Magellan Health Services Reports First Quarter 2007 Financial Results

Company Confirms Overall 2007 Segment Profit Guidance of $190 Million to $210 Million

AVON, Conn.--(BUSINESS WIRE)--April 27, 2007--Magellan Health Services, Inc. (Nasdaq:MGLN) today reported operating results for the first quarter of fiscal year 2007. In addition, the Company confirmed that it expects to generate segment profit in the range of $190 million to $210 million in 2007.

Financial Results

For the quarter ended March 31, 2007, the Company reported net revenue of $487.0 million and net income of $21.0 million, or $.53 per diluted common share. For the prior year quarter, net revenue was $400.6 million. Net income for the prior year quarter was $22.3 million, or $.59 per diluted common share. Segment profit (which represents income from continuing operations before stock compensation expense, depreciation and amortization, interest expense, interest income, gain on sale of assets, special charges or benefits, income taxes and minority interest) for the current year quarter was $53.0 million, compared with $49.2 million in the prior year quarter.

See the attached tables detailing the Company's operating results, including results by segment.

The Company ended the quarter with unrestricted cash and investments of $222.9 million. Cash flow from operations for the three months ended March 31, 2007 was $46.1 million compared with $19.9 million for the comparable period in the prior year.

Steven J. Shulman, chairman and chief executive officer, said, "In addition to generating robust financial results for the first quarter, we have made significant progress toward our strategic goals through the sale of a second risk radiology management contract. Our financial strength is an important factor in our customers' confidence in us as a strategic partner. Our focus on ensuring that we serve our customers, members and providers effectively and efficiently and our responsible management of the financial aspects of our business are hallmarks of our approach and key to our success in serving all of our stakeholders."

Mark S. Demilio, chief financial officer, said, "We are reaffirming our overall segment profit guidance for 2007 of $190 million to $210 million. This reaffirmation takes into consideration adjustments in the quarter for favorable prior period care development of $4.3 million as well as the adverse impact to our prior guidance for 2007 of approximately $10 million that we previously disclosed with respect to the implementation of the new risk radiology contracts with CIGNA and Empire. Overall we are very pleased with our financial position. The Company's balance sheet grows stronger each quarter, enabling us to continue to consider acquisitions and other initiatives to enhance shareholder value."

Earnings Results Conference Call

A conference call will be held to discuss the Company's financial results at 10:00 a.m. Eastern time on Friday, April 27. To participate in the conference call, interested parties should call 1-888-390-4698 and reference the passcode First Quarter Earnings and conference leader Steve Shulman approximately 15 minutes before the start of the call.


A taped replay of the conference call will be available for one week following the call. The call-in numbers for the replay are 800-925-2994 and 402-220-4141 (from outside the U.S.).

Those who plan to access the Webcast are encouraged to read Magellan's Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission on February 28, 2007, for material information regarding Magellan's operational and financial results, including the section entitled "Risk Factors."

About Magellan: Headquartered in Avon, Conn., Magellan Health Services, Inc. (Nasdaq:MGLN) is a leading specialty health care management organization. Its customers include health plans, corporations and government agencies.
Cautionary Statement: This release contains forward-looking statements within the meaning of the Securities Exchange Act of 1934 and the Securities Act of 1933, as amended, that involve a number of risks and uncertainties. All statements, other than statements of historical information provided herein, may be deemed to be forward-looking statements including without limitation statements regarding estimates of segment profit. These statements are based on management's analysis, judgment, belief and expectation only as of the date hereof, and are subject to uncertainty and changes in circumstances. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "may," "should," "could," "estimate," "intend" and other similar expressions are intended to identify forward-looking statements. Actual results could differ materially due to, among other things, the possible election of certain of the Company's customers to manage the healthcare services of their members directly; changes in rates paid to and/or by the Company by customers and/or providers; higher utilization of health care services by the Company's risk members; delays, higher costs or inability to implement new business or other Company initiatives; the impact of changes in the contracting model for Medicaid contracts; termination or non-renewal of customer contracts; the impact of new or amended laws or regulations; governmental inquiries; litigation; competition; operational issues; health care reform; and general business conditions. Additional factors that could cause actual results to differ materially from those reflected in the forward-looking statements include, but are not limited to, the risks discussed in the "Risk Factors" section included within the Company's most recent Annual Report on Form 10-K and subsequent Quarterly Reports on Form 10-Q filed with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date of this release. Segment profit information referred to herein may be considered a non-GAAP financial measure. Further information regarding this measure, including the reasons management considers this information useful to investors, is included in the Company's most recent Annual Report on Form 10-K and subsequent reports on Form 10-Q filed with the SEC.

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share amounts)

Three Months Ended
March 31,

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<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007 (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net revenue</td>
<td>$ 400,596</td>
<td>$ 487,004</td>
</tr>
</tbody>
</table>

Cost and expenses:

Cost of care       | 269,835 | 308,819 |
Cost of goods sold | -     | 34,117 |
Direct service costs and other operating expenses (2) | 87,468 | 97,875 |
Equity in earnings of unconsolidated subsidiaries | (390) | - |
Depreciation and amortization | 10,657 | 13,652 |
Interest expense   | 1,969 | 1,852 |
Interest income    | (4,217) | (5,187) |
Gain on sale of assets | (4,745) | - |

Income from continuing operations before income taxes | 40,019 | 35,876 |

Net income        | 22,315 | 20,969 |

Other comprehensive income | 210 | 5 |

Comprehensive income | $ 22,525 | $ 20,974 |

Weighted average number of common shares outstanding -- basic | 36,704 | 38,231 |

Weighted average number of common shares
<table>
<thead>
<tr>
<th>outstanding -- diluted</th>
<th>38,101</th>
<th>39,264</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income per common share -- basic</td>
<td>$ 0.61</td>
<td>$ 0.55</td>
</tr>
<tr>
<td>Net income per common share -- diluted</td>
<td>$ 0.59</td>
<td>$ 0.53</td>
</tr>
</tbody>
</table>

(1) For a more detailed discussion of Magellan's results for the quarter ended March 31, 2007, refer to the Company's Quarterly Report on Form 10-Q which will be filed with the SEC on April 27, 2007, and the live broadcast or taped replay of the Company's earnings conference call on April 27, 2007, which will be available at www.MagellanHealth.com.

(2) Includes stock compensation expense of $5,500 and $6,787 for the three months ended March 31, 2006 and 2007, respectively.

MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

<table>
<thead>
<tr>
<th>Three Months Ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 31,</td>
</tr>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>---------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$ 22,315</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
</tr>
<tr>
<td>Gain on sale of assets</td>
<td>(4,745)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>10,657</td>
</tr>
<tr>
<td>Equity in earnings of unconsolidated subsidiaries</td>
<td>(390)</td>
</tr>
<tr>
<td>Non-cash interest expense</td>
<td>347</td>
</tr>
<tr>
<td>Non-cash stock compensation expense</td>
<td>5,500</td>
</tr>
<tr>
<td>Non-cash income tax expense</td>
<td>15,938</td>
</tr>
<tr>
<td>Cash flows from changes in assets and liabilities, net of effects from acquisitions of businesses:</td>
<td></td>
</tr>
<tr>
<td>Restricted cash</td>
<td>(22,044)</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>1,953</td>
</tr>
<tr>
<td>Other assets</td>
<td>4,984</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>(10,126)</td>
</tr>
<tr>
<td>Medical claims payable and other medical liabilities</td>
<td>(4,460)</td>
</tr>
<tr>
<td>Other</td>
<td>(69)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>19,860</td>
</tr>
</tbody>
</table>

Cash flows from investing activities:
| Capital expenditures | (4,185) | (5,416) |
| Acquisitions and investments in businesses, net of cash acquired | (120,029) | (5,271) |
| Proceeds from sale of assets | 20,475 | |

<table>
<thead>
<tr>
<th>Net cash</th>
<th>38,101</th>
<th>39,264</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash provided by operating activities</td>
<td>19,860</td>
<td>46,121</td>
</tr>
<tr>
<td>Cash provided by investing activities</td>
<td>(120,029)</td>
<td>(5,271)</td>
</tr>
<tr>
<td>Net decrease in cash and cash equivalents</td>
<td>(90,108)</td>
<td>(5,150)</td>
</tr>
<tr>
<td>Beginning of period</td>
<td>4,306</td>
<td>1,108</td>
</tr>
<tr>
<td>End of period</td>
<td>(45,812)</td>
<td>(4,042)</td>
</tr>
</tbody>
</table>
MAGELLAN HEALTH SERVICES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except membership amounts in millions)

Three Months Ended  
March 31,  
------------------------------------------  
2006  2007  
------------------------------------------

Net revenue
- Health Plan $157,787 $178,600
- Employer 33,180 31,213
- Public Sector 201,899 224,374
- Radiology Benefits Management 7,730 10,731
- Specialty Pharmaceutical Management - 42,086
------------------------------------------
Total revenue 400,596 487,004
------------------------------------------

Cost of care
- Health Plan 86,276 105,776
- Employer 8,155 6,823
- Public Sector 175,404 196,220
------------------------------------------
Total cost of care 269,835 308,819
------------------------------------------

Cost of goods sold - Specialty Pharmaceutical Management - 34,117
------------------------------------------

Direct service costs
- Health Plan 26,572 26,616
- Employer 16,763 15,518
- Public Sector 8,215 9,959
- Radiology Benefits Management 6,457 10,961
- Specialty Pharmaceutical Management - 4,619
------------------------------------------
Total direct services costs 58,007 67,673
------------------------------------------
Other operating expenses - Corporate & Other 29,461 30,202

Equity in earnings of unconsolidated subsidiaries
- Health Plan (390) -

Stock compensation expense (1)
- Health Plan (238) (392)
- Employer (68) (116)
- Public Sector (153) (211)
- Radiology Benefits Management (207) (462)
- Specialty Pharmaceutical Management - (2,052)
- Corporate & Other (4,834) (3,554)

Total stock compensation expense (5,500) (6,787)

Segment profit (loss)
- Health Plan 45,567 46,600
- Employer 8,330 8,988
- Public Sector 18,433 18,406
- Radiology Benefits Management 1,480 232
- Specialty Pharmaceutical Management - 5,402
- Corporate & Other (24,627) (26,648)

Total segment profit $ 49,183 $ 52,980

Reconciliation of segment profit to income from continuing operations before income taxes:

<table>
<thead>
<tr>
<th>Stock compensation expense</th>
<th>$ 49,183</th>
<th>$ 52,980</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortization</td>
<td>$ 49,183</td>
<td>$ 52,980</td>
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<tr>
<td>Interest expense</td>
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<td>$ 5,187</td>
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<td>$ 4,745</td>
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<tr>
<td>Gain on sale of assets</td>
<td>$ 4,745</td>
<td>$ 4,745</td>
</tr>
</tbody>
</table>

Income from continuing operations before income taxes $ 40,019 $ 35,876

Membership
- Health Plan 28.1
- Employer 14.2
- Public Sector 2.1
- Radiology Benefits Management 16.3

Total membership 60.7

(1) Stock compensation expense is included in direct service costs and other operating expenses; however, this amount is excluded from the computation of segment profit since it is managed on a consolidated basis.