a manner so as to adversely affect any Person to whom this Section 6.12 applies without the prior written consent of such affected Person.

(e) The provisions of this Section 6.12 shall survive the Closing and are intended to be for the benefit of, and will be enforceable by, each of the Person to whom this Section 6.12 applies and their respective successors, assigns and heirs.

Section 6.13. Veridicus Name. Seller acknowledges that as between Seller and its Affiliates, on the one hand, and Parent and its Affiliates, on the other, from and after the Closing, Parent and/or its Affiliates have the absolute and exclusive proprietary right to all names, tradenames, trademarks, service names and service marks incorporating the word "Veridicus." Seller shall not, and shall cause its Affiliates not to use the word "Veridicus" or any derivation thereof and any corporate symbols or logos related thereto in connection with the offer or sale of any goods or services or otherwise in the conduct of its or their businesses; provided, however, that, the Seller and its Affiliates may continue to use the Veridicus name to the extent existing as of Closing, in connection with signage, invoices, purchase orders, letterhead, business cards, stationery, promotional brochures, and other promotional correspondence (not including domain names or websites), in each case for a reasonable time, not to exceed three (3) months after Closing. Within ten (10) days following the Closing Date, Seller shall, and shall cause its Affiliates to, make all filings with the appropriate Governmental Authorities and take such other actions as may be necessary to change the corporate name of the Seller and each of its Affiliates to a name that does not include the word "Veridicus" or any word confusingly similar thereto.

Section 6.14. Change In Control Customer Contracts. The Company shall, prior to the Closing Date, (i) notify each third party to the Change In Control Customer Contracts listed on Section 4.14(b) of the Company Disclosure Schedules of the Transactions and (ii) request and receive a waiver, if required, of any termination rights arising as a result of the Transactions from each such party.

Section 6.15. Access to Insurance. With respect to any claim, act, omission, event, circumstance, occurrence or Loss that occurred or existed before the Closing Date, whether known or unknown as of the time of Closing, that would be covered in respect of the Company or any of its Subsidiaries by "occurrence-based" insurance policies maintained by the Seller and/or its Affiliates as of the time of the Closing, (the "**Available Insurance Policies**"), the Company and its Subsidiaries may, at their option, access, make claims on, claim benefits from or seek coverage under such Available Insurance Policies, on the terms and subject to the conditions of such Available Insurance Policies. The Seller and its Affiliates will provide the Company such information and other reasonable cooperation and assistance as may be necessary to implement the provisions of this Section 6.15.

Section 6.16. Updated Information Regarding Customers and Suppliers. As promptly as practicable after the date hereof, but in no event later than five (5) business days prior to the Closing Date, the Seller shall cause the Company to deliver to Parent a list of the top ten (10) customers and the top ten (10) suppliers of the Company and its Subsidiaries, showing the approximate total sales by the Company and its Subsidiaries to each such customer and the approximate total purchases by the Company and its Subsidiaries from each such supplier, during the twelve (12)-month period ending as of the end of the month preceding the date hereof.

Section 6.17. Performance Guarantee Payment. The Seller shall cause the Company to pay on or prior to the Closing Date the performance guaranty payment due and owing through the Closing Date pursuant to that certain Pharmacy Services Management

Agreement, dated April 1, 2015, by and between VRx, LLC and Electrical Workers Health and Welfare Trust (the "IBEW Contract"). The Seller also shall be responsible for (and promptly reimburse VRx, LLC for the making of) any further performance guarantee payment due and owing through the Closing Date pursuant to the IBEW Contract for the period commencing on the Closing Date and ending sixty (60) days thereafter.

ARTICLE VII
Conditions Precedent

Section 7.1. Conditions to Each Party's Obligation to Effect the Sale. The respective obligations of each party hereto to effect the Sale and consummate the other Transactions shall be subject to the satisfaction (or waiver, if permissible under applicable Law) on or prior to the Closing Date of the following conditions:

(a) Certain Regulatory Consents. Parent shall have obtained the Governmental Authority consents identified on Schedule 5.3 hereto; and

(b) No Injunctions or Restraints. No Law, injunction, order, judgment or ruling enacted, promulgated, issued, entered, amended or enforced by any Governmental Authority, and no arbitration award, enjoining, restraining, preventing or prohibiting consummation of the Sale or making the consummation of the Sale illegal (collectively, "**Restraints**") shall be in effect.

Section 7.2. Conditions to Obligations of Parent. The obligations of Parent to effect the Sale and consummate the other Transactions are further subject to the satisfaction (or waiver, if permissible under applicable Law) on or prior to the Closing Date of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Company and the Seller contained in this Agreement including, in the Company Disclosure Schedules, that are qualified as to materiality shall be true and correct, and the representations and warranties of the Company contained in this Agreement that are not so qualified shall be true and correct in all material respects, in each case as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date, except to the extent such representations and warranties expressly state that they are as of an earlier date in which case as though made as of such earlier date.

(b) Performance of Obligations of the Company and the Seller. The Company and the Seller shall have performed in all material respects all obligations required to be performed by them under this Agreement at or prior to the Closing Date.

(c) No Company Material Adverse Effect. No Material Adverse Effect has occurred since the date of this Agreement with respect to the Company.

(d) No Litigation, Etc. There shall not be any action, investigation, proceeding or litigation instituted, commenced or pending by or before any Governmental Authority or arbitrator that would, or that seeks to or is reasonably likely to, (i) restrain, enjoin, prevent, prohibit or make illegal the acquisition of some or all of the Interests by Parent or the consummation of the Sale or the other Transactions, (ii) impose limitations on the ability of

Parent or its Affiliates effectively to exercise full rights of ownership of all Interests following Closing, (iii) restrain, enjoin, prevent, prohibit or make illegal, or impose limitations on, Parent's or any of its Affiliates' ownership or operation of all or any material portion of the businesses, properties and assets of the Company and its Subsidiaries, (iv) as a result of the Transactions, restrain, enjoin, prevent, prohibit or make illegal, or impose limitations on, any portion of the businesses or assets of Parent or any of its Subsidiaries, (v) result in a Governmental Investigation being commenced or continued after the Closing or in Governmental Damages being imposed on the Company, the Seller or Parent or any of their respective Affiliates, or (vi) as a result of the Transactions, compel Parent or any of its Affiliates to dispose of any Interests or to dispose of or hold separate any material portion of the business or assets of the Company or any portion of the businesses or assets of Parent and its Subsidiaries. As used herein, (i) "**Governmental Damages**" shall mean (A) any penalties or fines paid or payable to a Governmental Authority or (B) any restitution paid or payable to a third party, in either case as a result of the (x) conviction (including as a result of the entry of a guilty plea, a consent judgment or a plea of nolo contendere) of the Company of a crime or (y) a settlement with a Governmental Authority for the purpose of closing a Governmental Investigation; *provided*, *however*, that any de minimis penalties, fines or payments shall not be deemed to be Governmental Damages; and (ii) "**Governmental Investigation**" shall mean an investigation by a Governmental Authority for the purpose of imposing criminal sanctions.

(e) Required Third Party Consents. The Company shall have obtained all consents, waivers and approvals, and given all of the notices, required under the Change In Control Customer Contracts and identified in Section 7.2(e) of the Company Disclosure Schedules, each such consent, waiver and approval is in form and substance reasonably satisfactory to Parent and does not require as a term thereof or condition thereto satisfaction of any adverse condition or requirement on the conduct of business by the Company, Parent or any of its Subsidiaries.

(f) Regulatory Consents. The Company and the Seller shall have obtained all required regulatory consents, waivers and approvals, and given all notices to Governmental Authorities, identified on Section 7.2(f) of the Company Disclosure Schedules.

(g) Employment Agreements; Non-Competition and Non-Solicitation Agreements. Each Employment Agreement shall be in full force and effect, and each individual a party thereto shall be able and willing, as of the Closing, to serve as an employee of the Company pursuant to his or her Employment Agreement. Each Non-Competition and NonSolicitation Agreement and Non-Solicitation Agreement shall be in full force and effect.

(h) FIRPTA Certificate. Parent shall have received an affidavit of non-foreign status satisfying the requirements of Section 1445 of the Code from the Seller.

(i) Requisite Approval. The Requisite Approval shall have been delivered to Parent and shall remain in full force and effect as of the Closing.

(j) Resignations and Releases. Parent shall have received fully executed resignations and releases, in form and substance reasonably satisfactory to Parent, from each director, Manager and officer of the Company and its Subsidiaries, resigning from any and all positions previously held with the Company and its Subsidiaries and releasing the Company,

Parent and their respective Affiliates from any and all liability arising with respect to pre-Closing matters.

(k) Assignment of Interests. The Seller shall have executed and delivered to Parent an assignment of Interests, in form and substance reasonably satisfactory to Parent.

(l) Change In Control Customer Contracts. The Company shall have (i) notified each third party to the Change In Control Customer Contracts listed on Section 4.14(b) of the Company Disclosure Schedules of the Transactions and (ii) received a waiver, if required, of any termination rights arising as a result of the Transactions from each such party.

(m) Company Contracts. Each of (i) the DMBA Customer Contract, (ii) any one or more other Customer Contracts that individually or in the aggregate generate five percent (5%) or more of the consolidated revenues of the Company and its subsidiaries (on either an annualized basis for 2016 or an actual basis for 2015) and (iii) each Manufacturer Contract in existence on the date hereof shall be in full force and effect, no material default on the part of the Company (or any of its Subsidiaries) or any counterparty thereto shall be in effect in respect of any such Contract, and none of the Company, any of its Subsidiaries, the Seller or Parent shall have received notice of any Person's intent to terminate any such Contract or change in any material respect its business dealings with the Company pursuant to any such Contract.

(n) Certification of Closing Conditions. Parent shall have received a certificate signed by the Seller, each in form and substance reasonably satisfactory to Parent, dated the Closing Date, to the effect that each of the conditions specified above in Sections 7.2(a) through (m) have been satisfied.

(o) Granite Agreement. The Granite Agreement shall be in full force and effect and shall not have been terminated by any party thereto pursuant to its terms.

(p) Release of Liens. (i) The Bank Lender shall have released and terminated the applicable Liens and security interests in its favor on the assets of the Company and its Subsidiaries, subject only to receipt of the payments referenced in Section 2.1(a)(v) and (ii) all other Persons (including McKesson) who have been granted a Lien (other than a Permitted Lien) on or s security interest in the assets of the Company and/or its Subsidiaries that remains in existence as of the date hereof shall have been released and terminated.

(q) Other Assignments, etc. Parent shall have received fully executed copies of the consents, waivers, assignments and approvals listed on Section 7.2(q) of the Company Disclosure Schedules.

Section 7.3. Conditions to Obligation of the Seller. The obligation of the Seller to effect the Sale and consummate the other Transactions is further subject to the satisfaction (or waiver, if permissible under applicable Law) on or prior to the Closing Date of the following conditions:

(a) Representations and Warranties. The representations and warranties of Parent contained in this Agreement that are qualified as to materiality or Material Adverse Effect shall be true and correct, and the representations and warranties of Parent contained in this Agreement that are not so qualified shall be true and correct in all material respects, in each case

as of the date of this Agreement and as of the Closing Date as though made on the Closing Date, except to the extent such representations and warranties expressly relate to an earlier date, in which case as of such earlier date, and the Seller shall have received a certificate signed on behalf of Parent by an executive officer of Parent to such effect.

(b) Performance of Obligations of Parent. Parent shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing Date and the Seller shall have received a certificate signed on behalf of Parent by an executive officer of Parent to such effect.

(c) Certification of Closing Conditions. The Seller shall have received a certificate signed by an executive officer of Parent duly authorized to execute such instrument in form reasonably satisfactory to the Seller, dated the Closing Date, to the effect that each of the conditions specified in Section 7.3(a) and Section 7.3(b) has been satisfied.

Section 7.4. Frustration of Closing Conditions. Neither the Seller nor Parent may rely on the failure of any condition set forth in Section 7.1, 7.2 or 7.3, as the case may be, to be satisfied as grounds for its not consummating the Sale when otherwise required hereunder if such failure was caused by such party's failure to use its commercially reasonable efforts to consummate the Sale and the other Transactions, as required by and subject to the provisions of Section 6.3.

ARTICLE VIII
Termination

Section 8.1. Termination. This Agreement may be terminated and the Transactions abandoned at any time prior to the Closing:

(a) by the mutual written consent of the Seller and Parent; or

(b) by either of the Seller or Parent:

(i) if the Sale shall not have been consummated on or before December 31, 2016 (the "**Walk-Away Date**"); *provided* that the right to terminate this Agreement under this Section 8.1(b)(i) shall not be available to a party if the failure of the Sale to have been consummated on or before the Walk-Away Date was primarily due to the failure of such party to perform any of its obligations under this Agreement; or

(ii) if there shall be a final nonappealable order of a Governmental Authority preventing consummation of the Sale or there shall be any Law enacted or deemed applicable to the Sale that makes consummation of the Sale illegal; or

(c) by Parent:

(i) if the Company or the Seller shall have breached any of its representations or warranties (or if any of the representations or warranties of the Company or the Seller set forth in this Agreement shall fail to be true and correct) or if the Company or the Seller has breached or failed to perform or adhere to any of its covenants or agreements set forth in this Agreement, which breach or failure (A) would

give rise to the failure of a condition set forth in Section 7.2(a) or (b) and (B) is not cured by the Company or the Seller, as applicable, within ten (10) days following receipt of written notice from Parent of such breach or failure or is incapable of being cured before the Walk-Away Date;

(ii) if a Material Adverse Effect has occurred since the date of this Agreement with respect to the Company; or

(iii) if the Granite Agreement shall have been terminated by any party thereto in accordance with its terms.

(d) by the Company or the Seller if Parent shall have breached any of its representations or warranties (or if any of the representations or warranties of Parent set forth in this Agreement shall fail to be true and correct) or if Parent has breached or failed to perform or adhere to any of its covenants or agreements set forth in this Agreement, which breach or failure (A) would give rise to the failure of a condition set forth in Section 7.3(a) or (b) and (B) is not cured by Parent within ten (10) days following receipt of written notice from the Company or the Seller of such breach or failure or is incapable of being cured before the Walk-Away Date.

Section 8.2. Limitation on Right of Termination. Notwithstanding anything in Section 8.1 to the contrary, no party may terminate this Agreement (other than pursuant to Section 8.1(a)) if its failure to perform in any material respect any of its obligations or covenants, or the inaccuracy of any of its representations or warranties, under this Agreement has been the principal cause of, or has directly resulted in, the event or condition purportedly giving rise to a right to terminate this Agreement.

Section 8.3. Effect of Termination. If this Agreement is terminated in accordance with Section 8.1, this Agreement shall immediately become void and of no further force and effect, without any Liability on the part of any party hereto, except for the provisions of Section 6.4, Section 6.5, Section 10.5, Section 10.6 and Section 10.8 which shall survive termination of this Agreement; provided that nothing herein shall relieve any party from any Liability resulting from fraud or any willful breach of this Agreement prior to such termination.

ARTICLE IX
Survival of Representations, Warranties and Covenants; Indemnification

Section 9.1. Survival of Representations, Warranties and Covenants. The representations and warranties of Parent contained in this Agreement and the Fundamental Representations (other than the representations and warranties of the Company set forth in Section 4.11 (Taxes) and Section 4.19 (Health Care Regulatory Compliance)) shall survive the Closing until the third anniversary of the Closing Date. The representations and warranties of the Company and the Seller contained in this Agreement (other than the Fundamental Representations) shall survive the Closing until the sixteen (16) month anniversary of the Closing Date, *provided*, *however*, that the representations and warranties of the Company set forth in Section 4.11 (Taxes) and Section 4.19 (Health Care Regulatory Compliance) shall survive the Closing until ninety (90) days following the expiration of the applicable statute of limitations. The termination of the representations and warranties provided herein shall not affect the rights of a party in respect of any claim made by such party in a writing received by the other party prior to the expiration of the applicable survival period provided herein. All agreements

and covenants contained herein which by their terms contemplate actions or impose obligations following the Closing shall survive the Closing and remain in full force and effect in accordance with their terms.

Section 9.2. Right to Indemnification.

(a) Subject in all cases to the limits on indemnification in this Article IX, subsequent to the Closing, the Seller (the "**Indemnifying Parties**") shall indemnify Parent, its Affiliates (including the Company and its Subsidiaries), and each of their respective Managers, directors, officers, employees, contractors agents or stockholders and other Representatives ("**Parent Indemnified Parties**") against, and hold each of the Parent Indemnified Parties harmless from, any Losses arising out of or from:

(i) the failure of any representation or warranty of the Company or the Seller in this Agreement to be true and correct as of the date hereof and as of the Closing Date, or if expressly made as of an earlier date, as of such date (without giving effect to any materiality or similar qualification contained or incorporated directly or indirectly in any representation or warranty, other than as set forth in Section 4.6(a) and the first sentence of Section 4.8);

(ii) the breach of any agreement, covenant or obligation of the Company (prior to the Closing) or the Seller set forth in this Agreement;

(iii) (A) any Taxes (or the non-payment thereof) of the Company or any of its Subsidiaries (or for which the Company or any of its Subsidiaries could otherwise be liable) for all Pre-Closing Tax Periods (including Taxes attributable to the portion of any Straddle Period ending on the Closing Date and including any Taxes arising by reason of the transactions contemplated hereby or the Closing itself), and (B) Taxes imposed on the Company or any of its Subsidiaries by reason of the application of Treasury Regulation Section 1.1502-6(a) (or any analogous or similar provision of Law) as a result of being a member of a consolidated, combined or unitary group of entities on or before the Closing Date; and

(iv) any Losses in excess of $100,000 that may be experienced by a Parent Indemnified Party (i) arising from fines or penalties imposed by any Governmental Authority as a result of the failure of the Company to have a business associate agreement with a vendor with whom the Company exchanges personal health information ("**PHI**") during any period prior to Closing, or (ii) due to the failure, on or prior to the Closing Date, of any vendor to which the Company has transmitted on or prior to the Closing Date PHI without a business associate agreement to comply with HIPAA.

(b) Parent shall indemnify the Seller against, and hold the Seller harmless from, any Losses actually paid to third parties or incurred by the Seller that are incident or related to or arise out of or in connection with:

(i) the failure of any representation or warranty of Parent in this Agreement to be true and correct as of the date hereof and as of the Closing Date, or if expressly made as of an earlier date, as of such date; and

(ii) the breach of any agreement, covenant or obligation of the Company (after the Closing) or Parent set forth in this Agreement.

Section 9.3. Escrow; Threshold; Limitations on Indemnity.

(a) Notwithstanding anything to the contrary contained in this Agreement:

(i) The maximum Liability of the Seller under Section 9.2(a)(i) (except in respect of the Fundamental Representations) shall be an amount equal to the sum of (i) the Indemnity Escrow Amount and (ii) the Granite Escrow Amount. The sole and exclusive source of recovery of the Parent Indemnified Parties pursuant to Section 9.2(a)(i) (except in respect of the Fundamental Representations) shall be the Escrow Fund and the Granite Escrow Fund, and no Parent Indemnified Party shall have any recourse against the Seller, any of the Seller's Affiliates, or any other Person in respect of any Losses or claims for indemnification pursuant to Section 9.2(a)(i) (except in respect of the Fundamental Representations). For the avoidance of doubt, the limitations set forth in this Section 9.3(a)(i) shall not apply to any claims for indemnification under Section 9.2(a)(ii) – Section 9.2(a)(iv).

(ii) The amount in the Escrow Fund shall be released to the Seller, as follows on the date that is five (5) business days following the sixteen (16) month anniversary of the Closing Date (the "**Release Date**"): the difference, if positive, obtained by subtracting from the remaining funds in the Escrow Fund an amount equal to the aggregate amount of unsatisfied claims for Losses of Parent Indemnified Parties under Section 9.2(a)(i) – Section 9.2(a)(iv) of this Agreement properly made on or prior to the Release Date in accordance with the provisions of this Article IX and the Escrow Agreement and under the analogous provisions of the Granite Agreement properly made on or prior to the release date in accordance with the provisions of the Granite Agreement. Further, from and after the Release Date, to the extent that (A) any amounts have been withheld in respect of such unsatisfied claims and (B) the applicable underlying claims are resolved in favor of the Indemnifying Parties, such amounts shall be promptly released to the Seller in accordance with this Agreement and the Escrow Agreement.

(iii) The Parent Indemnified Parties shall have no right to indemnification pursuant to Section 9.2(a)(i) and no payment from the Escrow Fund and the Granite Escrow Fund with respect to any Losses otherwise payable under Section 9.2(a)(i) of this Agreement or Section 9.2(a)(i) of the Granite Agreement shall be made until such time as all such Losses (together with up to $100,000 in Losses under Section 9.2(a)(iv) (without giving effect to the $100,000 limitation set forth therein)) shall aggregate to more than $500,000 (the "**Deductible**"), after which time the Parent Indemnified Parties shall be entitled to be indemnified against and compensated and reimbursed only for the amount of such aggregate Losses under Section 9.2(a)(i) of this Agreement or Section 9.2(a)(i) of the Granite Agreement that exceed the Deductible; *provided*, that the Deductible shall not apply to any Losses related to the failure of any of the Fundamental Representations to be true and correct. For the avoidance of doubt, the Deductible shall not apply to any claims for indemnification under Section 9.2(a)(ii) – Section 9.2(a)(iv).

(iv) In no event shall the Seller be liable for any amounts otherwise due and owing under or in respect of this Agreement in excess of the Purchase Price actually received by the Seller.

(v) No payment from the Escrow Fund and the Granite Escrow Fund with respect to any particular Loss otherwise payable under Section 9.2(a)(i) shall be payable unless such Loss (including any series of related Losses) equals or exceeds $25,000 (the "**De Minimis Threshold**"); *provided*, that the De Minimis Threshold shall not apply to any Losses related to the failure of any of the Fundamental Representations to be true and correct. For avoidance of doubt, the De Minimis Threshold shall not apply to any claims for indemnification under Section 9.2(a)(ii) – Section 9.2(a)(iv).

(b) Sole and Exclusive Remedy. Absent willful and knowing fraud committed by the Company and the Seller, the indemnification provisions contained in this Article IX are intended to provide the sole and exclusive remedy following the Closing as to all money damages for any action arising out of the subject matter of this Agreement (it being understood that nothing in this Section 9.3(b) or elsewhere in this Agreement shall affect the parties' rights to specific performance or other equitable remedies to enforce the parties' obligations under this Agreement).

Section 9.4. No Right of Contribution. After the Closing, the Indemnifying Parties shall have no right of contribution against Parent or the Company for any breach of any representation, warranty, covenant or agreement of the Company or the Seller.

Section 9.5. Indemnification Procedures.

(a) Indemnification Notices. In order to obtain indemnity in respect of a Loss as provided by Section 9.2, a Parent Indemnified Party shall give an "**Indemnification Notice**" to the Seller. For the purposes hereof, an "**Indemnification Notice**" shall mean a notice signed by any officer of Parent and delivered to the Seller and (i) stating that Parent has paid, incurred, sustained or accrued, or reasonably anticipates that it will be obligated to pay, incur, sustain or accrue, a Loss against which it is entitled to indemnification hereunder, (ii) specifying in reasonable detail the nature of such Loss (including the calculation thereof or the basis for estimation thereof), the date insofar as practicable such Loss was paid or is expected to be incurred, sustained or accrued or the basis on which it anticipates incurring, sustaining or accruing such Loss, and the nature of the misrepresentation, breach of warranty or covenant, Tax matter or other matter resulting in such Loss or out of which such Loss arose or to which such Loss relates, and (iii) specifying the amount of cash to be delivered to Parent (for the benefit of the pertinent Parent Indemnified Party) as indemnity against each such Loss. If a Loss is anticipated but not yet incurred, sustained or accrued at the time an Indemnification Notice is given, an additional Indemnification Notice shall be given providing such information regarding the Loss incurred, sustained or accrued as was not included in an earlier Indemnification Notice. In the case where a Parent Indemnified Party other than Parent shall seek to obtain the indemnity provided by Section 9.2, Parent shall give an appropriate Indemnification Notice on behalf of such Parent Indemnified Party, *provided*, that such Parent Indemnified Party has provided to Parent such information as Parent may reasonably request for such purpose.

(b) Third-Party Claims.

(i) Parent shall give the Seller written notice (a "**Third Party Claim Notice**," which may be part of an Indemnification Notice) of any claim, assertion or action by or in respect of a third party, including any civil, criminal, administrative, regulatory, investigative or arbitral proceeding (a "**Third Party Claim**"), as to which a Parent Indemnified Party may request indemnification hereunder or as to which the Deductible may be applied as soon as is practicable and in any event within fifteen (15) days of the time that such Parent Indemnified Party learns of such Third Party Claim; *provided, however*, that the failure to so notify the Seller shall not affect the rights of the Parent Indemnified Party to indemnification hereunder except to the extent that the Seller (as such) is actually prejudiced by such failure. The Seller shall have the right, at its sole option and expense, to assume control of the defense of any Third Party Claim that relates to any Losses with respect to which the Seller has acknowledged in writing its obligation to provide indemnification for hereunder, and to employ counsel of its choosing in connection therewith, which counsel shall be reasonably satisfactory to Parent; *provided, however*, that the Seller shall not be entitled to assume the defense of any Third Party Claim (unless otherwise consented to in writing by Parent) if (A) the Third Party Claim relates to or arises in connection with an action, suit, proceeding or claim that is criminal in nature or being brought by a Governmental Authority, (B) the Third Party Claim seeks an injunction restricting the conduct of the Company's business, (C) the Third Party Claim has a reasonable likelihood of resulting in Losses that would exceed the remaining balance of the Escrow Fund, or (D) the Third Party Claim involves as a claimant a customer, client or supplier of Parent, the Company or any of their respective Affiliates.

(ii) The Seller shall have thirty (30) days after receipt of a Third Party Claim Notice (or such shorter period of time as may be necessitated by the nature of such Third Party Claim and specified in the Third Party Claim Notice) to notify Parent if the Seller will assume the defense of such Third Party Claim. If the Seller has the right to and elects to assume the defense of any Third Party Claim (or Parent has consented to the Seller's assumption of such defense), (A) Parent shall have the right, but not the obligation, to participate in the defense of such Third Party Claim and to employ separate counsel of its choosing at Parent's expense; *provided, however*, that the fees and expenses of separate counsel retained by Parent shall be paid out of the Escrow Fund if (x) Parent shall have reasonably concluded that a conflict or potential conflict exists between Parent and the Seller or the Seller, or (y) Parent assumes the defense of a Third Party Claim after the Seller has failed to diligently pursue such Third Party Claim; and (B) the Seller shall (w) conduct the defense of such Third Party Claim with reasonable diligence and keep Parent reasonably informed of material developments in the Third Party Claim at all stages thereof, (x) promptly submit to Parent copies of all pleadings, responsive pleadings, motions and other similar legal documents and papers received or filed in connection therewith, (y) permit Parent and its counsel to confer on the conduct of the defense thereof and (z) permit Parent and its counsel an opportunity to review all legal papers to be submitted prior to their submission.

(iii) Any compromise, settlement or offer of settlement of any Third Party Claim by the Seller shall require the prior written consent of Parent, which consent shall not be unreasonably withheld, conditioned or delayed. Any compromise, settlement or offer of settlement of any Third Party Claim by Parent or any of its Affiliates shall require the prior written consent of the Seller, which consent shall not be unreasonably withheld, conditioned or delayed.

(iv) If the Seller fails to notify Parent within thirty (30) days after receipt of a Third Party Claim Notice of its assumption of such Third Party Claim, Parent shall be entitled to assume the defense of such Third Party Claim with the expenses of such defense to be paid out of the Escrow Fund, *provided, however*, that the Seller may participate in the defense of such Third Party Claim (with the same rights of Parent as are set forth in clause (ii)(B) above) with its own counsel at the expense of the Seller.

(c) Resolution of Conflicts; Arbitration.

(i) If the Seller shall object in writing to any claim or claims for indemnification made in any Indemnification Notice within thirty (30) days after delivery of such Indemnification Notice, then the Seller and Parent shall attempt in good faith to agree upon the rights of the respective parties with respect to each of such claims. If the Seller and Parent should so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties.

(ii) If no such agreement can be reached after good faith negotiation within sixty (60) days after delivery of an Indemnification Notice, either Parent or the Seller may demand arbitration of the matter in accordance with the following provisions of this Section 9.5 unless the amount of the Loss is at issue in pending litigation or arbitration with a third party, in which event arbitration shall not be commenced until such amount is ascertained or both parties agree to arbitration. If such dispute is subject to arbitration, it shall be settled by arbitration conducted in accordance with the rules and procedures then in effect of the American Arbitration Association by one arbitrator mutually agreeable to Parent and the Seller. In the event that, within thirty (30) days after submission of any dispute to arbitration, Parent and the Seller cannot mutually agree on one arbitrator, then, within thirty (30) days after the end of such thirty (30) day period, Parent and the Seller shall each select one arbitrator. The two arbitrators so selected shall select a third arbitrator. If one party but not the other fails to select an arbitrator during this fifteen (15) day period, then the parties agree that the arbitration will be conducted by the one arbitrator selected by the party which has made such a selection.

(iii) Any such arbitration shall be held in Phoenix, Arizona. The arbitrator shall determine how all expenses relating to the arbitration shall be paid, including the respective expenses of each party, the fees of each arbitrator and the administrative fee of the American Arbitration Association. The arbitrator or arbitrators, as the case may be, shall set a limited time period and establish procedures designed to reduce the cost and time for discovery while allowing the parties an opportunity, adequate in the sole judgment of the arbitrator or majority of the three arbitrators, as the case may be, to discover relevant information from the opposing parties about the subject matter of the dispute. The arbitrator, or a majority of the three arbitrators, as the case may be, shall rule upon motions to compel or limit discovery and shall have the authority to impose sanctions, including attorneys' fees and costs, to the same extent as a competent court of law or equity, should the arbitrators or a majority of the three arbitrators, as the case may be, determine that discovery was sought without substantial justification or that discovery was refused or objected to without substantial justification. The decision of the arbitrator or a majority of the three arbitrators, as the case may be, as to the validity and amount of any claim for indemnification made in an Indemnification Notice shall be final, binding, and conclusive upon the parties to this Agreement. Such decision shall be written and shall be supported by written findings of fact and conclusions which shall set forth the award, judgment,

decree or order awarded by the arbitrator(s). Judgment upon any award rendered by the arbitrator(s) may be entered in any court having jurisdiction.

(iv) The foregoing arbitration provision shall apply to any dispute between the Seller and a Parent Indemnified Party under this Article IX.

Section 9.6. Mitigation. The Parent Indemnified Parties shall use commercially reasonable efforts to mitigate all Losses (other than Losses relating to Taxes) for which such Parent Indemnified Parties are entitled or may be entitled to indemnification under this Article IX, and no Parent Indemnified Party shall be entitled to indemnification for any Losses to the extent directly caused by such Parent Indemnified Party's failure to mitigate such Losses.

Section 9.7. No Duplication. Notwithstanding anything contained in this Agreement to the contrary, any amounts payable pursuant to the Adjustment Amount, the ReCalculated Net Working Capital Adjustment Amount, or the indemnification obligations under this Article IX shall be paid without duplication, and in no event shall any party to this Agreement be indemnified or otherwise made whole under different provisions of this Agreement for the same Loss.

Section 9.8. Insurance. The Indemnifying Parties shall make any indemnification payments determined to be payable to the Parent Indemnified Parties hereunder without regard to any expectation that the Parent Indemnified Parties will recover insurance proceeds as a result of the matter giving rise to the claim for which indemnification payments are to be made. The Parent Indemnified Party shall use its commercially reasonable efforts to recover insurance proceeds from any insurance policy held by the Company or its Subsidiaries in respect of periods for which coverage was fully paid by the Company or its Subsidiaries, as the case may be, as of the Closing Date (a "**Pre-Closing Insurance Policy**") that may be available to it as a result of the matter giving rise to any indemnification claim of the Parent Indemnified Party; *provided* that such efforts shall not be a condition precedent to the ability of the Parent Indemnified Party to seek indemnification hereunder. If the Parent Indemnified Party receives any insurance proceeds from a Pre-Closing Insurance Policy as a result of the matter giving rise to any indemnification claim of such Indemnified Party prior to the date upon which the Indemnifying Party is given notice of such claim, then the Indemnifying Party's indemnification obligation with respect to such claim shall be reduced by the amount of any such insurance proceeds actually received by the Parent Indemnified Party (after deducting from the amount of proceeds so received the aggregate amount of expenses, if any, incurred by the Parent Indemnified Party in procuring such proceeds, and any related increases in insurance premiums or other charge-backs). If the Parent Indemnified Party receives any insurance proceeds from a Pre-Closing Insurance Policy as a result of the matter giving rise to any indemnification claim against the Indemnifying Party after the Indemnifying Party or any guarantor has paid such indemnification claim to an Indemnified Party, then the Parent Indemnified Party shall promptly turn over any such insurance proceeds received to the Indemnifying Party to the extent of the payments made by the Indemnifying Party or any guarantor to the Parent Indemnified Party on the claim (after deducting from the amount of proceeds so received the aggregate amount of expenses, if any, incurred by the Parent Indemnified Party in procuring such proceeds and any related increases in insurance premiums or other charge-backs).

Section 9.9. Tax Treatment of Indemnity Payments. Any indemnity payment made pursuant to this Article IX shall be treated as an adjustment to the Purchase Price for federal, state, local provincial or foreign income tax purposes unless a contrary treatment is required under applicable Law.

ARTICLE X
Miscellaneous

Section 10.1. Amendment or Supplement. At any time prior to the Closing, this Agreement may be amended or supplemented in any and all respects, by written agreement of the parties hereto, authorized by action taken by their respective Boards of Directors or equivalent body, if applicable.

Section 10.2. Extension of Time, Waiver, Etc. At any time prior to the Closing, any party may, subject to Section 10.1 and applicable Laws, (a) waive any inaccuracies in the representations and warranties of any other party hereto, (b) extend the time for the performance of any of the obligations or acts of any other party hereto or (c) waive compliance by the other party with any of the agreements contained herein or, except as otherwise provided herein, waive any of such party's conditions. Notwithstanding the foregoing, no failure or delay by the Company, the Seller or Parent in exercising any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right hereunder. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

Section 10.3. Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, in whole or in part, by operation of applicable Laws or otherwise, by any of the parties without the prior written consent of the other parties, except that (i) Parent may assign or delegate any or all of its rights or obligations under this Agreement to one or more Affiliates of Parent (provided that Parent shall remain liable for its obligations hereunder) and (ii) any party hereto may assign its right to receive a payment entitled to be received by it pursuant to this Agreement. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties hereto and their respective successors and permitted assigns. Any purported assignment not permitted under this Section 10.3 shall be null and void.

Section 10.4. Counterparts. This Agreement may be executed in counterparts (each of which shall be deemed to be an original but all of which taken together shall constitute one and the same agreement) and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties (including by facsimile or via portable document format (.pdf)).

Section 10.5. Entire Agreement; No Third-Party Beneficiaries. This Agreement (which term shall be deemed to include the exhibits and schedules hereto and the other certificates, documents and instruments delivered hereunder), the Company Disclosure Schedules and the Confidentiality Agreement (a) constitute the entire agreement, and supersede all other prior agreements and understandings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof and thereof and (b) except as expressly set forth

herein, are not intended to and shall not confer upon any Person other than the parties hereto any rights or remedies hereunder.

Section 10.6. Governing Law; Jurisdiction; Waiver of Jury Trial.

(a) Subject to Section 9.5(c) hereof, this Agreement and its negotiation, execution, performance or non-performance, interpretation, termination, construction and all claims or causes of action (whether in contract or tort) that may be based upon, arise out of, or relate to this Agreement, or the negotiation and performance of this Agreement (including any claim or cause of action based upon, arising out of or related to any representation or warranty made in connection with this Agreement or as an inducement to enter this Agreement), shall be governed by, and construed in accordance with, the laws of the State of Delaware regardless of Laws that might otherwise govern under any applicable conflict of laws principles.

(b) Each of the parties hereto (on behalf of itself and its Subsidiaries) hereby knowingly, intentionally and voluntarily irrevocably waives any and all rights to trial by jury in any legal proceeding arising out of or related to this Agreement or the Transactions.

Section 10.7. Specific Enforcement. The Seller and Parent agree that irreparable damage would occur and that the parties would not have an adequate remedy at law in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the Seller and Parent shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any Arizona state court or any federal court of competent jurisdiction located in Phoenix, Arizona without proof of actual damages or otherwise, and without any bond or other security being required of it therefor, this being cumulative and not exclusive and in addition to any other remedy to which they are entitled at law or in equity.

Section 10.8. Consent to Jurisdiction. Subject to Section 9.5(c) hereof, each of the parties hereto (i) expressly and irrevocably consents to submit itself to the personal jurisdiction of any Arizona state court or any federal court located in Phoenix, Arizona (and each appellate court located in Phoenix, Arizona) with respect to any action or proceeding arising out of any dispute pertaining to this Agreement or any of the Transactions, (ii) agrees that services of any process, summons, notice or document by U.S. mail addressed to him at the address set forth in Section 10.9 shall constitute effective service of such process, summons, notice or document for purposes of any such action or proceeding, (iii) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, (iv) agrees that it will not bring any action relating to this Agreement or any of the Transactions in any other court (and any appropriate court for the prosecution of any appeal from or against any decision or action thereof), (v) agrees that the Arizona state court and federal court located in Phoenix, Arizona, shall be deemed to be a convenient forum, and (vi) agrees not to assert (by way of motion, as a defense or otherwise), in any such action or proceeding, any claim by any party hereto that is not subject personally to the jurisdiction of such court, that such action or proceeding is improper or that this Agreement or the subject matter of this Agreement may not be enforced in or by such court.

Section 10.9. Notices. All notices, requests and other communications to any party hereunder shall be in writing and shall be deemed given, made, served or delivered if

delivered personally, sent by facsimile (receipt of which is confirmed) or sent by overnight courier (providing proof of delivery) to the parties at the following addresses:

If to Parent, to:

Magellan Pharmacy Services, Inc.
4800 Scottsdale Road, Ste #4400
Scottsdale, AZ 85251
Attention: Daniel Gregoire, General Counsel
Facsimile: (860) 507-1990

with a copy (which shall not constitute notice) to:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
Attention: Raymond O. Gietz
Facsimile: (212) 310-8007

If to the Company or the Seller, to:

Veridicus Health, LLC
19 East 200 South, Floor 10
Salt Lake City, Utah 84111
Attention: Douglas S. Burgoyne
Facsimile: (801) 990-9885

with a copy (which shall not constitute notice) to:

Bennett Tueller Johnson & Deere, LLC
3165 East Millrock Drive, Suite 500
Salt Lake City, Utah 84121
Attention: Reed Rawson
Facsimile: (801) 438-2050

or such other address or facsimile number as such party may hereafter specify by like notice to the other parties hereto. All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5 P.M. in the place of receipt and such day is a business day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed not to have been received until the next succeeding business day in the place of receipt.

Section 10.10. Severability. If any term or other provision of this Agreement is determined by a court of competent jurisdiction to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other terms, provisions and conditions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the Transactions is not affected in any manner materially adverse to any party hereto. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement, to

the fullest extent permitted by applicable Laws, so as to effect the original intent of the parties as closely as possible in an acceptable manner, to the end that the transactions contemplated hereby may, except in respect of such modified provision, be consummated as contemplated hereby.

Section 10.11. Definitions.

(a) As used in this Agreement, the following terms have the meanings ascribed thereto below:

"**Affiliate**" shall mean, as to any Person, any other Person that, directly or indirectly, controls, or is controlled by, or is under common control with, such Person. For this purpose, "**control**" (including, the correlative terms, "**controlled by**" and "**under common control with**") shall mean the possession, directly or indirectly, of the power to direct or cause the direction of management or policies of a Person, whether through the ownership of securities or partnership or other ownership interests, by contract or otherwise.

"**Bank Lender**" shall mean OneWest Bank.

"**business day**" shall mean a day except a Saturday, a Sunday or other day on which the SEC or banks in the City of New York are authorized or required by Law to be closed.

"**Closing Date Indebtedness**" means the amount of aggregate Indebtedness of the Company and its Subsidiaries as of 11:59 p.m. on the day prior to the Closing Date.

"**Closing Date Net Working Capital**" means, as of 11:59 p.m. on the day prior to the Closing Date or, if the Closing Date is not the first business day of a month, 11:59 p.m. on the last day of the month preceding the month in which the Closing occurs, (a) the aggregate amount of current assets of the Company and its Subsidiaries as of such time (excluding intercompany receivables), minus (b) the aggregate amount of current liabilities of the Company and its Subsidiaries as of such time (excluding (i) intercompany payables, (ii) all Indebtedness, (iii) all Transaction Expenses), determined in accordance with Exhibit 10.11(a) hereto, which sets forth an illustrative calculation of the Company's net working capital and the respective components thereof.

"**Closing Date Net Working Capital Target**" means One Million Eight Hundred Sixteen Thousand Dollars ($1,816,000), calculated in accordance with Exhibit 10.11(a) hereto.

"**Code**" means the Internal Revenue Code of 1986, as amended.

"**Collar Amount**" means $40,000.00.

"**Company Documents**" shall mean each agreement, document or instrument or certificate contemplated by this Agreement or to be executed by the Company in connection with the transactions contemplated by this Agreement (including, the Company Disclosure Schedules).

"**Confidentiality Agreement**" means the Confidentiality Agreement between Parent and the Company, dated as of August 2, 2016.

"**DMBA Customer Contract**" means the Management Services Agreement dated November 15, 2010, by and among VRx, LLC, Deseret Mutual Insurance Company, Deseret Mutual Benefit Administrators, and Deseret Mutual Benefit Administrators as trustee of the Deseret Healthcare Employee Benefit Trust, as amended by that certain First Amendment to Management Service Agreement dated June 19, 2012; that certain Addendum to First Amendment to Management Service Agreement dated January 1, 2015; that certain Second Amendment to Management Service Agreement dated January 1, 2015; that certain Third Amendment to Management Services Agreement dated June 2, 2016; that certain Fourth Amendment to Management Services Agreement dated October 27, 2106; and that certain Fifth Amendment to Management Services Agreement dated November 7, 2016.

"**Employment Agreement**" means each employment agreement, dated as of the date hereof and effective subject to and as of the Closing, in substantially the form set forth on Exhibit 7.2(g)(i) hereto, between Parent and each individual party thereto.

"**Escrow Amount**" means the Indemnity Escrow Amount plus the Working Capital Escrow Amount.

"**Escrow Fund**" means the account(s) in which the Escrow Agent holds the Indemnity Escrow Amount and the Working Capital Escrow Amount.

"**FDA**" means the U.S. Food and Drug Administration.

"**Fundamental Representations**" shall mean the representations and warranties of (a) the Company set forth in Section 4.1 (Organization, Power, Standing and Qualification), Section 4.2 (Subsidiaries), Section 4.3 (Capitalization), Section 4.4(a) (Authority), Section 4.11 (Taxes), Section 4.18 (Brokers and other Advisors), Section 4.19 (Health Regulatory Compliance) and Section 4.24 (Certain Payments) and (b) the Seller set forth in Article III.

"**GAAP**" shall mean generally accepted accounting principles in the United States as of the date hereof.

"**Gap Period Pre-Tax Net Income (Loss)**" means the product of (x) the net income or net loss of the Company and its Subsidiaries (which shall be calculated on a pre-tax basis) for the entire month in which the Closing occurs and (y) a fraction, the numerator of which is the number of days elapsed from the beginning of such month through (but excluding) the date of Closing and the denominator of which is the number of days in such month. Gap Period PreTax Net Income (Loss) shall be determined in accordance with GAAP, consistently applied by the Company.

"**Governmental Authority**" means (i) any federal, state, provincial, municipal, local or foreign government, governmental authority, regulatory or administrative agency, governmental commission, department, board, bureau, agency or instrumentality, court or tribunal, self-regulatory organization or arbitral or similar forum, (ii) any subdivision or authority of any of the foregoing, or (iii) any quasi-governmental or private body exercising, or entitled to exercise, any regulatory, administrative, executive, judicial, legislative, police, expropriation or taxing authority under or for the account of any of the foregoing.

"**Governmental Order**" means any ruling, order, judgment, settlement, agreement, injunction, decree, writ, stipulation, determination or award, in each case, entered, issued or made by or with any Governmental Authority.

"**Granite Escrow Amount**" means Two Hundred Thousand Dollars ($200,000).

"**Granite Escrow Fund**" means the account in which the Escrow Agent holds the Granite Escrow Amount.

"**Guaranty**" means the guaranty provided by certain members of the Seller to Parent, substantially in the form set forth on Exhibit 10.11(c) hereto.

"**Health Regulatory Laws**" means any Law relating to health regulatory matters, including: (i) 42 U.S.C. §§ 1320a-7, 7a, and 7b, which are commonly referred to as the "**Federal Fraud Statutes;**" (ii) 42 U.S.C. § 1395nn, which is commonly referred to as the "**Stark Statute;**" (iii) 31 U.S.C. §§ 3729-3733, which is commonly referred to as the "**Federal False Claims Act;**" (iv) HIPAA; (v) any state law regulating the interactions with health care professionals and reporting thereof; (vi) state law regulating insurance, pharmacy benefits administration, third party benefits administration, utilization management, pharmacy distribution, discount pharmacy card administration and any other business conducted by the Company; (vii) state law regulating consumer protection or unfair trade practices, (viii) the Foreign Corrupt Practices Act, or (ix) any federal, state or local statute or regulation relevant to false statements or claims including: (A) making or causing to be made a false statement or representation of a material fact to any Governmental Authority; or (B) knowingly and willfully making or causing to be made any false statement or representation of a material fact for use in determining rights to any benefit, payment or Permit.

"**HIPAA**" means the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health (HITECH) Act, and the regulations promulgated pursuant thereto, including the Transaction cost Set Standards, the Privacy Rules and the Security Rules set forth at 45 C.F.R. Parts 160 and 164.

"**Indemnity Escrow Amount**" means seven million eight hundred thousand dollars ($7,800,000).

"**Indebtedness**" as applied to any Person, means, without duplication, all indebtedness of such Person for borrowed money, whether current or funded, or secured or unsecured, including, (a) all indebtedness of any such Person for the deferred purchase price of property or services (including earn-outs), (b) all indebtedness of any such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by any such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (c) all indebtedness of any such Person secured by a purchase money mortgage or other Lien to secure all or part of the purchase price of the property subject to such mortgage or Lien, (d) all obligations under leases which shall have been or must be, in accordance with GAAP, recorded as capital leases in respect of which any such Person is liable as lessee (and the parties hereto agree that all of such capital leases that pertain to the Company and its Subsidiaries that exist as of the date of this Agreement are set forth in Exhibit 10.11(d)), (e) any liability of such Person in respect of funded banker's acceptances or letters of credit, (f) all interest, fees and other expenses

owed with respect to the indebtedness referred to above, and (g) all indebtedness referred to above which is directly or indirectly guaranteed by any such Person or which any such Person has agreed (contingently or otherwise) to purchase or otherwise acquire or in respect of which it has otherwise assured a creditor against loss.

"**IRS**" means the Internal Revenue Service of the United States.

"**Knowledge**" in the case of an individual shall mean, with respect to any matter, the actual knowledge of such Person after due inquiry about the matter and, in the case of the Company, shall mean the Knowledge of the individuals identified on Exhibit 10.11(b) and, in the case of Parent, the Knowledge of any of the chief executive officer, the chief operating officer, the chief financial officer, the chief accounting officer and the general counsel of Parent. For purposes hereof, "**due inquiry**" shall mean such inquiry as is reasonable under the circumstances in accordance with good business practices for an individual in a like position of responsibility with respect to a business of like size and nature when addressing a matter of importance to such business.

"**Law**" means any federal, state, local, municipal or foreign constitution, treaty, code, statute, law (including common law), ordinance, rule, regulation, official published guidance or Governmental Order, in each case, of any Governmental Authority.

"**Legal Action**" means any legal, administrative, arbitral, mediation or other proceeding, claim (including counterclaim), suit, action, sanction, audit, hearing or litigation.

"**Liability**" means any debt, loss, damage, obligation, adverse claim or other liability (whether direct or indirect, known or unknown, asserted or unasserted, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, or due or to become due, and whether in contract, tort, strict liability or otherwise).

"**Liens**" shall mean any lien, pledge, mortgage, encumbrance, security interest of any kind, charge or adverse right of any kind or nature whatsoever (including any restriction on the right to vote or transfer any securities, except for such transfer restrictions of general applicability as may be provided under the Securities Act and the rules and regulations promulgated thereunder, and the "**blue sky**" laws of the various States of the United States).

"**Loan Agreement**" means that certain Credit Agreement, dated June 19, 2015, entered into by and between the Seller and OneWest Bank N.A.

"**Loss**" **or** "**Losses**" shall mean any out-of-pocket cost or expense (including reasonable attorneys' fees and reasonably incurred disbursements and court costs), lost profits, any monetary damages, fines or penalties, and any losses, sustained by such person (including as a consequence of any injunction issued or other equitable relief granted against such person) to the extent that such costs, expenses, lost profits, damages, fines, penalties or losses were reasonably foreseeable consequence of the relevant breach, inaccuracy, or Tax that is subject to indemnification pursuant to Article IX, in each case excluding any exemplary or punitive damages (unless such damages are awarded to a third party against an Indemnified Party as part of a Third Party Claim), regardless of whether such Losses arise as a result of the negligence, strict liability or any other Liability under any theory of Law or equity of, or violation of any Law by, the applicable Indemnifying Party (it being understood that Losses shall include any

Tax benefits that are not available to Parent or any of its Affiliates (including the Company and its Subsidiaries) by reason of a breach of Section 4.11(k) hereof).

"**Manager**" shall mean each of Douglas S. Burgoyne, Jeffrey D. Dunn, Whitney Bowman, Drew Johnson, Terry Rodgers, and Susan Winckler, in their capacity as managers of the Company or any of its Subsidiaries, including any of their respective successors.

"**Material Adverse Effect**" shall mean:

(i) with respect to the Company, any change, effect, circumstance or development that has, or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business, operations or financial condition of the Company or its Subsidiaries, taken as a whole, except to the extent any such effect results from: (a) any actions taken (or omitted to be taken) at the written request of Parent; (b) the public announcement of the Transactions contemplated by this Agreement or the identity or nature of the Parent; (c) changes generally affecting the economy, credit, capital or financial markets or political conditions in the United States or elsewhere in the world, including changes in interest and exchange rates, (d) changes that are the result of acts of war (whether or not declared), armed hostilities, sabotage or terrorism, or any escalation or worsening of any such acts of war (whether or not declared), armed hostilities, sabotage, terrorism or similar events; (e) changes, conditions or effects that are the result of factors affecting the industry in which the Company or its Subsidiaries operate; or (f) changes or prospective changes in any Law or GAAP or interpretation or enforcement thereof after the date thereof; provided, however, that any event, change, condition, development, circumstance, effect, factor or occurrence referred to in clauses (c) through (f) above may constitute and shall be taken into account in determining whether or not a Material Adverse Effect has occurred to the extent such event, change, condition, development, circumstance, effect, factor or occurrence has a disproportionate adverse impact on the Company or its Subsidiaries, taken as a whole, as compared to other participants in the industry in which the Company or its Subsidiaries operate (in which case the incremental disproportionate impact or impacts shall be taken into account in determining whether or not a Material Adverse Effect has occurred).

(ii) with respect to Parent, any material adverse effect on the ability of Parent to consummate the transactions contemplated by this Agreement.

"**McKesson**" means McKesson Corporation.

"**Non-Competition and Non-Solicitation Agreements**" means each NonCompetition and Non-Solicitation Agreement, dated as of the date hereof and substantially in the form set forth on Exhibit 7.2(g)(ii) hereto, between Parent and each member of the Seller party thereto.

"**Non-Solicitation Agreement**" means the non-solicitation agreement, dated as of the date hereof and substantially in the form set forth on Exhibit 7.2(g)(iii) hereto, between Parent and Gauge Capital.

"**ordinary course of business**" means the ordinary and usual course of day-to-day operations of the business of the Company through the date hereof consistent with past practice.

"**Pass-Through Tax Return**" means any income Tax Return filed by or with respect to the Company or any of its Subsidiaries to the extent that (i) the Company or any of its Subsidiaries is treated as a pass-through entity for purposes of such Tax Return and (ii) the results of operations reflected on such Tax Returns are also reflected on the Tax Returns of the Seller or the direct or indirect owners of the Seller.

"**Permit**" means any governmental or regulatory license, authorization, accreditation, permit, franchise, consent or approval.

"**Person**" shall mean an individual, a corporation, a limited liability company, a partnership, an association, a trust or any other entity, including a Governmental Authority.

"**Pre-Closing Tax Period**" means any taxable period ending on or before the Closing Date.

"**Program**" means the Medicare and Medicaid programs and any other state or federal health care program.

"**Provider**" means any and all physicians or medical groups, Independent Practice Associations, Preferred Provider Organizations, exclusive provider organizations, specialist physicians, dentists, optometrists, audiologists, pharmacies and pharmacists, radiologists or radiology centers, laboratories, mental health professionals, chiropractors, physical therapists, any hospital, skilled nursing facilities, extended care facilities, and any other health care or services facilities, treatment centers or suppliers, including without limitation ancillary, allied or specialty facilities, practitioners or centers.

"**Straddle Period**" means any taxable period beginning on or prior to and ending after the Closing Date.

"**Subsidiary**" when used with respect to any party, shall mean any corporation, limited liability company, partnership, association, trust or other entity the accounts of which would be consolidated with those of such party in such party's consolidated financial statements if such financial statements were prepared in accordance with GAAP, as well as (except where reference is made to the party's financial statements) any other corporation, limited liability company, partnership, association, trust or other entity of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power (or, in the case of a partnership, more than 50% of the general partner interests) are, as of such date, owned by such party or one or more Subsidiaries of such party or by such party and one or more Subsidiaries of such party.

"**Taxing Authority**" means the IRS and any other Governmental Authority responsible for the administration of any Tax.

"**Transaction Expenses**" means all expenses incurred or to be incurred (prior to, on or after the Closing Date) by the Company, any of its Subsidiaries or the Seller in connection with the negotiation, preparation and execution of this Agreement and the consummation of the Transactions, and to the extent not paid prior to the Closing, including: (i) all brokerage commissions, fees and disbursements, (ii) all fees and disbursements of attorneys, accountants and other advisors and service providers, (iii) all bonuses or other similar amounts, if any,

payable by or on behalf of the Company, any of its Subsidiaries or the Seller on or prior to the Closing resulting from this Agreement or the consummation of the Transactions (including any sale, "**stay-around,**" retention, change of control or similar bonuses, payments or benefits), and (iv) any payroll, social security, unemployment or other Taxes or other amounts required to be paid by the Company or any of its Subsidiaries in connection with any of the items referred to in clause (iii).

"**Transactions**" refers collectively to the transactions provided by this Agreement to be consummated by the parties hereto, including the Sale and the payment of the Purchase Price.

"**Utah Pharmacy Licenses**" means the pharmacy license for each of VRx byMail, LLC, VRx Specialty, LLC, and VRx Pharmacy, LLC from the Utah Division of Occupational and Professional Licensing, pursuant to the notice of change of ownership filed in connection with the transactions contemplated by this Agreement.

"**Working Capital Escrow Amount**" means Five Hundred Thousand Dollars ($500,000).

(b) For purposes of this Agreement, the following terms have the meanings set forth in the sections indicated:

Term	Section
Agreement	Preamble
Adjusted Estimated Purchase Price	Section 2.1(a)(iv)
Adjustment Amount	Section 2.2(c)
Allocable Purchase Price	Section 2.5(b)
Allocation Principles	Section 2.5(b)
Allocation Schedule	Section 2.5(c)
Available Insurance Policies	Section 6.15
Balance Sheet	Section 4.6(a)
Balance Sheet Date	Section 4.6(a)
Bankruptcy and Equity Exception	Section 3.1(a)
Base Amount	Section 2.1
Change In Control Customer Contracts	Section 4.14(b)
Closing	Section 1.2
Closing Date	Section 1.2
COBRA	Section 4.12(a)
Company	Preamble
Company Contracts	Section 4.14(b)
Company Disclosure Schedules	Article IV
Company Intellectual Property	Section 4.16(a)(i)
Company Organizational Documents	Section 4.1(a)
Company Plans	Section 4.12(a)
Company Technology	Section 4.16(a)(ii)
Computer Systems	Section 4.16(b)
Continuing Employees	Section 6.11(a)
Continuation Period	Section 6.11(a)
Contract	Section 3.1(b)

Copyrights	Section 4.16(a)(iii)
Customer Contract	Section 4.14(a)(ix)
D&O Indemnified Parties	Section 6.12(a)
Deal Communications	Section 10.14(d)
Deductible	Section 9.3(a)(iii)
Deficit Amount	Section 2.2(e)
De Minimis Threshold	Section 9.3(a)(iv)
Determination Date	Section 2.2(b)
Dispute Notice	Section 2.2(b)
Employees	Section 4.12(a)
Environmental Laws	Section 4.13(b)(i)
Environmental Liabilities	Section 4.13(b)(ii)
ERISA	Section 4.12(a)
ERISA Affiliate	Section 4.12(a)
Escrow Agent	Section 2.3(a)
Escrow Agreement	Section 2.3(a)
Estimated Purchase Price	Section 2.1(a)(ii)
Estimated Closing Date Net Working Capital	Section 2.1(a)(i)
Estimated Closing Statement	Section 2.1(a)(i)
Estimated Transaction Expenses	Section 2.1(a)(i)
Federal Health Care Program	Section 4.19(c)(ii)
Final Closing Statement	Section 2.2(a)
Financial Statements	Section 4.6(a)
Firm	Section 10.14(a)
Governmental Approval	Section 3.2
Governmental Damages Section 7.2(d)	
Governmental Investigation Section 7.2(d)	
Granite Agreement	Preamble
Hazardous Materials	Section 4.13(b)
Hot Asset	Section 2.5(c)
Increase Amount	Section 2.2(d)
Indemnification Notice	Section 9.5(a)
Indemnifying Parties	Section 9.2(a)
Indemnitors	Section 6.12(b)
Independent Accounting Firm	Section 2.2(b)
Intellectual Property Rights	Section 4.16(a)(iii)
Interests	Recitals
Interim Period	Section 6.8(d)
Manufacturer Contract	Section 4.14(a)(x)
Marks	Section 4.16(a)(iii)
Material Contract	Section 4.14(a)
Parent	Preamble
Parent Indemnified Parties Section 9.2(a)	
Parent's Proposed Calculations Section 2.2(a)	
Patents	Section 4.16(a)(iii)
Permitted Lien	Section 4.15
PHI	Section 9.2(a)(iv)
Pharmacy	Section 4.6(a)

Policies	Section 4.17
Post-Signing Changes	Section 10.13(b)
Pre-Closing Insurance Policy	Section 9.8
Privileged Deal Communications	Section 10.14(d)
Publicly Available Software	Section 4.16(a)(iv)
Purchase Price	Section 2.1
Re-Calculated Closing Date Net Working Capital	Section 2.2(f)
Related Persons	Section 4.21
Release	Section 4.13(b)(iv)
Release Date	Section 9.3(a)(i)
Remaining Disputed Items	Section 2.2(b)
Representatives	Section 6.2(a)
Requisite Approval	Section 4.4(a)
Restraint(s)	Section 7.1(b)
Sale	Recitals
Securities Act	Section 5.8
Seller	Preamble
Seller Parties	Section 10.14(b)
Short Period	Section 6.8(d)
Software	Section 4.16(a)(v)
Subsidiary Documents	Section 4.2(b)
Supplemental Disclosure Schedule	Section 10.13(b)
Takeover Proposal	Section 6.2(c)
Tax Returns	Section 4.11(l)
Tax Sharing Agreement	Section 4.11(f)
Taxes	Section 4.11(l)
Technology	Section 4.16(a)(vi)
Third Party Claim	Section 9.5(b)(i)
Third Party Claim Notice	Section 9.5(b)(i)
Trade Secrets	Section 4.16(a)(iii)
Walk-Away Date	Section 8.1(b)(i)
WARN	Section 4.12(a)

Section 10.12. Interpretation.

(a) When a reference is made in this Agreement to an Article, a Section, Exhibit or Schedule, such reference shall be to an Article of, a Section of, or an Exhibit or Schedule to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "**include**," "**includes**" or "**including**" are used in this Agreement, they shall be deemed to be followed by the words "**without limitation**." The words "**hereof**," "**herein**" and "**hereunder**" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well

as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Except if otherwise explicitly provided, any agreement, instrument or statute defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein. References to a Person are also to its permitted successors and assigns.

(b) The parties hereto have participated jointly in the negotiation and drafting of this Agreement and, in the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as jointly drafted by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

Section 10.13. Schedules.

(a) Any information disclosed pursuant to any Section of the Company Disclosure Schedules or any Schedule shall be deemed to be disclosed in all sections of the Company Disclosure Schedules to the extent that it is readily apparent on the face of such disclosure that such disclosure is applicable to such other section notwithstanding the omission of a reference of a cross reference thereto. Neither the specification of any dollar amount or any item or matter in any provision of this Agreement nor the inclusion of any specific item or matter in any Section of the Company Disclosure Schedules or any Schedule hereto is intended to imply that such amount, or higher or lower amounts, or the item or matter so specified or included, or other items or matters, are or are not material, and no party shall use the fact of the specification of any such amount or the specification or inclusion of any such item or matter in any dispute or controversy between the parties as to whether any item or matter is or is not material for purposes of this Agreement. Neither the specification of any item or matter in any provision of this Agreement nor the inclusion of any specific item or matter in any Section of the Company Disclosure Schedule or any Schedule hereto is intended to imply that such item or matter, or other items or matters, are or are not in the ordinary course of business, and no party shall use the fact of the specification or the inclusion of any such item or matter in any dispute or controversy between the parties as to whether any item or matter is or is not in the ordinary course of business for purposes of this Agreement.

(b) Between the period commencing on the date hereof until the date that is two (2) days prior to the Closing Date, the Seller shall have the right to deliver to Parent a supplement to the Company Disclosure Schedule (the "**Supplemental Disclosure Schedule**") setting forth changes ("**Post-Signing Changes**") to the following sections of the Company Disclosure Schedules based upon occurrences subsequent to the date hereof and prior to the Closing: Section 4.13, Section 4.16, Section 4.17, Section 4.23, the portion of the Company Disclosure Schedules relating to the second sentence of Section 4.8 and the first sentence of Section 4.19(b) and any information regarding the breach of Material Contracts by any counterparty thereto (and, for the avoidance of doubt, not the Company or its Subsidiaries). The changes provided in the Supplemental Disclosure Schedules shall not be deemed to be breaches of this Agreement, and (unless objected to be Parent as provided below) shall be deemed to supplement, amend and be a part of the original Company Disclosure Schedules for all purposes hereunder, including without limitation for purposes of (i) determining whether the conditions set forth in Section 7.2 have been satisfied, (ii) determining the accuracy of any representation or

warranty made by the Company or the Seller, as applicable, in this Agreement and (iii) the indemnification provisions of Article IX. Upon the delivery to Parent of any Post-Signing Changes, to the extent any matter set forth in such Supplemental Disclosure Schedule would, but for the preceding sentence, constitute a breach of any representation, warranty, covenant or agreement contained in this Agreement (either individually or collectively with all other breaches) that would give rise to a termination right of Parent under Section 8.1(c)(i), Parent shall have five (5) business days to provide notice to the Seller of its intent to terminate the Agreement pursuant to Section 8.1(c)(i) (and in such situation the 10-day period referred to in Section 8.1(c) shall be deemed to refer to the same five (5) business day period); provided that if Parent fails to provide such notice, such Supplemental Disclosure Schedule shall be deemed to be a part of the original Company Disclosure Schedule for all purposes hereunder. If the Closing has been scheduled for a date within such five (5) business day review period, such Closing shall be delayed until the end of the review period unless Parent waives such review period or any portion thereof.

Section 10.14. Legal Representation.

(a) Each of the parties hereto acknowledges and agrees that Bennett Tueller Johnson & Deere, LLC (the "**Firm**") has acted as counsel to the Company in connection with the negotiation of this Agreement and consummation of the Transactions.

(b) Parent hereby consents and agrees to, and agrees to cause the Company to consent and agree to, the Firm representing the Seller and/or any of the members of the Seller (collectively, the "**Seller Parties**") after the Closing with respect to disputes concerning the Transactions, including with respect to disputes concerning the Transactions in which the interests of the Seller Parties may be directly adverse to Parent and its Affiliates (including the Company).

(c) In connection with the foregoing, Parent hereby irrevocably waives and agrees not to assert, and agrees to cause the Company to irrevocably waive and not to assert, any conflict of interest arising from or in connection with the Firm's representation of the Seller Parties after the Closing with respect to disputes concerning the Transactions.

(d) Parent further agrees, on behalf of itself and, after the Closing, on behalf of the Company, that all communications in any form or format whatsoever between or among any of the Firm, the Company, any of the Seller Parties, or any of their respective managers, directors, officers, employees or other representatives that directly relate to the negotiation, documentation and consummation of the Transactions or any dispute arising under this Agreement (collectively, the "**Deal Communications**") shall be deemed to be retained and owned collectively by the Seller, shall be controlled by the Seller and shall not pass to or be claimed by Parent or the Company. All Deal Communications that are attorney-client privileged (the "**Privileged Deal Communications**") shall remain privileged after the Closing and the privilege and the expectation of client confidence relating thereto shall belong solely to the Seller, shall be controlled by the Seller and shall not pass to or be claimed by Parent or the Company.

(e) Notwithstanding the foregoing, in the event that a dispute arises between Parent or the Company on the one hand, and a third party other than the Seller or a member of the Seller, on the other hand, Parent or the Company may assert the attorney-client privilege to

prevent the disclosure of the Privileged Deal Communications to such third party; provided, however, that neither Parent nor the Company may waive such privilege without the prior written consent of the Seller. In the event that Parent or the Company is legally required by governmental order or otherwise to access or obtain a copy of all or a portion of the Deal Communications, Parent (x) shall, to the extent legally permissible, reasonably promptly notify the Seller in writing (including by making specific reference to this Section), (y) agrees that the Seller can seek a protective order and (z) agrees to use, at the Seller's sole cost and expense, commercially reasonable efforts to assist therewith.

(f) To the extent that files or other materials maintained by the Firm in relation to the Transactions constitute property of its clients, only the Seller shall hold such property rights and the Firm shall have no duty to reveal or disclose any such files or other materials or any Deal Communications by reason of any attorney-client relationship between the Firm, on the one hand, and the Company, on the other hand.

(g) It shall not be a breach of any provision of this Agreement if prior to the Closing the Company, its Subsidiaries or the Seller, or any of their respective managers, directors, officers, employees or other representatives takes any action to protect from access or remove from the premises of the Company (or any offsite back-up or other facilities) any Deal Communications, including without limitation by segregating, encrypting, copying, deleting, erasing, exporting or otherwise taking possession of any Deal Communications.

(h) In the event that Parent or the Company receives a subpoena or other discovery request pursuant to applicable Law that calls for the search for documents that may include Deal Communications, nothing herein shall preclude Parent or the Company from complying with its legal obligations to do so.

[*signature page follows*]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be dulv executed and delivered as of the date first above written.

PARENT:

MAGELLAN PHARMACY SERVICES, INC.

By: /s/ Mostafa Kamal
Name: Mostafa Kamal
Title: Chief Executive Officer

THE COMPANY:

VERIDICUS HOLDINGS, LLC

By: /s/ Douglas S. Burgoyne
Name: Douglas S. Burgoyne
Title: Manager

SELLER

VERIDICUS HEALTH, LLC

By: /s/ Douglas S. Burgoyne
Name: Douglas S. Burgoyne
Title: Manager

Exhibit 21

MAGELLAN HEALTH, INC.
LIST OF SUBSIDIARIES

Entity Name:	Jurisdiction of Domicile:	Entity Type:
Accenda Health Holding Company, LLC	Delaware	LLC
Magellan Pharmacy Services, Inc.	Delaware	C
Subsidiaries:		
4-D Pharmacy Management Systems, LLC	Michigan	LLC
CDMI, LLC	Rhode Island	LLC
Magellan Administrative Services, LLC	Delaware	LLC
Magellan Behavioral Health of New Jersey, LLC	New Jersey	LLC
Magellan Behavioral of Michigan, Inc.	Michigan	C
Magellan Health Services of California, Inc. – Employer Services	California	C
Magellan Rx Management IPA, Inc.	New York	C
Magellan Rx Pharmacy, LLC	Delaware	LLC
Subsidiary:		
ONCORE Healthcare, LLC	Delaware	LLC
Magellan Pharmacy Solutions, Inc.	Delaware	C
Magellan Rx Management, LLC	Delaware	LLC
Subsidiaries:		
AdvoCare of Tennessee, Inc.	Tennessee	C
Subsidiary:		
Premier Holdings, LLC	Tennessee	LLC
Subsidiary:		
Premier Behavioral Systems of Tennessee, LLC	Tennessee	LLC
Veridicus Holdings, LLC	Utah	LLC
Subsidiaries:		
VRx, LLC	Utah	LLC
VRx Pharmacy, LLC	Utah	LLC
Veridicus Consulting, LLC	Utah	LLC
Veridicus Rx, LLC	Utah	LLC
Alliance Enrollment Techology, LLC	Utah	LLC

Veridicus Acquisitions, LLC	Utah	LLC
VRx by Mail, LLC	Utah	LLC
VRx Specialty, LLC	Utah	LLC
Magellan Healthcare, Inc.	Delaware	C
Subsidiaries:		
Armed Forces Services Corporation	Virginia	C
Arizona Biodyne, Inc.	Arizona	C
AlphaCare Holdings, Inc.	Delaware	C
Subsidiary:		
AlphaCare of New York, Inc.	New York	C
Continuum Behavioral Healthcare Corporation	Delaware	C
Cobalt Therapeutics, LLC	Delaware	LLC
Subsidiary:		
Cobalt Software, LLC	Delaware	LLC
MBC of America,Inc.	Delaware	C
Subsidiary:		
Empire Community Delivery Systems, LLC	New York	LLC
Florida MHS, Inc.	Florida	C
Magellan Behavioral Health of Connecticut, LLC	Connecticut	LLC
Magellan Behavioral Health of Idaho, Inc	Idaho	C
Magellan Behavioral Services, Inc.	Delaware	C
Magellan Choices for Families, LLC	Nebraska	LLC
Magellan Complete Care, Inc.	Delaware	C
Magellan Complete Care of Alabama, Inc.	Alabama	C
Magellan Complete Care of Louisiana, Inc.	Louisiana	C
Magellan Complete Care of Nebraska, Inc.	Nebraska	C
Magellan Complete Care of North Carolina, Inc.	North Carolina	C
Magellan Complete Care of Pennsylvania, Inc.	Pennsylvania	C
Magellan Complete Care of Virginia, *LLC (f/k/a Magellan Complete Care of Virginia, Inc.)*	Virginia	LLC
Magellan Government Services, Inc	Delaware	C
Magellan Healthcare of Georgia, Inc.	Georgia	C

Magellan Healthcare Provider Group, Inc.	Maryland	C
Magellan Medicaid Administration, Inc.	Virginia	C
***Subsidiaries**:*		
Magellan Medicaid Administration of Florida, Inc.	Delaware	C
Magellan Medicaid Administration of Montana, Inc.	Delaware	C
FHC, Inc.	Canada	C
Provider Synergies, LLC	Ohio	LLC
Human Affairs International of California, Inc.	California	C
Magellan Behavioral Health of Florida, Inc.	Florida	C
***Subsidiary**:*		
The Community Based Care Partnership, Ltd.	Florida	LP
Magellan Behavioral Health of Massachusetts, Inc.	Massachusetts	C
Magellan Behavioral Health of Nebraska, Inc.	Nebraska	C
Magellan Behavioral Health Systems, LLC	Utah	LLC
Magellan Behavioral Health of Texas, Inc.	Texas	C
Magellan Health QIO, LLC	Nebraska	LLC
Magellan Health Services of Arizona, Inc.	Arizona	C
***Subsidiaries**:*		
Magellan Complete Care of Arizona, Inc. (f/k/a Magellan of Arizona, Inc.)	Arizona	C
Magellan Health Services of New Mexico, Inc.	New Mexico	C
Magellan CBHS Holdings, LLC	Delaware	LLC
***Subsidiaries**:*		
Charter Behavioral Health System of Massachusetts, Inc.	Massachusetts	C
Charter Behavioral Health System of New Mexico, Inc.	New Mexico	C
Charter Fairmount Behavioral Health System, Inc.	Pennsylvania	C
Charter Medical of Puerto Rico, Inc.	Puerto Rico	C
Charter North Star Behavioral Health System, L.L.C.	Tennessee	LLC
Charter Northridge Behavioral Health System, Inc.	North Carolina	C
***Subsidiary**:*		
Holly Hill/Charter Behavioral Health System, L.L.C.	Tennessee	LLC
Magnet Health, LLC	Delaware	LLC

MBH of Puerto Rico, Inc.	Puerto Rico	C
Merit Health Insurance Company	Illinois	C
***Subsidiary**:*		
Magellan Life Insurance Company	Delaware	C
The Management Group, LLC	Wisconsin	LLC
U.S. IPA Providers, Inc.	New York	C
Merit Behavioral Care Corporation	Delaware	C
***Subsidiaries**:*		
Magellan HRSC, Inc.	Ohio	C
Magellan Behavioral Health of Pennsylvania, Inc.	Pennsylvania	C
Continuum Behavioral Care, LLC	Rhode Island	LLC
Magellan Providers of Texas, Inc.	Texas	C
MBC of North Carolina, LLC	North Carolina	LLC
Magellan Behavioral Care of Iowa, Inc.	Iowa	C
PPC Group, Inc.	Delaware	C
P.P.C., Inc.	Missouri	C
National Imaging Associates, Inc.	Delaware	C
***Subsidiary**:*		
NIA IPA of New York, Inc.	New York	C
National Imaging Associates of Pennsylvania, LLC	Pennsylvania	LLC
National Imaging of CA, Inc.	California	C
NIA Iowa, Inc.	Iowa	C
NIA/Magellan Specialty Management, Inc.	Delaware	C
Magellan Capital, Inc.	Delaware	C
Magellan Financial Capital, Inc.	Nevada	C

Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement Number 333-212753 on Form S-8

(2) Registration Statement Number 333-196497 on Form S-8

(3) Registration Statement Number 333-174315 on Form S-8

(4) Registration Statement Number 333-174314 on Form S-8

(5) Registration Statement Number 333-333-151059 on Form S-8

(6) Registration Statement Number 333-141056 on Form S-8

(7) Registration Statement Number 333-134202 on Form S-8

(8) Registration Statement Number 333-134201 on Form S-8

(9) Registration Statement Number 333-134199 on Form S-8

of our reports dated February 24, 2017, with respect to the consolidated financial statements and schedule of Magellan Health, Inc., and the effectiveness of internal control over financial reporting of Magellan Health, Inc., included in this Annual Report (Form 10-K) of Magellan Health, Inc. for the year ended December 31, 2016.

/s/ Ernst & Young LLP

Baltimore, Maryland
February 24, 2017

Exhibit 31.1

CERTIFICATIONS

I, Barry Smith, certify that:

1. I have reviewed this annual report on Form 10-K of Magellan Health, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ BARRY SMITH
Barry Smith
Chief Executive Officer

Date: February 24, 2017

Exhibit 31.2

CERTIFICATIONS

I, Jonathan N. Rubin, certify that:

1. I have reviewed this annual report on Form 10-K of Magellan Health, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JONATHAN N. RUBIN
Jonathan N. Rubin
Chief Financial Officer

Date: February 24, 2017

Exhibit 32.1

Certification Required by Rule 13a-14(b) and 18 U.S.C. Section 1350
(as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

I, Barry Smith, as Chief Executive Officer of Magellan Health, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), that to my knowledge:

(1) the accompanying Annual Report on Form 10-K of the Company for the year ended December 31, 2016 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ BARRY SMITH
Barry Smith
Chief Executive Officer

Date: February 24, 2017

Exhibit 32.2

Certification Required by Rule 13a-14(b) and 18 U.S.C. Section 1350
(as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

I, Jonathan N. Rubin, as Chief Financial Officer of Magellan Health, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), that to my knowledge:

(1) the accompanying Annual Report on Form 10-K of the Company for the year ended December 31, 2016 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JONATHAN N. RUBIN
Jonathan N. Rubin
Chief Financial Officer

Date: February 24, 2017