
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2020

Or

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

(State or other jurisdiction of
incorporation or organization)

4801 E. Washington Street

Phoenix, Arizona

(Address of principal executive offices)

58-1076937

(IRS Employer
Identification No.)

85034

(Zip code)

(800) 642-1716

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	MGLN	The NASDAQ Global Market

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 every Interactive Data File required to be submitted 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of Magellan Health, Inc.'s common stock outstanding as of September 30, 2020 was 25,607,241.

FORM 10-Q
MAGELLAN HEALTH, INC. AND SUBSIDIARIES
INDEX

	<u>Page No.</u>
<u>PART I — Financial Information:</u>	
<u>Item 1:</u> <u>Financial Statements</u>	2
<u>Consolidated Balance Sheets—December 31, 2019 and September 30, 2020</u>	2
<u>Consolidated Statements of Comprehensive Income —For the Three and Nine Months Ended September 30, 2019 and 2020</u>	3
<u>Consolidated Statements of Changes in Stockholders' Equity—For the Three and Nine Months Ended September 30, 2019 and 2020</u>	4
<u>Consolidated Statements of Cash Flows—For the Nine Months Ended September 30, 2019 and 2020</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Item 2:</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>Item 3:</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	45
<u>Item 4:</u> <u>Controls and Procedures</u>	45
<u>PART II — Other Information:</u>	
<u>Item 1:</u> <u>Legal Proceedings</u>	45
<u>Item 1A:</u> <u>Risk Factors</u>	46
<u>Item 2:</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	49
<u>Item 3:</u> <u>Defaults Upon Senior Securities</u>	49
<u>Item 4:</u> <u>Mine Safety Disclosures</u>	49
<u>Item 5:</u> <u>Other Information</u>	49
<u>Item 6:</u> <u>Exhibits</u>	49
<u>Exhibit Index</u>	50
<u>Signatures</u>	51

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share amounts)

	December 31, 2019	September 30, 2020
ASSETS		
Current Assets:		
Cash and cash equivalents (\$51,253 and \$48,806 restricted at December 31, 2019 and September 30, 2020, respectively)	\$ 115,752	\$ 152,050
Accounts receivable, net	680,569	769,159
Short-term investments (\$82,772 and \$77,073 restricted at December 31, 2019 and September 30, 2020, respectively)	98,797	92,686
Pharmaceutical inventory	44,962	37,637
Other current assets (\$36,215 and \$49,380 restricted at December 31, 2019 and September 30, 2020, respectively)	69,687	95,666
Current portion of assets held for sale	663,276	1,144,032
Total Current Assets	1,673,043	2,291,230
Property and equipment, net	131,712	131,869
Long-term investments (\$2,307 and \$3,585 restricted at December 31, 2019 and September 30, 2020, respectively)	2,864	5,623
Deferred income taxes	1,840	25,823
Other long-term assets	58,905	67,692
Goodwill	806,421	806,421
Other intangible assets, net	81,675	52,362
Assets held for sale, less current portion	335,713	—
Total Assets	\$ 3,092,173	\$ 3,381,020
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 83,790	\$ 122,020
Accrued liabilities	191,854	235,152
Medical claims payable	128,114	119,922
Other medical liabilities	92,915	123,205
Current debt, finance lease and deferred financing obligations	3,491	4,308
Current portion of liabilities held for sale	409,983	496,272
Total Current Liabilities	910,147	1,100,879
Long-term debt, finance lease and deferred financing obligations	679,125	637,093
Deferred income taxes	1,971	—
Tax contingencies	9,453	11,724
Deferred credits and other long-term liabilities	56,393	52,172
Liabilities held for sale, less current portion	37,301	—
Total Liabilities	1,694,390	1,801,868
Preferred stock, par value \$.01 per share		
Authorized—10,000 shares at December 31, 2019 and September 30, 2020-Issued and outstanding-none	—	—
Common stock, par value \$.01 per share		
Authorized—100,000 shares at December 31, 2019 and September 30, 2020-Issued and outstanding-54,285 and 24,623 shares at December 31, 2019, respectively, and 55,269 and 25,607 shares at September 30, 2020, respectively	543	553
Other Stockholders' Equity:		
Additional paid-in capital	1,386,616	1,455,009
Retained earnings	1,475,207	1,588,196
Accumulated other comprehensive income	144	121
Treasury stock, at cost, 29,662 and 29,662 shares at December 31, 2019 and September 30, 2020, respectively	(1,464,727)	(1,464,727)
Total Stockholders' Equity	1,397,783	1,579,152
Total Liabilities and Stockholders' Equity	\$ 3,092,173	\$ 3,381,020

See accompanying notes to consolidated financial statements.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Net revenue:				
Managed care and other	\$ 591,229	\$ 568,688	\$ 1,766,391	\$ 1,670,567
PBM	567,314	601,429	1,665,447	1,722,004
Total net revenue	<u>1,158,543</u>	<u>1,170,117</u>	<u>3,431,838</u>	<u>3,392,571</u>
Costs and expenses:				
Cost of care	397,697	364,438	1,175,705	1,035,377
Cost of goods sold	523,973	560,269	1,551,368	1,621,577
Direct service costs and other operating expenses (1)	195,844	216,770	594,051	620,767
Depreciation and amortization	28,890	24,730	82,498	71,976
Interest expense	8,935	7,286	27,042	24,239
Interest and other income	(1,699)	(349)	(5,279)	(2,119)
Special charges	—	16,599	—	24,908
Total costs and expenses	<u>1,153,640</u>	<u>1,189,743</u>	<u>3,425,385</u>	<u>3,396,725</u>
Income (loss) from continuing operations before income taxes	4,903	(19,626)	6,453	(4,154)
Provision (benefit) for income taxes	782	(2,330)	3,308	(32,896)
Net income (loss) from continuing operations	4,121	(17,296)	3,145	28,742
Income from discontinued operations, net of tax	17,153	28,943	32,173	84,660
Net income	<u>\$ 21,274</u>	<u>\$ 11,647</u>	<u>\$ 35,318</u>	<u>\$ 113,402</u>
Net income (loss) per common share:				
Basic (See Note A)				
Continuing operations	\$ 0.17	\$ (0.68)	\$ 0.13	\$ 1.15
Discontinued operations	0.70	1.14	1.33	3.37
Consolidated operations	<u>\$ 0.87</u>	<u>\$ 0.46</u>	<u>\$ 1.46</u>	<u>\$ 4.52</u>
Diluted (See Note A)				
Continuing operations	\$ 0.17	\$ (0.68)	\$ 0.13	\$ 1.14
Discontinued operations	0.69	1.14	1.31	3.34
Consolidated operations	<u>\$ 0.86</u>	<u>\$ 0.46</u>	<u>\$ 1.44</u>	<u>\$ 4.48</u>
Other comprehensive income				
Unrealized gains (losses) on available-for-sale securities (2)	(98)	(481)	641	(23)
Comprehensive income	<u>\$ 21,176</u>	<u>\$ 11,166</u>	<u>\$ 35,959</u>	<u>\$ 113,379</u>

(1) Includes stock compensation expense of \$4,604 and \$5,442, for the three months ended September 30, 2019 and 2020, respectively and \$19,211 and \$17,831 for the nine months ended September 30, 2019 and 2020, respectively.

(2) Net of income tax (benefit) provision of \$(31) and \$(160) for the three months ended September 30, 2019 and 2020, respectively, and \$201 and \$(8) for the nine months ended September 30, 2019 and 2020, respectively.

See accompanying notes to consolidated financial statements.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands)

	Common Stock		Common Stock In Treasury		Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at June 30, 2019	54,063	\$ 541	(29,662)	\$ (1,464,727)	\$ 1,364,693	\$ 1,433,348	\$ 415	\$ 1,334,270
Stock compensation expense	—	—	—	—	4,811	—	—	4,811
Exercise of stock options	—	—	—	—	5	—	—	5
Issuance of equity	68	—	—	—	2,209	—	—	2,209
Net income	—	—	—	—	—	21,274	—	21,274
Other comprehensive (loss)—other	—	—	—	—	—	1	(98)	(97)
Balance at September 30, 2019	<u>54,131</u>	<u>\$ 541</u>	<u>(29,662)</u>	<u>\$ (1,464,727)</u>	<u>\$ 1,371,718</u>	<u>\$ 1,454,623</u>	<u>\$ 317</u>	<u>\$ 1,362,472</u>
Balance at June 30, 2020	54,972	\$ 550	(29,662)	\$ (1,464,727)	\$ 1,429,995	\$ 1,576,549	\$ 602	\$ 1,542,969
Stock compensation expense	—	—	—	—	5,839	—	—	5,839
Exercise of stock options	263	3	—	—	17,138	—	—	17,141
Issuance of equity	34	—	—	—	2,037	—	—	2,037
Net income	—	—	—	—	—	11,647	—	11,647
Other comprehensive (loss)—other	—	—	—	—	—	—	(481)	(481)
Balance at September 30, 2020	<u>55,269</u>	<u>\$ 553</u>	<u>(29,662)</u>	<u>\$ (1,464,727)</u>	<u>\$ 1,455,009</u>	<u>\$ 1,588,196</u>	<u>\$ 121</u>	<u>\$ 1,579,152</u>
Balance at December 31, 2018	53,536	\$ 535	(29,601)	\$ (1,461,002)	\$ 1,326,645	\$ 1,419,449	\$ (324)	\$ 1,285,303
Stock compensation expense	—	—	—	—	19,832	—	—	19,832
Exercise of stock options	389	5	—	—	23,479	—	—	23,484
Issuance of equity	206	1	—	—	1,762	—	—	1,763
Repurchase of stock	—	—	(61)	(3,725)	—	—	—	(3,725)
Net income	—	—	—	—	—	35,318	—	35,318
Other comprehensive income—other	—	—	—	—	—	—	641	641
Adoption of ASC 842	—	—	—	—	—	(144)	—	(144)
Balance at September 30, 2019	<u>54,131</u>	<u>\$ 541</u>	<u>(29,662)</u>	<u>\$ (1,464,727)</u>	<u>\$ 1,371,718</u>	<u>\$ 1,454,623</u>	<u>\$ 317</u>	<u>\$ 1,362,472</u>
Balance at December 31, 2019	54,285	\$ 543	(29,662)	\$ (1,464,727)	\$ 1,386,616	\$ 1,475,207	\$ 144	\$ 1,397,783
Stock compensation expense	—	—	—	—	18,854	—	—	18,854
Exercise of stock options	803	9	—	—	48,639	—	—	48,648
Issuance of equity	181	1	—	—	900	—	—	901
Net income	—	—	—	—	—	113,402	—	113,402
Other comprehensive (loss)—other	—	—	—	—	—	—	(23)	(23)
Adoption of ASC 326	—	—	—	—	—	(413)	—	(413)
Balance at September 30, 2020	<u>55,269</u>	<u>\$ 553</u>	<u>(29,662)</u>	<u>\$ (1,464,727)</u>	<u>\$ 1,455,009</u>	<u>\$ 1,588,196</u>	<u>\$ 121</u>	<u>\$ 1,579,152</u>

See accompanying notes to consolidated financial statements.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30,

(Unaudited)

(In thousands)

	2019	2020
Cash flows from operating activities:		
Net income	\$ 35,318	\$ 113,402
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	98,355	88,061
Special charges	—	24,908
Non-cash interest expense	1,069	1,297
Non-cash stock compensation expense	19,832	18,854
Non-cash income tax provision (benefit)	4,567	(26,537)
Non-cash (amortization) accretion on investments	(509)	2,371
Changes in assets and liabilities, net of effects from acquisitions of businesses:		
Accounts receivable, net	(54,261)	(78,682)
Pharmaceutical inventory	(7,555)	7,325
Other assets	(35,714)	(66,612)
Accounts payable and accrued liabilities	83,976	110,710
Medical claims payable and other medical liabilities	11,997	47,478
Contingent consideration	(3,754)	—
Tax contingencies	(251)	1,914
Deferred credits and other long-term liabilities	(9,566)	(11,572)
Other	919	(965)
Net cash provided by operating activities	144,423	231,952
Net cash provided by operating activities from discontinued operations	25,079	177,800
Net cash provided by operating activities from continuing operations	119,344	54,152
Cash flows from investing activities:		
Capital expenditures	(44,234)	(56,006)
Acquisitions and investments in businesses, net of cash acquired	(320)	(2,066)
Purchases of investments	(391,062)	(661,004)
Proceeds from maturities and sales of investments	434,493	500,660
Net cash used in investing activities	(1,123)	(218,416)
Net cash provided by (used in) investing activities from discontinued operations	46,196	(164,836)
Net cash used in investing activities from continuing operations	(47,319)	(53,580)
Cash flows from financing activities:		
Proceeds from borrowings on revolving line of credit	—	80,000
Payments to acquire treasury stock	(4,124)	—
Proceeds from exercise of stock options	20,653	48,284
Payments on debt, finance lease and deferred financing obligations	(50,950)	(126,110)
Payments on contingent consideration	(6,247)	—
Other	1,763	902
Net cash (used in) provided by financing activities	(38,905)	3,076
Net cash used in financing activities from discontinued operations	—	(32,650)
Net cash (used in) provided by financing activities from continuing operations	(38,905)	35,726
Net increase in cash and cash equivalents from continuing operations	33,120	36,298
Cash and cash equivalents at beginning of period	86,923	115,752
Cash and cash equivalents at end of period	<u>\$ 120,043</u>	<u>\$ 152,050</u>
Supplemental cash flow data:		
Non-cash investing activities:		
Assets acquired under finance leases and deferred financing obligations	<u>\$ 3,302</u>	<u>\$ 3,599</u>

See accompanying notes to consolidated financial statements.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020
(Unaudited)

NOTE A—General

Basis of Presentation

The accompanying unaudited consolidated financial statements of Magellan Health, Inc., a Delaware corporation (“Magellan”), include Magellan and its subsidiaries (together with Magellan, the “Company”). The financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the Securities and Exchange Commission’s (the “SEC”) instructions to Form 10-Q. Accordingly, the financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. The results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the full year. All significant intercompany accounts and transactions have been eliminated in consolidation. On April 30, 2020, the Company and Molina Healthcare, Inc. (“Molina”) entered into a Stock and Asset Purchase Agreement (the “Purchase Agreement”) pursuant to which the Company has agreed to sell its Magellan Complete Care (“MCC”) business to Molina (the “MCC Sale”) for \$850.0 million in cash, subject to certain adjustments, and Molina has agreed to assume liabilities of the MCC business. Accordingly, the accompanying consolidated financial statements for all periods presented reflect the MCC business as discontinued operations. See Note E—“Discontinued Operations” for additional information.

These unaudited consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2019 and the notes thereto, which are included in the Company’s Annual Report on Form 10-K filed with the SEC on February 28, 2020.

Business Overview

The Company provides managed care and pharmacy solutions for some of the most complex areas of healthcare. The Company offers innovative solutions that combine analytics, technology and clinical rigor to drive better decision making, positively impact members’ health outcomes and optimize the cost of care for the customers Magellan serves. 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”). Magellan operates three segments: Healthcare, Pharmacy Management and Corporate.

Healthcare Segment

The Healthcare segment (“Healthcare”) previously consisted of two reporting units – Behavioral & Specialty Health and MCC. As a result of the pending MCC Sale, the Healthcare segment now only includes the Behavioral and Specialty Health reporting unit.

The Behavioral & Specialty Health reporting unit’s customers include health plans, accountable care organizations (“ACOs”), employers, the United States military and various federal government agencies for whom Magellan provides carve-out management services for (i) behavioral health, (ii) employee assistance plans (“EAP”) and (iii) other areas of specialty healthcare including diagnostic imaging, musculoskeletal management, cardiac and physical medicine. These management services can be applied broadly across commercial, Medicaid and Medicare populations, or on a more targeted basis for our health plans and ACO customers. The Behavioral & Specialty Health unit also includes Magellan’s carve-out behavioral health contracts with various state Medicaid agencies.

MCC, which is now reflected as discontinued operations, contracts with state Medicaid agencies and the Centers for Medicare and Medicaid Services (“CMS”) to manage care for beneficiaries under various Medicaid and Medicare programs. MCC manages a wide range of services from total medical cost to carve out long-term support services. MCC largely focuses on managing care for more acute special populations including individuals with serious mental illness (“SMI”), dual eligibles, aged, blind and disabled (“ABD”) and other populations with unique and often complex healthcare needs.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

Magellan's coordination and management of these healthcare and long-term support services are provided through its comprehensive network of medical and behavioral health professionals, clinics, hospitals, skilled nursing facilities, home care agencies and ancillary service providers. This network of credentialed 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 Company provides its Healthcare management services primarily through: (i) risk-based contractual arrangements, 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 ("PMPM") fee, or (ii) administrative services only ("ASO") contractual arrangements, where the Company provides services such as utilization review, claims administration and/or provider network management, but does not assume full responsibility for the cost of the treatment services, in exchange for an administrative fee and, in some instances, a gain share.

Pharmacy Management Segment

The Pharmacy Management segment ("Pharmacy Management") is comprised of services that provide clinical and financial management of pharmaceuticals paid under both the medical and the pharmacy benefit. Pharmacy Management's customer solutions include: (i) pharmacy benefit management ("PBM") services, including pharmaceutical dispensing operations and Medicare Part D; (ii) pharmacy benefit administration ("PBA") for state Medicaid and other government sponsored programs; (iii) clinical and formulary management programs; (iv) medical pharmacy management programs; and (v) 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 markets its pharmacy management services to managed care organizations, employers, third party administrators, state governments, Medicare Part D, and other government agencies, exchanges, brokers and consultants. In addition, the Company will continue to upsell its pharmacy services to its existing customers and market its pharmacy solutions to the Healthcare customer base, including through integrated Pharmacy Management and Healthcare service offerings.

Pharmacy Management contracts with its customers for services using risk-based, gain share or ASO arrangements. In addition, Pharmacy Management provides services for most of the MCC business.

On May 11, 2020, the Company announced its decision to exit the Medicare Part D business at the end of 2020. The Company will retain its Medicare Employer Group Waiver Plan as well as full capabilities to serve the PBM needs of its existing and prospective Medicare 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.

Summary of Significant Accounting Policies

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 can include, among other things, valuation of goodwill and intangible assets, medical claims payable, other medical liabilities, stock compensation assumptions, tax contingencies and legal liabilities. In addition, the Company also makes estimates in

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

relation to revenue recognition under Accounting Standard Codification 606 (“ASC 606”) which are explained in more detail in “Revenue Recognition” below. Actual results could differ from those estimates.

Revenue Recognition

Virtually all of the Company’s revenues are derived from business in North America. The following tables disaggregate our revenue for the three and nine months ended September 30, 2019 and 2020 by major service line, type of customer and timing of revenue recognition (in thousands):

	Three Months Ended September 30, 2019			
	Healthcare	Pharmacy Management	Elimination	Total
Major Service Lines				
Behavioral & Specialty Health				
Risk-based, non-EAP	\$ 383,768	\$ —	\$ (76)	\$ 383,692
EAP risk-based	80,076	—	—	80,076
ASO	57,535	9,475	(42)	66,968
PBM, including dispensing	—	495,759	(4,772)	490,987
Medicare Part D	—	76,327	—	76,327
PBA	—	35,768	—	35,768
Formulary management	—	23,976	—	23,976
Other	—	749	—	749
Total net revenue	\$ 521,379	\$ 642,054	\$ (4,890)	\$ 1,158,543
Type of Customer				
Government	\$ 277,884	\$ 215,197	\$ —	\$ 493,081
Non-government	243,495	426,857	(4,890)	665,462
Total net revenue	\$ 521,379	\$ 642,054	\$ (4,890)	\$ 1,158,543
Timing of Revenue Recognition				
Transferred at a point in time	\$ —	\$ 572,086	\$ (4,772)	\$ 567,314
Transferred over time	521,379	69,968	(118)	591,229
Total net revenue	\$ 521,379	\$ 642,054	\$ (4,890)	\$ 1,158,543

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

	Three Months Ended September 30, 2020			
	Healthcare	Pharmacy Management	Elimination	Total
Major Service Lines				
Behavioral & Specialty Health				
Risk-based, non-EAP	\$ 352,442	\$ —	\$ (95)	\$ 352,347
EAP risk-based	74,703	—	—	74,703
ASO	62,306	11,631	(50)	73,887
PBM, including dispensing	—	540,615	(5,117)	535,498
Medicare Part D	—	65,931	—	65,931
PBA	—	35,068	—	35,068
Formulary management	—	31,327	—	31,327
Other	—	1,356	—	1,356
Total net revenue	\$ 489,451	\$ 685,928	\$ (5,262)	\$ 1,170,117
Type of Customer				
Government	\$ 240,845	\$ 210,040	\$ —	\$ 450,885
Non-government	248,606	475,888	(5,262)	719,232
Total net revenue	\$ 489,451	\$ 685,928	\$ (5,262)	\$ 1,170,117
Timing of Revenue Recognition				
Transferred at a point in time	\$ —	\$ 606,546	\$ (5,117)	\$ 601,429
Transferred over time	489,451	79,382	(145)	568,688
Total net revenue	\$ 489,451	\$ 685,928	\$ (5,262)	\$ 1,170,117

	Nine Months Ended September 30, 2019			
	Healthcare	Pharmacy Management	Elimination	Total
Major Service Lines				
Behavioral & Specialty Health				
Risk-based, non-EAP	\$ 1,146,592	\$ —	\$ (219)	\$ 1,146,373
EAP risk-based	256,989	—	—	256,989
ASO	170,733	27,945	(215)	198,463
PBM, including dispensing	—	1,469,151	(13,214)	1,455,937
Medicare Part D	—	209,510	—	209,510
PBA	—	103,220	—	103,220
Formulary management	—	59,585	—	59,585
Other	—	1,761	—	1,761
Total net revenue	\$ 1,574,314	\$ 1,871,172	\$ (13,648)	\$ 3,431,838
Type of Customer				
Government	\$ 694,534	\$ 624,569	\$ —	\$ 1,319,103
Non-government	879,780	1,246,603	(13,648)	2,112,735
Total net revenue	\$ 1,574,314	\$ 1,871,172	\$ (13,648)	\$ 3,431,838
Timing of Revenue Recognition				
Transferred at a point in time	\$ —	\$ 1,678,661	\$ (13,214)	\$ 1,665,447
Transferred over time	1,574,314	192,511	(434)	1,766,391
Total net revenue	\$ 1,574,314	\$ 1,871,172	\$ (13,648)	\$ 3,431,838

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

	Nine Months Ended September 30, 2020			
	Healthcare	Pharmacy Management	Elimination	Total
Major Service Lines				
Behavioral & Specialty Health				
Risk-based, non-EAP	\$ 1,046,486	\$ —	\$ (277)	\$ 1,046,209
EAP risk-based	232,060	—	—	232,060
ASO	180,832	35,436	(218)	216,050
PBM, including dispensing	—	1,558,211	(14,515)	1,543,696
Medicare Part D	—	178,308	—	178,308
PBA	—	96,008	—	96,008
Formulary management	—	78,550	—	78,550
Other	—	1,690	—	1,690
Total net revenue	\$ 1,459,378	\$ 1,948,203	\$ (15,010)	\$ 3,392,571
Type of Customer				
Government	\$ 690,340	\$ 622,986	\$ —	\$ 1,313,326
Non-government	769,038	1,325,217	(15,010)	2,079,245
Total net revenue	\$ 1,459,378	\$ 1,948,203	\$ (15,010)	\$ 3,392,571
Timing of Revenue Recognition				
Transferred at a point in time	\$ —	\$ 1,736,519	\$ (14,515)	\$ 1,722,004
Transferred over time	1,459,378	211,684	(495)	1,670,567
Total net revenue	\$ 1,459,378	\$ 1,948,203	\$ (15,010)	\$ 3,392,571

Per Member Per Month (“PMPM”) Revenue. Almost all of the Healthcare revenue and a small portion of the Pharmacy Management revenue is paid on a PMPM basis. PMPM revenue is inclusive of revenue from the Company’s risk, EAP and ASO contracts and primarily relates to managed care contracts for services such as the provision of behavioral healthcare, specialty healthcare, pharmacy management, or fully integrated healthcare services. PMPM contracts generally have a term of one year or longer, with the exception of government contracts where the customer can terminate with as little as 30 days’ notice for no significant penalty. All managed care contracts have a single performance obligation that constitutes a series for the provision of managed healthcare services for a population of enrolled members for the duration of the contract. The transaction price for PMPM contracts is entirely variable as it primarily includes PMPM fees associated with unspecified membership that fluctuates throughout the contract. In certain contracts, PMPM fees also include adjustments for things such as performance incentives, performance guarantees and risk shares. The Company generally estimates the transaction price using an expected value methodology and amounts are only included in the net transaction price to the extent that it is probable that a significant reversal of cumulative revenue will not occur once any uncertainty is resolved. The majority of the Company’s net PMPM transaction price relates specifically to its efforts to transfer the service for a distinct increment of the series (e.g. day or month) and is recognized as revenue in the month in which members are entitled to service. The remaining transaction price is recognized over the contract period (or portion of the series to which it specifically relates) based upon estimated membership as a measure of progress.

Under certain government contracts, our risk scores are compared with the overall average risk scores for the relevant state and market pool. Generally, if our risk score is below the average risk score, we are required to make a risk adjustment payment into the risk pool, and if our risk score is above the average risk score, we will receive a risk adjustment payment from the risk pool. Risk adjustments can have a positive or negative retroactive impact to rates.

Pharmacy Benefit Management Revenue. The Company’s customers for PBM business, including pharmaceutical dispensing operations, are generally comprised of MCOs, employer groups and health plans. PBM relationships generally have an expected term of one year or longer. A master services arrangement (“MSA”) is executed

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

by the Company and the customer, which outlines the terms and conditions of the PBM services to be provided. When a member in the customer's organization submits a prescription, a claim is created which is presented for approval. The acceptance of each individual claim creates enforceable rights and obligations for each party and represents a separate contract. For each individual claim, the performance obligations are limited to the processing and adjudication of the claim, or dispensing of the products purchased. Generally, the transaction price for PBM services is explicitly listed in each contract and does not represent variable consideration. The Company recognizes PBM revenue, which consists of a negotiated prescription price (ingredient cost plus dispensing fee), co-payments and any associated administrative fees, when claims are adjudicated or the drugs are shipped. 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, controls the underlying service, 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, collecting 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. For dispensing, 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.

Medicare Part D. The Company is contracted with CMS as a Prescription Drug Plan ("PDP") to provide prescription drug benefits to Medicare beneficiaries. The accounting for Medicare Part D revenue is primarily the same as that for PBM, as previously discussed. However, there is certain variable consideration present only in Medicare Part D arrangements. The Company estimates the annual amount of variable consideration using a most likely amount methodology, which is allocated to each reporting period based upon actual utilization as a percentage of estimated utilization for the year. Amounts estimated throughout the year for interim reporting are substantially resolved and fixed as of December 31st, the end of the plan year.

Pharmacy Benefit Administration Revenue. The Company provides Medicaid pharmacy services to states and other government sponsored programs. PBA contracts are generally multi-year arrangements but include language regarding early termination for convenience without material penalty provisions that results in enforceable rights and obligations on a month-to-month basis. In PBA arrangements, the Company is generally paid a fixed fee per month to provide PBA services. In addition, some PBA contracts contain upfront fees that constitute a material right. For contracts without an upfront fee, there is a single performance obligation to stand ready to provide the PBA services required for the contracted period. The Company believes that the customer receives the PBA benefits each day from access to the claims processing activities, and has concluded that a time-based measure is appropriate for recognizing PBA revenue. For contracts with an upfront fee, the material right represents an additional performance obligation. Amounts allocated to the material right are initially recorded as a contract liability and recognized as revenue over the anticipated period of benefit of the material right, which generally ranges from 2 to 10 years.

Formulary Management Revenue. The Company administers formulary management programs 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. Formulary management contracts generally have a term of one year or longer. All formulary management contracts have a single performance obligation that constitutes a series for the provision of rebate services for a drug, with utilization measured and settled on a quarterly basis, for the duration of the arrangement. The Company retains its administrative fee and/or a percentage of rebates that is included in its contract with the client from collecting the rebate from the manufacturer. While the administrative fee and/or the percentage of rebates retained is fixed, there is an unknown quantity of pharmaceutical purchases (utilization) during each quarter; therefore the transaction price itself is variable. The Company uses the expected value methodology to estimate the total rebates earned each quarter based on estimated volumes of pharmaceutical purchases by the Company's clients during the quarter, as well as historical and/or anticipated retained rebate percentages. The Company does not record as rebate revenue any rebates that are passed through to its clients.

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

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

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.

Government EAP Risk-Based Revenue. The Company has certain contracts with federal customers for the provision of various managed care services, which are classified as EAP risk-based business. These contracts are generally multi-year arrangements. The Company's federal contracts are reimbursed on either a fixed fee basis or a cost reimbursement basis. The performance obligation on a fixed fee contract is to stand ready to provide the staffing required for the contracted period. For fixed fee contracts, the Company believes the invoiced amount corresponds directly with the value to the customer of the Company's performance completed to date; therefore, the Company is utilizing the "right to invoice" practical expedient, with revenue recognition in the amount for which the Company has the right to invoice.

The performance obligation on a cost reimbursement contract is to stand ready to provide the activity or services purchased by the customer, such as the operation of a counseling services group or call center. The performance obligation represents a series for the duration of the arrangement. The reimbursement rate is fixed per the contract; however, the level of activity (e.g., number of hours, number of counselors or number of units) is variable. A majority of the Company's cost reimbursement transaction price relates specifically to its efforts to transfer the service for a distinct increment of the series (e.g. day or month) and is recognized as revenue when the portion of the series for which it relates has been provided (i.e. as the Company provides hours, counselors or units of service).

In accordance with ASC 606-10-50-13, the Company is required to include disclosure on its remaining performance obligations as of the end of the current reporting period. Due to the nature of the contracts in the Company's PBM and Part D business, these reporting requirements are not applicable. The majority of the Company's remaining contracts meet certain exemptions as defined in ASC 606-10-50-14 through 606-10-50-14A, including (i) performance obligation is part of a contract that has an original expected duration of one year or less; (ii) the right to invoice practical expedient; and (iii) variable consideration related to unsatisfied performance obligations that is allocated entirely to a wholly unsatisfied promise to transfer a distinct service that forms part of a single performance obligation, and the terms of that variable consideration relate specifically to our efforts to transfer the distinct service, or to a specific outcome from transferring the distinct service. For the Company's contracts that pertain to these exemptions: (i) the remaining performance obligations primarily relate to the provision of managed healthcare services to the customers' membership; (ii) the estimated remaining duration of these performance obligations ranges from the remainder of the current calendar year to three years; and (iii) variable consideration for these contracts primarily includes net PMPM fees associated with unspecified membership that fluctuates throughout the contract.

Accounts Receivable, Contract Assets and Contract Liabilities

Accounts receivable, contract assets and contract liabilities consisted of the following (in thousands, except percentages):

	December 31, 2019	September 30, 2020	\$ Change	% Change
Accounts receivable	\$ 717,455	\$ 822,354	\$ 104,899	14.6%
Contract assets	2,162	12,419	10,257	474.4%
Contract liabilities - current	6,728	12,071	5,343	79.4%
Contract liabilities - long-term	11,099	11,480	381	3.4%

Accounts receivable, which are included in accounts receivable, other current assets and other long-term assets on the consolidated balance sheets, increased by \$104.9 million, mainly due to timing of receipts and health insurer fee ("HIF") accrual. Contract assets, which are included in other current assets on the consolidated balance sheets, increased by \$10.3 million, mainly due to the timing of accrual of certain performance incentives and annual settlements. Contract liabilities – current, which are included in accrued liabilities on the consolidated balance sheets, increased by \$5.3 million, mainly due to the HIF recognition in the current year period. Contract liabilities – long-term, which are included in deferred credits and other long-term liabilities on the consolidated balance sheets, increased by \$0.4 million mainly

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

due to payments received for which recognition will be long term partially offset by certain balances which became current.

During the three months ended September 30 2020, the Company recognized revenue of \$5.6 million that was included in current contract liabilities at June 30, 2020. During the nine months ended September 30, 2020, the Company recognized revenue of \$5.4 million that was included in current contract liabilities at December 31, 2019. The estimated timing of recognition of amounts included in contract liabilities at September 30, 2020 are as follows: 2020—\$8.8 million; 2021—\$4.2 million; 2022—\$3.4 million; 2023 and beyond—\$7.2 million. During the three and nine months ended September 30, 2020, the revenue the Company recognized related to performance obligations that were satisfied, or partially satisfied, in previous periods was not material.

The Company's accounts receivable consists of amounts due from customers throughout the United States. Collateral is generally not required. A majority of the Company's contracts have payment terms in the month of service, or within a few months thereafter. The timing of payments from customers from time to time generates contract assets or contract liabilities; however, these amounts are immaterial.

The Company's accounts receivable is net of an allowance for credit losses. The estimate of current expected credit losses on trade receivables considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management elected to disaggregate trade receivables into business segments due to risk characteristics unique to each platform given the individual lines of business and market. Pooling was further disaggregated based on either geography or product type.

The Company leveraged historical write offs over a defined lookback period in deriving a historical loss rate. The expected credit loss model further considers current conditions and reasonable and supportable forecasts through the use of an adjustment for current and projected macroeconomic factors. Management identified appropriate macroeconomic indicators based on tangible correlation to historical losses, giving consideration to the location and risks associated with the Company's customers.

Significant Customers

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

The Company had no customers that exceeded ten percent of the Company's net revenues from continuing operations. The following MCC customers, which are included in discontinued operations, previously exceeded ten percent of the Company's consolidated net revenues.

The Company has contracts with the Commonwealth of Virginia (the "Virginia Contracts"). The Company began providing Medicaid managed long-term services and supports to enrollees in the Commonwealth Coordinated Care Plus ("CCC Plus") program on August 1, 2017. The CCC Plus contract expires annually on December 31 and automatically renews annually on January 1 for a period of five calendar years, with potential of up to five 12-month extensions. The Commonwealth of Virginia has the right to terminate the CCC Plus contract with cause at any time and for convenience upon 90 days' notice. On August 1, 2018, the Company began providing integrated healthcare services to Medicaid enrollees in the Commonwealth of Virginia under the Medallion 4.0/FAMIS Managed Care Program ("Medallion"). The initial term of the Medallion contract is from August 1, 2018 through June 30, 2019, with six 12-month renewal options. The Medallion contract has been renewed through June 30, 2021. The Commonwealth of Virginia has the right to terminate the Medallion contract with cause at any time and for convenience upon 180 days' notice. The Virginia Contracts generated net revenues of \$614.1 million and \$741.6 million for the nine months ended September 30, 2019 and 2020, respectively, which are reported as discontinued operations.

The Company had a contract with the State of New York (the "New York Contract") to provide integrated managed care services to Medicaid and Medicare enrollees in the State of New York. The Company's New York Contract terminated on December 31, 2016; however, the Company, along with other participating managed care plans in the state, continues to provide services while a new contract is being finalized. The New York Contracts generated net

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

revenues of \$623.4 million and \$576.6 million for the nine months ended September 30, 2019 and 2020, respectively, which are reported as discontinued operations.

The Company has contracts with the Commonwealth of Massachusetts and CMS (the “Massachusetts Contracts”) to provide integrated managed care services to Medicaid and Medicare enrollees in the Commonwealth of Massachusetts. Medicaid services are provided under a Senior Care Options contract (“SCO Contract”) which began on January 1, 2016 and extends through December 31, 2021, with the potential for up to five additional one-year extensions. The Commonwealth of Massachusetts may terminate the contract with cause without prior notice and upon 180 days’ notice without cause. Medicare services are provided under a one-year contract with CMS. The CMS contract currently extends through December 31, 2020. The Company began recognizing revenue in relation to the Massachusetts Contracts on November 1, 2017 as a result of the acquisition of SWH Holdings, Inc. The Massachusetts Contracts generated net revenues of \$541.9 million and \$537.0 million for the nine months ended September 30, 2019 and 2020, respectively, which are reported within discontinued operations.

Customers exceeding ten percent of segment net revenues

The following customers generated in excess of ten percent of net revenues from continuing operations for the respective segment for the nine months ended September 30, 2019 and 2020 (in thousands):

Segment	Term Date	2019	2020
Healthcare			
Customer A	December 31, 2021	\$ 243,813	\$ 259,286
Customer B	December 31, 2022	154,558 *	147,177
Pharmacy Management			
Customer C	March 31, 2024	259,826	284,697

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

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 \$410.2 million and \$428.6 million for the nine months ended September 30, 2019 and 2020, respectively. Net revenues from members in relation to its contracts with CMS in aggregate totaled \$209.5 million and \$178.3 million for the nine months ended September 30, 2019 and 2020, respectively. As of December 31, 2019 and September 30, 2020, the Company had \$117.4 million and \$126.1 million, respectively, in net receivables associated with Medicare Part D from CMS and other parties related to this business. In May 2020, the Company announced its decision to exit the Part D business at the end of 2020. Net revenues from contracts with various agencies and departments of the United States federal government in aggregate totaled \$226.8 million and \$200.1 million for the nine months ended September 30, 2019 and 2020, respectively.

The Company’s contracts with customers typically have stated 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 30 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.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

Leases

The Company leases certain office space, distribution centers, land and equipment. We assess our contracts to determine if it contains a lease. This assessment is based on (i) the right to control the use of an identified asset; (ii) the right to obtain substantially all of the economic benefits from the use of the identified asset; and (iii) the right to use the identified asset. The Company elected the short-term lease practical expedient; thus, leases with an initial term of twelve months or less are not capitalized and the expense is recognized on a straight-line basis. Most leases include one or more options to renew, with renewal terms that can extend the lease from one to ten years. The exercise of renewal options are at the sole discretion of the Company. Renewal options that the Company is reasonably certain to accept are recognized as part of the right-of-use (“ROU”) asset. Certain of the Company’s ROU assets were impaired which resulted in special charges, see Note F—“Special Charges” for further discussion.

Operating leases are included in other long-term assets, accrued liabilities and deferred credits and other long-term liabilities in the consolidated balance sheets. Finance leases are included in property and equipment, current debt, finance lease deferred financing obligations and long-term debt, finance lease and deferred financing obligations in the consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments per the lease. Operating lease ROU assets and liabilities are recognized at lease commencement date based on the present value of lease payments over the lease term. As the rate implicit in most of our leases is not readily determinable, the Company used its incremental borrowing rate to determine the present value of lease payments.

The following table shows the components of lease expenses for the three and nine months ended September 30, 2020 (in thousands):

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Operating lease cost	\$ 2,208	\$ 6,812
Finance lease cost:		
Amortization of right-of-use asset	1,193	3,571
Interest on lease liabilities	183	610
Total finance lease cost	1,376	4,181
Short-term lease cost	58	262
Variable lease cost	818	1,829
Total lease cost	4,460	13,084
Sublease income	(66)	(245)
Net lease cost	\$ 4,394	\$ 12,839

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

The following table shows the components of the lease assets and liabilities as of September 30, 2020 (in thousands):

	September 30, 2020
Operating leases:	
Other long-term assets	\$ 17,453
Accrued liabilities	\$ 9,762
Deferred credits and other long-term liabilities	23,990
Total operating lease liabilities	\$ 33,752
Finance leases:	
Property and equipment, net	\$ 13,100
Current debt, finance lease and deferred financing obligations	\$ 4,416
Long-term debt, finance lease and deferred financing obligations	13,186
Total finance lease liabilities	\$ 17,602

The maturity dates of the Company's leases as of September 30, 2020 are summarized below (in thousands):

	September 30, 2020
2020	\$ 4,106
2021	14,417
2022	13,460
2023	9,815
2024	8,190
2025 and beyond	2,891
Total lease payments	52,879
Less interest	(1,525)
Present value of lease liabilities	\$ 51,354

The following table shows the weighted average remaining lease term and discount rate as of September 30, 2020:

	September 30, 2020
Weighted average remaining lease term	
Operating leases	3.25
Finance leases	3.92
Weighted average discount rate	
Operating leases	4.79%
Finance leases	4.39%

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

Supplemental cash flow information relating to leases is as follows (in thousands):

	Nine months ended September 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 9,190
Operating cash flows from finance leases	4,225
Financing cash flows from finance leases	610
Right-of-use asset obtained in exchange for new lease obligation	
Operating leases	1,677
Finance leases	3,599

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 assets and liabilities that are required to be measured at fair value as of December 31, 2019 and September 30, 2020 (in thousands):

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents (1)	\$ —	\$ 111,085	\$ —	\$ 111,085
Investments:				
U.S. Government and agency securities	30,775	—	—	30,775
Corporate debt securities	—	69,581	—	69,581
Certificates of deposit	—	1,305	—	1,305
Total assets held at fair value	\$ 30,775	\$ 181,971	\$ —	\$ 212,746

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

	September 30, 2020			Total
	Level 1	Level 2	Level 3	
Assets				
Cash and cash equivalents (2)	\$ —	\$ 146,846	\$ —	\$ 146,846
Investments:				
U.S. Government and agency securities	35,402	—	—	35,402
Corporate debt securities	—	61,596	—	61,596
Certificates of deposit	—	1,311	—	1,311
Total assets held at fair value	\$ 35,402	\$ 209,753	\$ —	\$ 245,155

(1) Excludes \$4.7 million of cash held in bank accounts by the Company.

(2) Excludes \$5.2 million of cash held in bank accounts by the Company.

For the nine months ended September 30, 2020, the Company has not transferred 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 fair value of the Notes (as defined below) of \$371.3 million as of September 30, 2020 was determined based on quoted market prices and would be classified within Level 1 of the fair value hierarchy. The estimated fair value of the Company's term loan of \$267.5 million as of September 30, 2020 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.

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. Book overdrafts are reflected within accounts payable on the balance sheets. At September 30, 2020, the Company's excess capital and undistributed earnings for the Company's regulated subsidiaries of approximately \$30 million are included in cash and cash equivalents.

Investments

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 comprehensive 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 net income and the non-credit component of the other-than-temporary impairment is recognized in other comprehensive income in the consolidated statements of comprehensive income.

As of December 31, 2019 and September 30, 2020, there were no material unrealized losses that the Company determined to be other-than-temporary. No realized gains or losses were recorded for the three months or nine months

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

ended September 30, 2019 or 2020. The following is a summary of short-term and long-term investments at December 31, 2019 and September 30, 2020 (in thousands):

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities	\$ 30,742	\$ 38	\$ (5)	\$ 30,775
Corporate debt securities	69,552	40	(11)	69,581
Certificates of deposit	1,305	—	—	1,305
Total investments at December 31, 2019	<u>\$ 101,599</u>	<u>\$ 78</u>	<u>\$ (16)</u>	<u>\$ 101,661</u>

	September 30, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and agency securities	\$ 35,364	\$ 39	\$ (1)	\$ 35,402
Corporate debt securities	61,611	20	(35)	61,596
Certificates of deposit	1,311	—	—	1,311
Total investments at September 30, 2020	<u>\$ 98,286</u>	<u>\$ 59</u>	<u>\$ (36)</u>	<u>\$ 98,309</u>

The maturity dates of the Company's investments as of September 30, 2020 are summarized below (in thousands):

	Amortized Cost	Estimated Fair Value
2020	\$ 31,033	\$ 31,053
2021	65,705	65,708
2022	1,548	1,548
Total investments at September 30, 2020	<u>\$ 98,286</u>	<u>\$ 98,309</u>

Income Taxes

The Company's effective income tax rates from continuing operations were 51.3 percent and 791.9 percent for the nine months ended September 30, 2019 and 2020, respectively. These rates differ from the applicable federal statutory income tax rate primarily due to state income taxes, permanent differences between book and tax income, and a discrete adjustment for the recognition of a \$39.0 million nonrecurring tax benefit in the current year for tax basis in excess of net book value for certain assets to be included in the MCC Sale. The Company also accrues interest and penalties related to uncertain tax positions in its provision for income taxes. The significant effective income tax rate for the nine months ended September 30, 2020 is primarily due to the discrete adjustment for the nonrecurring tax benefit related to the divestiture recognized in the current year, relative to the pre-tax loss for the period.

The Company files a consolidated federal income tax return with its eighty-percent or more controlled subsidiaries. The Company and its subsidiaries also file income tax returns in various state and local jurisdictions.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law to provide widespread emergency relief for the economy and to provide aid to corporations. The CARES Act includes several significant provisions related to taxes. As of September 30, 2020, the Company has not utilized any of the provisions that would result in a material impact on its results. However, the Company continues to evaluate the relief options available under the CARES Act, as well as other emergency relief initiatives and stimulus packages instituted by the Federal Government.

Net Operating Loss Carryforwards

The Company has \$17.6 million of federal net operating loss carryforwards ("NOLs") available to reduce consolidated taxable income in 2020 and subsequent years. These NOLs were incurred by AlphaCare prior to its

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

membership in the Magellan consolidated group and will expire in 2032 through 2035 if not used and are subject to examination and adjustment by the IRS. In addition, the Company's utilization of these NOLs is subject to limitations under the Internal Revenue Code as to the timing and use. At this time, the Company does not believe these limitations will restrict the Company's ability to use any federal NOLs before they expire. However, upon completion of the MCC Sale, any federal NOL carryovers that remain at that time will be assumed by Molina. As such, the deferred tax asset related to these net operating loss carryforwards is netted within deferred tax liabilities included in current portion of liabilities held for sale in the consolidated balance sheets.

The Company and its subsidiaries also have \$89.0 million of NOLs available to reduce state and local taxable income at certain subsidiaries in 2020 and subsequent years. Most of these NOLs will expire in 2020 through 2038 if not used and are subject to examination and adjustment by the respective tax authorities. In addition, the Company's utilization of certain of these NOLs is subject to limitations as to the timing and use. Other than those considered in determining the valuation allowances discussed below, the Company does not believe these limitations will restrict the Company's ability to use any of these state and local NOLs before they expire. However, \$17.1 million of these state and local NOLs will, to the extent not utilized beforehand, be assumed by Molina upon completion of the MCC Sale. As such, the deferred tax asset related to these net operating loss carryforwards is netted within deferred tax liabilities included in current portion of liabilities held for sale in the consolidated balance sheets.

Deferred tax assets as of December 31, 2019 and September 30, 2020 are shown net of valuation allowances of \$2.1 million. These valuation allowances mostly relate to uncertainties regarding the eventual realization of certain state NOLs. 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.

Health Care Reform

The Patient Protection and the 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. On January 23, 2018, the United States Congress passed the Continuing Resolution which imposed a one-year moratorium on the HIF fee, suspending its application for 2019. For 2020 the HIF fee was \$36.2 million, of which \$12.4 related to continuing operations, which was paid in 2020. Congress repealed the HIF fee effective for plan years after December 31, 2020.

Stock Compensation

At December 31, 2019 and September 30, 2020, the Company had equity-based employee incentive plans, which are described more fully in Note 6 in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on February 28, 2020. The Company recorded stock compensation expense of \$4.8 million and \$19.8 million, of which \$0.2 million and \$0.6 million is included in discontinued operations, for the three and nine months ended September 30, 2019, respectively, and \$5.8 million and \$18.8 million, of which \$0.4 million and \$1.0 million is included in discontinued operations, for the three and nine months ended September 30, 2020, respectively. Stock compensation expense recognized in the consolidated statements of comprehensive income for the three and nine months ended September 30, 2019 and 2020 has been reduced for forfeitures, estimated at between zero and four percent for all periods.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

The weighted average grant date fair value of all stock options granted during the nine months ended September 30, 2020 was \$18.55 as estimated using the Black-Scholes-Merton option pricing model, which also assumed an expected volatility of 35.56 percent based on the historical volatility of the Company's stock price.

For the nine months ended September 30, 2019 and 2020, the tax expense for deficiencies included in continuing operations (net of the tax deductions in excess of recognized stock compensation expense) was \$1.6 million and \$2.2 million, respectively, which was included as an increase to income tax expense. The net tax expense to discontinued operations for the nine months ended September 30, 2019 and 2020 was insignificant.

Summarized information related to the Company's stock options for the nine months ended September 30, 2020 is as follows:

	<u>Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of period	2,125,861	\$ 69.22
Granted	63,771	62.93
Forfeited	(51,104)	80.44
Exercised	(804,523)	60.47
Outstanding, end of period	<u>1,334,005</u>	<u>\$ 73.76</u>
Vested and expected to vest at end of period	<u>1,328,930</u>	<u>\$ 73.79</u>
Exercisable, end of period	<u>1,029,691</u>	<u>\$ 74.45</u>

All of the Company's options granted during the nine months ended September 30, 2020 vest ratably on each anniversary date over the three years subsequent to grant and have a ten year life.

Summarized information related to the Company's nonvested restricted stock awards ("RSAs") for the nine months ended September 30, 2020 is as follows:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Outstanding, beginning of period	39,761	\$ 65.40
Awarded	16,976	70.70
Vested	(39,761)	65.40
Forfeited	—	—
Outstanding, ending of period	<u>16,976</u>	<u>70.70</u>

Summarized information related to the Company's nonvested restricted stock units ("RSUs") for the nine months ended September 30, 2020 is as follows:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Outstanding, beginning of period	256,430	\$ 74.12
Awarded	344,774	62.02
Vested	(100,416)	74.93
Forfeited	(32,202)	66.90
Outstanding, ending of period	<u>468,586</u>	<u>65.54</u>

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

Grants of RSAs vest on the anniversary of the grant. In general, RSUs vest ratably on each anniversary over the three years subsequent to grant.

Summarized information related to the Company's nonvested restricted performance stock units ("PSUs") for the nine months ended September 30, 2020 is as follows:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Outstanding, beginning of period	248,559	\$ 104.27
Awarded	133,752	75.65
Vested	(52,861)	76.24
Forfeited	(48,008)	85.68
Outstanding, end of period	<u>281,442</u>	<u>99.11</u>

The weighted average estimated fair value of the PSUs granted in the nine months ended September 30, 2020 was \$75.65, 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 0.68%, and expected volatility of 20% to 70% (average of 35%). The PSUs granted in the nine months ended September 30, 2020, 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, 2022 and vesting on March 5, 2023, 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 is calculated as a percentage of the award target 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 varies 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, 2023 by the average share value of the Company's common stock over the 30 trading days beginning on January 1, 2020, with a deemed reinvestment of any dividends declared during the performance period. The Company's peer group includes 48 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.

Goodwill

At September 30, 2020, we evaluated whether changes in facts and circumstances would rise to an impairment indicator that it was more likely than not that any of our reporting units were impaired. The evaluation included whether our forecast for 2020 and beyond would have changed from what was used in our annual test performed as of October 1, 2019 test. We also considered the impact of economic and market volatility caused by the novel coronavirus ("COVID-19") pandemic in the first nine months of 2020. Based on our evaluation we do not believe that as of September 30, 2020 it was more likely than not that any of our reporting units were impaired. We do believe however, that while the fair value of the Pharmacy Management reporting unit continues to be in excess of its carrying value, the margin by which the fair value exceeds the carrying value has decreased since the date of the last annual impairment test. While the reporting unit was not determined to be impaired at this time, the Pharmacy Management reporting unit goodwill of \$395.6 million is at risk of future impairment in the event of significant unfavorable changes in the Company's forecasted future results and cash flows. In addition, market factors utilized in the impairment analysis, including long-term growth rates or discount rates, could negatively impact the fair value of our reporting units. For testing purposes, management's best estimates of the expected future results are the primary driver in determining the fair value. Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and factors. As a result, there can be no assurance that the estimates and assumptions made for purposes of the annual goodwill test will prove to be an accurate prediction of the future.

Examples of events or circumstances that could reasonably be expected to negatively affect the underlying key assumptions and ultimately impact the estimated fair value of our reporting units may include such items as: (i) a

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

decrease in expected future cash flows, specifically, a decrease in membership or rates or customer attrition and increase in costs that could significantly impact our immediate and long-range results, unfavorable working capital changes and an inability to successfully achieve our cost savings targets, (ii) adverse changes in macroeconomic conditions or an economic recovery that significantly differs from our assumptions in timing and/or degree (such as a recession); and (iii) volatility in the equity and debt markets or other country specific factors which could result in a higher weighted-average cost of capital.

Based on known facts and circumstances, we evaluate and consider recent events and uncertain items, as well as related potential implications, as part of our annual assessment and incorporate into the analyses as appropriate. These facts and circumstances are subject to change and may impact future analyses.

While historical performance and current expectations have resulted in fair values of our reporting units and indefinite-lived intangible assets in excess of carrying values, if our assumptions are not realized, it is possible that an impairment charge may need to be recorded in the future.

Long-Term Debt and Finance Lease Obligations

The following table shows the components of debt and finance lease obligations, including the current component, at December 31, 2019 and September 30, 2020 (in thousands):

	December 31, 2019	September 30, 2020
Senior Notes	\$ 388,432	\$ 359,607
Term loan	280,625	267,500
Finance leases - land and equipment	18,076	17,602
Finance leases - software as service arrangements	1,194	1,215
Deferred loan costs	(5,711)	(4,523)
Total debt and finance lease obligations	<u>\$ 682,616</u>	<u>\$ 641,401</u>

Senior Notes

On September 22, 2017, the Company completed the public offering of \$400.0 million aggregate principal amount of its 4.400% Senior Notes due 2024 (the "Notes"). The Notes are governed by an indenture, dated as of September 22, 2017 (the "Base Indenture"), between the Company, as issuer, and U.S. Bank National Association, as trustee, as supplemented by a first supplemental indenture, dated as of September 22, 2017 (the "First Supplemental Indenture" together with the Base Indenture, the "Indenture"), between the Company, as issuer, and U.S. Bank National Association, as trustee. During the year ended December 31, 2019 and nine months ended September 30, 2020, the Company purchased and subsequently retired \$11.1 million and \$28.8 million of its Notes, respectively, which resulted in a loss on retirement of \$0.3 million and \$0.7 million, respectively, that is included in interest expense. The Notes were issued at a discount and had a carrying value of \$388.4 million and \$359.6 million at December 31, 2019 and September 30, 2020, respectively.

The Notes bear interest payable semiannually in cash in arrears on March 22 and September 22 of each year, commencing on March 22, 2018, which rate is subject to an interest rate adjustment upon the occurrence of certain credit rating events. For the three and nine months ended September 30, 2020, the interest rate on the Notes was 4.9 percent. The Notes mature on September 22, 2024. The Indenture provides that the Notes are redeemable at the Company's option, in whole or in part, at any time on or after July 22, 2024, at a redemption price equal to 100% of the principal amount of the Notes being redeemed plus accrued and unpaid interest thereon to, but excluding, the redemption date.

The Indenture also contains certain covenants which restrict the Company's ability to, among other things, create liens on its and its subsidiaries' assets; engage in sale and lease-back transactions; and engage in a consolidation, merger or sale of assets.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

Credit Agreement

On September 22, 2017, the Company entered into a credit agreement with various lenders that provides for a \$400.0 million senior unsecured revolving credit facility and a \$350.0 million senior unsecured term loan facility to the Company, as the borrower (the “2017 Credit Agreement”). On August 13, 2018, the Company entered into an amendment to the 2017 Credit Agreement, which extended the maturity date by one year. On February 27, 2019, the Company entered into a second amendment to the 2017 Credit Agreement, which amended the total leverage ratio covenant for the period December 31, 2018 through December 31, 2019, and which was necessary in order for us to remain in compliance with the terms of the 2017 Credit Agreement. The 2017 Credit Agreement is scheduled to mature on September 22, 2023.

Under the 2017 Credit Agreement, the annual interest rate on the loan borrowing is equal to (i) in the case of base rate loans, the sum of an initial borrowing margin of 0.500 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 1.000 percent, or (ii) in the case of Eurodollar rate loans, the sum of an initial borrowing margin of 1.500 percent plus the Eurodollar rate for the selected interest period. The borrowing margin is subject to adjustment based on the Company’s debt rating as provided by certain rating agencies. For the three and nine months ended September 30, 2020, the commitment commission was 0.250 percent of the unused revolving credit commitment. The Company has the option to borrow in base rate loans or Eurodollar rate loans at its discretion. The commitment commission on the revolving credit facility under the 2017 Credit Agreement is 0.200 percent of the unused revolving credit commitment, which rate shall be subject to adjustment based on the Company’s debt rating as provided by certain rating agencies. For the three and nine months ended September 30, 2020, the weighted average interest rate on the senior unsecured term loan facility was approximately 2.8236 percent and 3.1727 percent, respectively.

In August 2019, the Company made voluntary term loan repayments of \$30.0 million. As of September 30, 2020, the contractual maturities, totaling \$267.5 million of the term loan under the 2017 Credit Agreement were as follows: 2020—\$0.0 million; 2021—\$0.0 million; 2022—\$9.4 million; and 2023—\$258.1 million. Due to the timing of working capital needs, the Company will periodically borrow from the revolving loan under the 2017 Credit Agreement. At December 31, 2019, the Company had no revolving loan borrowings. At September 30, 2020 the Company had no revolving loans with a borrowing capacity of \$400.0 million under the 2017 Credit Agreement. Included in long-term debt, finance lease and deferred financing obligations are deferred loan and bond issuance costs as of December 31, 2019 and September 30, 2020 of \$5.7 million and \$4.5 million, respectively.

Letter of Credit Agreement

On August 22, 2017, the Company entered into a Continuing Agreement for Standby Letters of Credit with The Bank of Tokyo-Mitsubishi UFJ, Ltd. (“BTMU”), as issuer (the “L/C Agreement”), under which BTMU, at its sole discretion, may provide stand-by letter of credit to the Company. The Company had letters of credit outstanding under the L/C Agreement as of December 31, 2019 and September 30, 2020 of \$66.4 million and \$32.1 million, respectively.

Finance Lease and Deferred Financing Obligations

There were \$18.1 million and \$17.6 million of finance lease and deferred financing obligations at December 31, 2019 and September 30, 2020, respectively. The Company’s finance lease and deferred financing obligations represent amounts due under leases for certain properties, computer software (acquired prior to the prospective adoption of ASU 2015-05 on January 1, 2016) and equipment. The recorded gross cost of finance lease assets was \$56.0 million and \$61.7 million at December 31, 2019 and September 30, 2020, respectively.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

NOTE B—Net Income per Common Share Attributable to Magellan Health, Inc.

The following table reconciles income attributable to common shareholders (numerator) and shares (denominator) used in the computations of net income per share attributable to common shareholders (in thousands, except per share data) for the three and nine months ended September 30:

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>
Numerator:				
Net income (loss) from continuing operations	\$ 4,121	\$ (17,296)	\$ 3,145	\$ 28,742
Income from discontinued operations, net of tax	17,153	28,943	32,173	84,660
Net income	<u>\$ 21,274</u>	<u>\$ 11,647</u>	<u>\$ 35,318</u>	<u>\$ 113,402</u>
Denominator:				
Weighted average number of common shares outstanding—basic	24,426	25,448	24,159	25,078
Common stock equivalents—stock options	124	—	129	67
Common stock equivalents—RSAs	4	—	6	22
Common stock equivalents—RSUs	36	—	25	76
Common stock equivalents—PSUs	114	—	123	70
Common stock equivalents—employee stock purchase plan	4	—	5	4
Weighted average number of common shares outstanding—diluted	<u>24,708</u>	<u>25,448</u>	<u>24,447</u>	<u>25,317</u>
Net income (loss) per common share—basic:				
Continuing operations	\$ 0.17	\$ (0.68)	\$ 0.13	\$ 1.15
Discontinued operations	0.70	1.14	1.33	3.37
Consolidated operations	<u>\$ 0.87</u>	<u>\$ 0.46</u>	<u>\$ 1.46</u>	<u>\$ 4.52</u>
Net income (loss) per common share—diluted:				
Continuing operations	\$ 0.17	\$ (0.68)	\$ 0.13	\$ 1.14
Discontinued operations	0.69	1.14	1.31	3.34
Consolidated operations	<u>\$ 0.86</u>	<u>\$ 0.46</u>	<u>\$ 1.44</u>	<u>\$ 4.48</u>

The weighted average number of common shares outstanding for the three and nine months ended September 30, 2019 and 2020 were 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 three and nine months ended September 30, 2019 and 2020 represent stock options to purchase shares of the Company's common stock, RSAs, RSUs, PSUs and stock purchased under the Employee Stock Purchase Plan.

The Company had additional potential dilutive securities outstanding representing 1.1 million and 1.1 million options for the three and nine months ended September 30, 2019, respectively, and 0.6 million and 1.0 million options for the three and nine months ended September 30, 2020, respectively, that were not included in the computation of dilutive securities because they were anti-dilutive for the period. Had these shares not been anti-dilutive, all of these shares would not have been included in the net income attributable to common shareholder per common share calculation as the Company uses the treasury stock method of calculating diluted shares.

NOTE C—Business Segment Information

The accounting policies of the Company's segments are the same as those described in Note A—"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

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

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 in Note A—"General."

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

	<u>Healthcare</u>	<u>Pharmacy Management</u>	<u>Corporate and Elimination</u>	<u>Consolidated</u>
Three Months Ended September 30, 2019				
Managed care and other revenue	\$ 521,379	\$ 69,968	\$ (118)	\$ 591,229
PBM revenue	—	572,086	(4,772)	567,314
Cost of care	(397,697)	—	—	(397,697)
Cost of goods sold	—	(528,500)	4,527	(523,973)
Direct service costs and other	(99,416)	(79,842)	(16,586)	(195,844)
Stock compensation expense (1)	1,995	1,669	940	4,604
Segment Profit (Loss)	<u>\$ 26,261</u>	<u>\$ 35,381</u>	<u>\$ (16,009)</u>	<u>\$ 45,633</u>

	<u>Healthcare</u>	<u>Pharmacy Management</u>	<u>Corporate and Elimination</u>	<u>Consolidated</u>
Three Months Ended September 30, 2020				
Managed care and other revenue	\$ 489,451	\$ 79,382	\$ (145)	\$ 568,688
PBM revenue	—	606,546	(5,117)	601,429
Cost of care	(364,438)	—	—	(364,438)
Cost of goods sold	—	(565,121)	4,852	(560,269)
Direct service costs and other	(104,610)	(91,012)	(21,148)	(216,770)
Stock compensation expense (1)	833	1,615	2,994	5,442
Segment Profit (Loss)	<u>\$ 21,236</u>	<u>\$ 31,410</u>	<u>\$ (18,564)</u>	<u>\$ 34,082</u>

	<u>Healthcare</u>	<u>Pharmacy Management</u>	<u>Corporate and Elimination</u>	<u>Consolidated</u>
Nine Months Ended September 30, 2019				
Managed care and other revenue	\$ 1,574,314	\$ 192,511	\$ (434)	\$ 1,766,391
PBM revenue	—	1,678,661	(13,214)	1,665,447
Cost of care	(1,175,705)	—	—	(1,175,705)
Cost of goods sold	—	(1,563,910)	12,542	(1,551,368)
Direct service costs and other	(297,840)	(238,253)	(57,958)	(594,051)
Stock compensation expense (1)	5,775	5,465	7,971	19,211
Segment Profit (Loss)	<u>\$ 106,544</u>	<u>\$ 74,474</u>	<u>\$ (51,093)</u>	<u>\$ 129,925</u>

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

	<u>Healthcare</u>	<u>Pharmacy Management</u>	<u>Corporate and Elimination</u>	<u>Consolidated</u>
Nine Months Ended September 30, 2020				
Managed care and other revenue	\$ 1,459,378	\$ 211,684	\$ (495)	\$ 1,670,567
PBM revenue	—	1,736,519	(14,515)	1,722,004
Cost of care	(1,035,377)	—	—	(1,035,377)
Cost of goods sold	—	(1,635,380)	13,803	(1,621,577)
Direct service costs and other	(310,996)	(252,960)	(56,811)	(620,767)
Stock compensation expense (1)	4,696	5,661	7,474	17,831
Segment Profit (Loss)	<u>\$ 117,701</u>	<u>\$ 65,524</u>	<u>\$ (50,544)</u>	<u>\$ 132,681</u>

- (1) Stock compensation expense, changes in the fair value of contingent consideration recorded in relation to 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.

The following table reconciles income from continuing operations before income taxes to Segment Profit from continuing operations (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>
Income (loss) from continuing operations before income taxes	\$ 4,903	\$ (19,626)	\$ 6,453	\$ (4,154)
Stock compensation expense	4,604	5,442	19,211	17,831
Depreciation and amortization	28,890	24,730	82,498	71,976
Interest expense	8,935	7,286	27,042	24,239
Interest and other income	(1,699)	(349)	(5,279)	(2,119)
Special charges	—	16,599	—	24,908
Segment Profit from continuing operations	<u>\$ 45,633</u>	<u>\$ 34,082</u>	<u>\$ 129,925</u>	<u>\$ 132,681</u>

NOTE D—Commitments and Contingencies

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 for whom the Company provides managed care services. 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 including employment practices, and privacy and data protection.

The Company maintains a program of insurance coverage against a broad range of risks in the Company's business, including certain of the class actions and other litigation and claims asserted against the Company, subject to deductibles and self-insured retentions as is described more fully in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on February 28, 2020. The Company has recorded reserves that, in the opinion of management, 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.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

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.

The Company is subject to various federal, state and other laws and rules regarding the use, storage, protection and disclosure of confidential member and protected personal or health information, including the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”), the Health Information Technology for Economic and Clinical Health Act (“HITECH Act”) and other applicable laws. The Company has experienced data security incidents resulting in disclosure of confidential or protected personal or health information. We have notified government agencies as appropriate and are cooperating with investigations and requests for information. Noncompliance with any applicable privacy or data security laws and regulations could result in enforcement actions, fines, penalties, and reputational and financial harm to the Company.

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.

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’s wholly owned subsidiary, Armed Forces Services Corporation (“AFSC”), conducts business with federal agency customers and federal contractors to such agencies. The Company investigated, with the assistance of outside counsel, matters relating to compliance by AFSC with Small Business Administration (“SBA”) regulations and other federal laws applicable to government contractors and reported findings to the SBA and the Department of Defense, including facts indicating violations of SBA regulations and other federal laws, such as the Anti-Kickback Act, by former AFSC executives, none of which was disclosed to Magellan prior to its acquisition of AFSC. The Company voluntarily responded to government requests for further information regarding the Company’s investigation. As a result of the Company’s disclosure and the ensuing government investigation, a former AFSC executive pleaded guilty in the United States District Court for the Eastern District of Virginia to one count of honest services fraud, and at sentencing in September 2020, the Court ordered the former AFSC executive to pay restitution to AFSC as the victim of that offense. In June 2020, the United States Attorney’s Office for the Eastern District of Virginia informed the Company of a civil investigation regarding the Company and AFSC related to potential violations of the False Claims Act and/or the Anti-Kickback Act also stemming from the matters self-disclosed by the Company. Contingencies, if any, arising from the results of these investigations and self-reporting could require us to record balance sheet liabilities or accrue expenses, the amount of which we are not able to currently estimate. While the Company believes that it has responded appropriately by self-reporting findings regarding matters that incepted prior to its acquisition of AFSC in order to mitigate the risk of adverse consequences, should the SBA, Department of Defense and/or other federal agencies seek to hold the Company or AFSC responsible for the reported conduct, we may be required to pay damages and/or penalties and AFSC could be suspended or debarred from government contracting. AFSC generated approximately 3.0% and 2.4% of the Company’s total revenue from continuing operations for the year ended December 31, 2019 and nine months ended September 30, 2020, respectively.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

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.

The Company's board of directors approved, and subsequently amended, a stock repurchase plan which authorizes the Company to purchase up to \$400 million of its outstanding common stock through October 22, 2020 (the "Repurchase Program"). On October 27, 2020, the Company's board of directors extended the Repurchase Program through November 15, 2021. As of September 30, 2020, the remaining capacity under the Repurchase Program was \$186.3 million. Stock repurchases under the programs may be carried out from time to time in open market transactions (including blocks) or in privately negotiated transactions. The timing of repurchases and the actual amount purchased will depend on a variety of factors including the market price of the Company's shares, general market and economic conditions, and other corporate considerations. Repurchases may be made pursuant to plans intended to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, which could allow the Company to purchase its shares during periods when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Repurchases are expected to be funded from working capital and anticipated cash from operations. The repurchase authorization does not require the purchase of a specific number of shares and is subject to suspension or termination by the Company's board of directors at any time.

Pursuant to the Stock Repurchase Program, the Company made purchases as follows (aggregate cost excludes broker commissions and is reflected in millions):

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Aggregate Cost</u>
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
January 1, 2017 - December 31, 2017	280,140	77.67	21.8
January 1, 2018 - December 31, 2018	844,872	74.59	63.0
January 1, 2019 - December 31, 2019	60,901	61.15	3.7
January 1, 2020 - September 30, 2020	—	—	—
	<u>3,359,140</u>		<u>\$ 213.7</u>

The Company made no share repurchases from October 1, 2020 through October 22, 2020.

NOTE E—Discontinued Operations

Magellan Complete Care – Stock and Asset Purchase Agreement

As discussed in Note A— "General", on April 30, 2020, the Company and Molina entered into the Purchase Agreement pursuant to which the Company has agreed to sell its MCC business to Molina for \$850.0 million in cash, subject to certain adjustments, and Molina has agreed to assume liabilities of the MCC business.

The consummation of the MCC Sale is subject to customary closing conditions, including: (i) the expiration of the waiting period applicable to the Purchase Agreement under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (ii) the absence of any law or governmental order prohibiting the MCC Sale, (iii) obtaining all required consents, authorizations, permits and approvals under Health Regulatory Laws (as defined in the Purchase Agreement), (iv) no material adverse effect on the Company having occurred since the signing of the Purchase Agreement, and (v) the accuracy of the representations and warranties of each party (subject to materiality qualifiers) in

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

the Purchase Agreement and the compliance by each party with its covenants in all material respects. The consummation of the MCC Sale is not subject to any financing contingency.

In connection with the MCC Sale, the Company and Molina are entering into commercial agreements for certain behavioral health, utilization management and related services to be provided by the Company to Molina and the MCC business. In addition, the parties will enter into a transition services agreement pursuant to which the Company and certain of its affiliates will provide, or cause third parties to provide, certain services to accommodate the transition of the MCC business to Molina.

The foregoing description of the Purchase Agreement and the MCC Sale does not purport to be complete and is qualified in its entirety by the terms and conditions of the Purchase Agreement, which was filed as Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q which was filed with the SEC on May 11, 2020, and any related agreements.

The accounting requirements for reporting a business to be divested as a discontinued operation were met during the second quarter of 2020. Accordingly, the accompanying consolidated financial statements for all periods presented reflect the MCC business as a discontinued operation.

The following table summarizes the major classes of assets and liabilities held for sale that were included in the Company's consolidated balance sheets as of December 31, 2019 and September 30, 2020 (in thousands):

	<u>December 31,</u> <u>2019</u>	<u>September 30,</u> <u>2020</u>
Assets Held For Sale		
Cash and cash equivalents (\$95,202 and \$33,986 restricted at December 31, 2019 and September 30, 2020, respectively)	\$ 209,497	\$ 189,811
Accounts receivable, net	209,496	199,951
Short-term and long-term investments (\$243,496 and \$358,742 restricted at December 31, 2019 and September 30, 2020, respectively)	243,496	404,790
Property and equipment, net	6,710	6,741
Goodwill	211,735	211,735
Other intangible assets, net	85,669	72,108
Other current and long-term assets (\$2,387 and \$2,387 restricted at December 31, 2019 and September 30, 2020, respectively)	32,386	58,896
Total Assets Held For Sale	<u>998,989</u>	<u>1,144,032</u>
Less: current portion	663,276	1,144,032
Total Assets Held For Sale, Less Current Portion	<u>\$ 335,713</u>	<u>\$ —</u>
Liabilities Held For Sale		
Accounts payable	\$ 4,625	\$ 3,889
Accrued liabilities	92,170	124,595
Medical claims payable	281,419	284,171
Other medical liabilities	31,769	54,397
Deferred income taxes	15,063	13,804
Tax contingencies	5,388	5,563
Deferred credits and other long-term liabilities	16,850	9,853
Total Liabilities Held For Sale	<u>447,284</u>	<u>496,272</u>
Less: current portion	409,983	496,272
Total Liabilities Held For Sale, Less Current Portion	<u>\$ 37,301</u>	<u>\$ —</u>

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

The following table summarizes the components of income from discontinued operations that is included in the Company's consolidated income statements for the three and nine months ended September 30, 2019 and 2020 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2020	2019	2020
Managed care and other revenue	\$ 713,089	\$ 744,741	\$ 2,045,474	\$ 2,200,132
Costs and expenses:				
Cost of care	615,309	615,390	1,781,148	1,791,298
Direct service costs and other operating expenses (1)(2)(3)	71,473	89,282	213,064	265,857
Depreciation and amortization	5,267	5,380	15,857	16,085
Interest expense	72	—	213	89
Interest and other income	(3,271)	(901)	(9,686)	(4,919)
Total costs and expenses	688,850	709,151	2,000,596	2,068,410
Income from discontinued operation before income taxes	24,239	35,590	44,878	131,722
Provision for income taxes	7,086	6,647	12,705	47,062
Net income from discontinued operations	<u>\$ 17,153</u>	<u>\$ 28,943</u>	<u>\$ 32,173</u>	<u>\$ 84,660</u>

- (1) Includes stock compensation expense of \$207 and \$397 for the three months ended September 30, 2019 and 2020, respectively, and \$621 and \$1,023 for the nine months ended September 30, 2019 and 2020, respectively.
- (2) Includes changes in fair value of contingent consideration of \$4 and \$(2,001) for the three and nine months ended September 30, 2019, respectively.
- (3) Includes divestiture related expenses of \$2,195 and \$6,154 for the three and nine months ended September 30, 2020, respectively.

The Company has retained corporate overhead expenses previously allocated to MCC of \$8.0 million and \$7.2 million for the three months ended September 30, 2019 and 2020, respectively, and \$25.6 million and \$21.0 million for the nine months ended September 30, 2019 and 2020, respectively.

At September 30, 2020, the Company's excess capital and undistributed earnings for the Company's regulated subsidiaries is approximately \$165 million which are included in assets held for sale. During the three and nine months ended September 30, 2020, the Company distributed \$37.5 million in excess capital and undistributed earnings in discontinued operations regulated subsidiaries to the parent.

MAGELLAN HEALTH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
September 30, 2020
(Unaudited)

NOTE F—Special Charges

In 2020, the Company established a transformation office which has an initiative (the “Transformation Initiative”) to lower our operating costs and reinvest in our business by improving and automating processes, leveraging technology, consolidating platforms and reducing any friction our customers, providers and members experience when doing business with us. As part of the Transformation Initiative, the Company is in the process of restructuring certain operating activities which has resulted in the Company recording severance of \$2.0 million for the three and nine months ended September 30, 2020, within special charges in the consolidated statement of operations.

In addition, the Company is reevaluating its current office lease footprint. Recoverability of existing operating right-of-use lease assets, and the related fixed assets held at the office locations, to be held and used are measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Any lease terminations or abandonments initiated as a result of the Transformation Initiative that result in an impairment of such right-of-use assets and the location’s related fixtures will be reported as special charges. For the three and nine months ended September 30, 2020, lease terminations and abandonments resulted in the recognition of non-cash pre-tax impairment of \$14.2 million and \$22.4 million, respectively, within special charges in the consolidated statement of operations. The impairment charge reduced the carrying value of these assets to their estimated fair value. In the future, if events or market conditions affect the estimated fair value to the extent that a long-lived asset is impaired, the Company will adjust the carrying value of these long-lived assets in the period in which the impairment occurs. In addition, the Company accrued various lease shutdown costs of \$0.4 million and \$0.5 million in the three and nine months ended September 30, 2020, respectively, within special charges in the consolidated statement of operations.

The Company anticipates it will incur a total of approximately \$35 million in special charges in relation to the Transformation Initiative, primarily to be incurred in 2020. The following table summarizes the components of special charges that are included in the Company’s consolidated income statements for the three and nine months ended September 30, 2019 and 2020 (in thousands):

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Non-cash related special charges		
Right-of-use assets	\$ 1,519	\$ 7,758
Fixed assets	12,656	14,643
Total non-cash related special charges	14,175	22,401
Cash related special charges		
Employee severance and termination benefits	2,001	2,001
Lease shutdown costs	423	506
Total cash related special charges	2,424	2,507
Total special charges	\$ 16,599	\$ 24,908

A roll-forward of the Transformation Initiative liabilities is as follows (in thousands):

	Balance December 31, 2019	Additions	Payments	Balance September 30, 2020
Employee severance and termination benefits	\$ —	\$ 2,001	\$ (88)	\$ 1,913
Lease shutdown costs	—	506	—	506
	\$ —	\$ 2,507	\$ (88)	\$ 2,419

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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.

Results of Operations

The following table summarizes, for the periods indicated, operating results from continuing operations (in thousands):

Continuing Operations	Three Months Ended			Nine Months Ended		
	September 30,		Change	September 30,		Change
	2019	2020	'19 vs '20	2019	2020	'19 vs '20
Statement of Operations Data:						
Net revenue	\$ 1,158,543	\$ 1,170,117	1.0%	\$ 3,431,838	\$ 3,392,571	(1.1%)
Cost of Care	397,697	364,438	(8.4%)	1,175,705	1,035,377	(11.9%)
Cost of goods sold	523,973	560,269	6.9%	1,551,368	1,621,577	4.5%
Direct service costs and other operating expenses (1)	195,844	216,770	10.7%	594,051	620,767	4.5%
Depreciation and amortization	28,890	24,730	(14.4%)	82,498	71,976	(12.8%)
Interest expense	8,935	7,286	(18.5%)	27,042	24,239	(10.4%)
Interest and other income	(1,699)	(349)	(79.5%)	(5,279)	(2,119)	(59.9%)
Special charges	-	16,599	N/A	-	24,908	N/A
Income (loss) before income taxes	4,903	(19,626)	(500.3%)	6,453	(4,154)	(164.4%)
Provision (benefit) for income taxes	782	(2,330)	(398.0%)	3,308	(32,896)	(1094.4%)
Net income (loss) from continuing operations	\$ 4,121	\$ (17,296)	(519.7%)	\$ 3,145	\$ 28,742	813.9%

(1) Includes stock compensation expense of \$4,604 and \$5,442 for the three months ended September 30, 2019 and 2020, respectively, and \$19,211 and \$17,831 for the nine months ended September 30, 2019 and 2020, respectively.

Quarter ended September 30, 2020 (“Current Year Quarter”) compared to Quarter ended September 30, 2019 (“Prior Year Quarter”)

Net revenue, Cost of care, Cost of goods sold and Direct service costs and other operating expenses

Net revenue, cost of care, cost of goods sold and direct service costs and other operating expense variances are addressed within the segment results that follow.

Depreciation and amortization

Depreciation and amortization expense decreased by 14.4 percent or \$4.2 million from the Prior Year Quarter to the Current Year Quarter, primarily due to asset maturities, partially offset by normal asset additions after the Prior Year Quarter.

Interest expense

Interest expense decreased by 18.5 percent or \$1.6 million from the Prior Year Quarter to the Current Year Quarter primarily due to lower interest rates and lower debt balances.

Interest and other income

Interest income decreased by \$1.4 million from the Prior Year Quarter to the Current Year Quarter primarily due to a reduction in rates.

Special charges

Special charges increased by \$16.6 million from the Prior Year Quarter to the Current Year Quarter due to recognition of the special charges in the Current Year Quarter, see Note F—“Special Charges” for further discussion.

Income taxes

The Company’s effective income tax rates from continuing operations were 16.0 percent and 11.9 percent for the Prior Year Quarter and Current Year Quarter, respectively. The effective income tax rate for the Prior Year Quarter is higher than the effective income tax rate for the Current Year Quarter primarily due to a decrease in the non-deductible executive compensation in the Current Year Quarter. The effective income tax rate for the Current Year Quarter differs from the federal and state statutory rates primarily due a favorable adjustment to executive compensation in the Current Year Quarter.

Nine months ended September 30, 2020 (“Current Year Period”) compared to Nine months ended September 30, 2019 (“Prior Year Period”)

Net revenue, Cost of care, Cost of goods sold and Direct service costs and other operating expenses

Net revenue, cost of care, cost of goods sold and direct service costs and other operating expense variances are addressed within the segment results that follow.

Depreciation and amortization

Depreciation and amortization expense decreased by 12.8 percent or \$10.5 million from the Prior Year Period, primarily due to asset maturities, partially offset by normal asset additions after the Prior Year Period.

Interest expense

Interest expense decreased by \$2.8 million from the Prior Year Period to the Current Year Period primarily due to lower interest rates and lower debt balances.

Interest and other income

Interest income decreased by \$3.2 million from the Prior Year Period to the Current Year Period primarily due to a reduction in rates.

Special charges

Special charges increased by \$24.9 million from the Prior Year Period to the Current Year Period due to recognition of special charges in the Current Year Period, see Note F—“Special Charges” for further discussion.

Income taxes

The Company’s effective income tax rates from continuing operations were 51.2 percent and 791.9 percent for the Prior Year Period and Current Year Period, respectively. The effective income tax rate for the Prior Year Period differs from the effective income tax rate for the Current Year Period primarily due to the recognition of the nonrecurring tax benefit related to the divestiture in the Current Year Period. The effective income tax rate for the Current Year Period differs from the federal and state statutory rates primarily due to the recognition of the nonrecurring tax benefit related to the divestiture recorded in the Current Year Period relative to the pre-tax loss for the Current Year Period.

Segment Results

The Company manages and measures operational performance through three segments: Healthcare, Pharmacy Management and Corporate. The Company evaluates performance of its segments based on 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. Stock compensation expense and changes in fair value of contingent consideration recorded in relation to acquisitions are included in direct service costs and other operating expenses; however, these amounts are excluded from the computation of Segment Profit.

Healthcare

The Healthcare segment includes the Company's: (i) management of behavioral healthcare services and EAP services and (ii) management of other specialty areas including diagnostic imaging and musculoskeletal management. The Healthcare segment provides management services to health plans, accountable care organizations, employers, state Medicaid agencies, the United States military and various federal government agencies for whom Magellan provides carve-out management services for behavioral health, employee assistance plans, and other areas of specialty healthcare including diagnostic imaging, musculoskeletal management, cardiac, and physical medicine.

The following table summarizes, for the periods indicated, operating results for the Healthcare segment (in thousands):

	Three Months Ended			Nine Months Ended		
	September 30,		Change	September 30,		Change
Healthcare Segment Results	2019	2020	'19 vs '20	2019	2020	'19 vs '20
Risk-based, non-EAP	\$ 383,768	\$ 352,442	(8.2%)	\$ 1,146,591	\$ 1,046,486	(8.7%)
EAP risk-based	80,076	74,703	(6.7%)	256,989	232,060	(9.7%)
ASO	57,535	62,306	8.3%	170,734	180,832	5.9%
Managed care and other revenue	521,379	489,451	(6.1%)	1,574,314	1,459,378	(7.3%)
Cost of care	397,697	364,438	(8.4%)	1,175,705	1,035,377	(11.9%)
	123,682	125,013	1.1%	398,609	424,001	6.4%
Direct service costs and other	99,416	104,610	5.2%	297,840	310,996	4.4%
	24,266	20,403	(15.9%)	100,769	113,005	12.1%
Stock compensation expense	1,995	833	(58.2%)	5,775	4,696	(18.7%)
Segment Profit	\$ 26,261	\$ 21,236	(19.1%)	\$ 106,544	\$ 117,701	10.5%
Direct service cost as % of revenue	19.1%	21.4%		18.9%	21.3%	
MLR Behavioral & Specialty Health risk	89.2%	89.2%		87.5%	81.0%	
MLR Behavioral & Specialty Health EAP risk	69.4%	66.6%		67.3%	69.5%	
Membership						
Risk (1)				12,017	10,327	(14.1%)
EAP risk				14,359	13,961	(2.8%)
ASO				26,478	25,663	(3.1%)
				52,854	49,951	(5.5%)

- (1) May include some duplicate count of membership for customers that contract with Magellan for both behavioral and other specialty management services.

Current Year Quarter compared to the Prior Year Quarter

Managed care and other revenue

Net revenue decreased by 6.1 percent or \$31.9 million from the Prior Year Quarter to the Current Year Quarter. The decrease in revenue is primarily due to terminated contracts of \$36.9 million, the revenue impact of program changes of \$8.7 million, decreased membership and capitation refunds due to minimum MLR and other customer adjustments partially offset by favorable rate changes of \$5.3 million, and other net unfavorable variances of \$4.1 million. These decreases were partially offset by new contracts implemented after (or during) the Prior Year Quarter of \$14.6 million, the revenue impact of unfavorable prior period care development recorded in the Current Year Quarter of \$4.6 million and net revenue recorded for HIF fees in the Current Year Quarter of \$3.9 million.

Cost of care

Cost of care decreased by 8.4 percent or \$33.3 million from the Prior Year Quarter to the Current Year Quarter. The decrease is primarily due to terminated contracts of \$26.9 million, program changes of \$8.9 million, unfavorable prior period care development recorded in the Prior Year Quarter of \$4.8 million and decreased membership of \$4.7 million. These decreases were partially offset by care cost of new contracts implemented after (or during) the Prior Year Quarter of \$7.2 million, net unfavorable prior period medical claims development recorded in the Current Year Quarter of \$4.3 million and care trends and other net unfavorable variances of \$0.5 million. Cost of care as a percentage of risk revenue (excluding EAP business) is consistent from Prior Year Quarter to the Current Year Quarter at 89.2 percent.

Direct service costs and other

Direct service costs increased 5.2 percent or \$5.2 million from the Prior Year Quarter to the Current Year Quarter primarily due to HIF fees in the Current Year Quarter. Direct services costs increased as a percentage of revenue from 19.1 percent in the Prior Year Quarter to 21.4 percent in the Current Year Quarter primarily due to the previously discussed revenue decreases as well as increased discretionary benefits and HIF fees in the Current Year Quarter.

Current Year Period compared to the Prior Year Period

Managed care and other revenue

Net revenue decreased by 7.3 percent or \$114.9 million from the Prior Year Period to the Current Year Period. The decrease in revenue is primarily due to terminated contracts of \$108.1 million, decreased membership and capitation refunds due to minimum MLR and other customer adjustments partially offset by favorable rate changes of \$29.9 million, the revenue impact of program changes of \$26.8 million and the revenue impact of favorable prior period care development recorded in the Current Year Period of \$5.6 million. These decreases were partially offset by new contracts implemented after (or during) the Prior Year Period of \$36.0 million, net revenue recorded for HIF fees in the Current Year Period of \$11.8 million and other net favorable variances of \$7.7 million.

Cost of care

Cost of care decreased by 11.9 percent or \$140.3 million from the Prior Year Period to the Current Year Period. The decrease is primarily due to terminated contracts of \$74.7 million, decreased membership of \$40.5 million, program changes of \$24.5 million, favorable prior period care development recorded in the Current Year Period of \$6.5 million and care trends and other net favorable variances (inclusive of the impact of COVID-19) of \$21.2 million. These decreases were partially offset by care cost of new contracts implemented after (or during) the Prior Year Period of \$18.8 million and net favorable prior period medical claims development recorded in the Prior Year Period of \$8.3 million. Cost of care as a percentage of risk revenue (excluding EAP business) decreased from 87.5 percent in the Prior Year Period to 81.0 percent in the Current Year Period, mainly due to the impact of prior period care development, decreased utilization and business mix.

Direct service costs and other

Direct service costs increased by 4.4 percent or \$13.2 million from the Prior Year Period to the Current Year Period primarily due to HIF fees in the Current Year Period. Direct service costs increased as a percentage of revenue from 18.9 percent in the Prior Year Period to 21.3 percent in the Current Year Period, primarily due to the previously discussed revenue decreases as well as increased discretionary benefits and HIF fees in the Current Year Period.

MCC Stock and Asset Purchase Agreement

On April 30, 2020, the Company and Molina entered into the Purchase Agreement pursuant to which the Company has agreed to sell its MCC business to Molina for \$850.0 million in cash, subject to certain adjustments, and Molina has agreed to assume liabilities of the MCC business. See Note E— “Discontinued Operations” for additional information.

Pharmacy Management

The Pharmacy Management segment 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) PBM services; (ii) 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. Pharmacy Management's services are provided under contracts with health plans, employers, state Medicaid programs, Medicare Part D and other government agencies.

The following table summarizes, for the periods indicated, operating results for the Pharmacy Management segment (in thousands, except state count):

	Three Months Ended			Nine Months Ended		
	September 30,		Change	September 30,		Change
Pharmacy Segment Results	2019	2020	'19 vs '20	2019	2020	'19 vs '20
Formulary management	\$ 23,976	\$ 31,327	30.7%	\$ 59,585	\$ 78,550	31.8%
PBA and other	45,992	48,055	4.5%	132,926	133,134	0.2%
Managed care and other revenue	69,968	79,382	13.5%	192,511	211,684	10.0%
PBM, including dispensing	495,759	540,615	9.0%	1,469,151	1,558,211	6.1%
Medicare Part D	76,327	65,931	(13.6%)	209,510	178,308	(14.9%)
PBM revenue	572,086	606,546	6.0%	1,678,661	1,736,519	3.4%
Total net revenue	642,054	685,928	6.8%	1,871,172	1,948,203	4.1%
Cost of goods sold	528,500	565,121	6.9%	1,563,910	1,635,380	4.6%
	113,554	120,807	6.4%	307,262	312,823	1.8%
Direct service costs and other	79,842	91,012	14.0%	238,253	252,960	6.2%
	33,712	29,795	(11.6%)	69,009	59,863	(13.3%)
Stock compensation expense	1,669	1,615	(3.2%)	5,465	5,661	3.6%
Segment Profit	\$ 35,381	\$ 31,410	(11.2%)	\$ 74,474	\$ 65,524	(12.0%)
Direct service cost as % of revenue	12.4%	13.3%		12.7%	13.0%	
COGS as % of PBM revenue	92.4%	93.2%		93.2%	94.2%	
Pharmacy Operational Statistics						
Adjusted commercial network claims				20,811	20,770	
Adjusted PBA claims				59,347	39,602	
Total adjusted claims				80,158	60,372	
Generic dispensing rate				86.6%	88.5%	
Commercial PBM covered lives				1,793	1,870	
Medical pharmacy covered lives				13,997	15,903	
Total states and DC that participate in PBA				27	26	

Current Year Quarter compared to the Prior Year Quarter

Managed care and other revenue

Managed care and other revenue increased by 13.5 percent or \$9.4 million from the Prior Year Quarter to the Current Year Quarter primarily due to increased formulary management revenue of \$7.4 million mainly due to utilization, increased medical pharmacy revenue of \$1.8 million mainly due to increased membership, increased government pharmacy revenue of \$1.8 million and other favorable variances of \$2.7 million. The increase is partially offset by terminated contracts of \$4.3 million.

PBM revenue

PBM revenue increased by 6.0 percent or \$34.5 million from the Prior Year Quarter to the Current Year Quarter. The increase is primarily due to new business of \$37.2 million and other net unfavorable variances of \$2.7 million.

Cost of goods sold

Cost of goods sold increased by 6.9 percent or \$36.6 million from the Prior Year Quarter to the Current Year Quarter. This increase is primarily due to new business of \$36.8 million and other net favorable variances of \$2.4 million. The increase is partially offset by a decrease in membership and utilization of \$2.6 million. As a percentage of the portion of net revenue that relates to PBM, cost of goods sold increased from 92.4 percent in the Prior Year Quarter to 93.2 percent in the Current Year Quarter, mainly due to business mix.

Direct service costs and other

Direct service costs increased by 14.0 percent or \$11.2 million from the Prior Year Quarter to the Current Year Quarter primarily due to start-up costs associated with a new contract implementation. Direct service costs increased as a percentage of revenue from 12.4 percent in the Prior Year Quarter to 13.3 percent in the Current Year Quarter primarily due to new contract implementation costs and discretionary benefits.

Current Year Period compared to Prior Year Period

Managed care and other revenue

Managed care and other revenue increased by 10.0 percent or \$19.2 million from the Prior Year Period to the Current Year Period primarily due to increased formulary management revenue of \$19.0 million due to utilization, increased medical pharmacy management revenue of \$8.9 million due to increased membership, increased government pharmacy revenue of \$4.4 million and other net favorable variances of \$0.1 million. These increases were partially offset by terminated contracts of \$13.2 million.

PBM revenue

PBM revenue increased by 3.4 percent or \$57.9 million from the Prior Year Period to the Current Year Period. The increase is primarily due to an increase in new business of \$37.7 million, and an increase in membership and utilization of \$28.3 million, which increases are partially offset by other net unfavorable variances of \$8.1 million.

Cost of goods sold

Cost of goods sold increased by 4.6 percent or \$71.5 million from the Prior Year Period to the Current Year Period. This increase is primarily due to an increase in new business of \$37.2 million, an increase in membership and utilization of \$28.4 million and other net unfavorable variances of \$5.9 million. As a percentage of the portion of net revenue that relates to PBM, cost of goods sold increased from 93.2 percent in the Prior Year Period to 94.2 percent in the Current Year Period, mainly due to higher utilization and business mix.

Direct service costs and other

Direct service costs increased by 6.2 percent or \$14.7 million from the Prior Year Period to the Current Year Period primarily due to start-up costs associated with new contract implementation costs and discretionary benefits. Direct service costs increased slightly as a percentage of revenue from 12.7 percent in the Prior Year Period to 13.0 percent in the Current Year Period.

Corporate Segment

The Corporate segment of the Company is comprised primarily of amounts not allocated to the Healthcare and Pharmacy Management segments, and that are largely associated with costs related to being a publicly traded company.

The following table summarizes, for the periods indicated, operating results for the Corporate segment (in thousands):

Corporate Segment & Eliminations	Three Months Ended		Change	Nine Months Ended		Change
	September 30,			September 30,		
	2019	2020	'19 vs '20	2019	2020	'19 vs '20
Managed care and other revenue	\$ (118)	\$ (145)	22.9%	\$ (434)	\$ (495)	14.1%
PBM revenue	(4,772)	(5,117)	7.2%	(13,214)	(14,515)	9.8%
Cost of goods sold	4,527	4,852	7.2%	12,542	13,803	10.1%
	(363)	(410)	12.9%	(1,106)	(1,207)	9.1%
Direct service costs and other	16,586	21,148	27.5%	57,958	56,811	(2.0%)
	(16,949)	(21,558)	27.2%	(59,064)	(58,018)	(1.8%)
Stock compensation expense	940	2,994	218.5%	7,971	7,474	(6.2%)
Segment Loss	<u>\$ (16,009)</u>	<u>\$ (18,564)</u>	16.0%	<u>\$ (51,093)</u>	<u>\$ (50,544)</u>	(1.1%)

Current Year Quarter compared to the Prior Year Quarter

The Corporate segment loss increased by 16.0 percent or \$2.6 million from the Prior Year Quarter to the Current Year Quarter, mainly due to higher stock compensation expense. As a percentage of revenue, the Corporate segment loss increased slightly from 1.4 percent in the Prior Year Quarter to 1.6 percent in the Current Year Quarter.

Current Year Period compared to the Prior Year Period

The Corporate segment loss decreased slightly by 1.1 percent or \$0.5 million from the Prior Year Period to the Current Year Period. As a percentage of revenue, the Corporate segment loss remained consistent at 1.5 percent for the Prior Year Period and the Current Year Period.

Inter segment revenues and expenses

MCC subcontracts with Pharmacy Management to provide pharmacy benefits management services for certain MCC customers. The Company will continue to provide these services post transition, thus the associated revenues, cost of goods sold and direct service costs related to these arrangements are reflected within both continuing operations and discontinued operations.

Healthcare subcontracts with Pharmacy Management to provide pharmacy benefits management services for certain Healthcare 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 within the Corporate segment.

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 from continuing operations ("Adjusted Net Income from Continuing Operations") and adjusted net income from continuing operations per common share on a diluted basis ("Adjusted EPS"). Adjusted Net Income from Continuing Operations 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, special charges and any impact related to the sale of MCC. 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 disclosed, such as Segment Profit, Adjusted Net Income from Continuing Operations 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 income from continuing operations before income taxes to Segment Profit from continuing operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Income (loss) from continuing operations before income taxes	\$ 4,903	\$ (19,626)	\$ 6,453	\$ (4,154)
Stock compensation expense	4,604	5,442	19,211	17,831
Depreciation and amortization	28,890	24,730	82,498	71,976
Interest expense	8,935	7,286	27,042	24,239
Interest and other income	(1,699)	(349)	(5,279)	(2,119)
Special charges	—	16,599	—	24,908
Segment Profit from continuing operations	<u>\$ 45,633</u>	<u>\$ 34,082</u>	<u>\$ 129,925</u>	<u>\$ 132,681</u>

The following table reconciles net income from continuing operations to Adjusted Net Income from continuing operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Net income (loss) from continuing operations	\$ 4,121	\$ (17,296)	\$ 3,145	\$ 28,742
Adjustments				
Amortization of acquired intangibles	7,750	9,924	23,252	29,183
Special charges	—	16,599	—	24,908
Tax impact	(2,088)	(6,975)	(6,185)	(14,388)
Nonrecurring tax benefit - divestiture	—	(105)	—	(39,012)
Adjusted Net Income from continuing operations	<u>\$ 9,783</u>	<u>\$ 2,147</u>	<u>\$ 20,212</u>	<u>\$ 29,433</u>

The following table reconciles net income from continuing operations per common share—diluted to Adjusted EPS from continuing operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Net income (loss) from continuing operations per common share—diluted	\$ 0.17	\$ (0.68)	\$ 0.13	\$ 1.14
Adjustments				
Amortization of acquired intangibles	0.31	0.39	0.95	1.15
Special charges	—	0.65	—	0.98
Tax impact	(0.08)	(0.27)	(0.25)	(0.57)
Nonrecurring tax benefit - divestiture	—	(0.01)	—	(1.54)
Adjusted EPS from continuing operations	<u>\$ 0.40</u>	<u>\$ 0.08</u>	<u>\$ 0.83</u>	<u>\$ 1.16</u>

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 2—"Forward-Looking Statements" 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.

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 the variable interest rate borrowings under the 2017 Credit Agreement. In addition, interest rates on the Notes are subject to adjustment upon the occurrence of certain credit rating events. Based on the amount of cash equivalents and investments, the borrowing levels under the 2017 Credit Agreement and the principal amount of the Notes as of September 30, 2020, 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

Operating Activities. The Company reported net cash provided by operating activities of \$144.4 million and \$232.0 million for the Prior Year Period and Current Year Period, respectively. The \$87.6 million increase in operating cash flows from the Prior Year Period is mainly attributable to higher segment profit and favorable working capital changes, partially offset by increased tax payments and lower interest income collected.

The net favorable impact of working capital changes between periods totaled \$33.5 million. For the Prior Year Period, operating cash flows were impacted by net unfavorable working capital changes of \$16.5 million, mainly attributable to an increase in accounts receivable. For the Current Year Period, operating cash flows were impacted by net favorable working capital changes of \$17.0 million, mainly attributable to the timing of receivables and payables.

Segment Profit, inclusive of Segment Profit from MCC, for the Current Period increased \$96.9 million from the Prior Year Period.

In relation to continuing operations, the Company reported net cash provided by operating activities of \$119.3 million and \$54.1 million for the Prior Year Period and Current Year Period, respectively. The decrease is mainly due to timing of accounts receivable and other working capital changes.

Investing Activities. The Company utilized \$44.2 million and \$56.0 million during the Prior Year Period and the Current Year Period, respectively, for capital expenditures. The additions related to hard assets (equipment, furniture, and leaseholds) and capitalized software for the Prior Year Period were \$11.4 million and \$32.8 million, respectively, as compared to additions for the Current Year Period related to hard assets and capitalized software of \$15.4 million and \$40.6 million, respectively.

During the Prior Year Period the Company received \$43.4 million for the net maturity of "available-for-sale" securities. During the Current Year Period the Company used \$160.3 million for the net purchase of "available-for-sale" securities.

Financing Activities. During the Prior Year Period, the Company paid \$44.4 million on debt obligations, \$6.2 million for payments on contingent consideration, \$4.1 million for the repurchase of treasury stock under the Company's share repurchase program and \$6.6 million on finance lease obligations. In addition, the Company received \$20.7 million from the exercise of stock options and had other net favorable items of \$1.8 million.

During the Current Year Period, the Company received \$80.0 million from the issuance of debt, \$48.3 million from the exercise of stock options and had other net favorable items of \$0.9 million. In addition, the Company paid \$122.0 million on debt obligations and \$4.1 million on finance lease obligations.

Outlook—Liquidity and Capital Resources

Liquidity. The Company may draw on the 2017 Credit Agreement (discussed further below) 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. At September 30, 2020, the Company had no revolving loans with a borrowing capacity of \$400.0 million of the revolving credit facility still available to the Company for additional drawdown. 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 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.

Stock Repurchases. The Company's board of directors approved, and subsequently amended, a stock repurchase plan which authorizes the Company to purchase up to \$400 million of its outstanding common stock through October 22, 2020. On October 27, 2020, the Company's board of directors extended the Repurchase Program through November 15, 2021. As of September 30, 2020, the remaining capacity under the Repurchase Program was \$186.3 million. See Part II, Item 2—"Unregistered Sales of Equity Securities and Use of Proceeds" for more information on the Company's share repurchase program.

Off-Balance Sheet Arrangements. As of September 30, 2020, the Company had no material off-balance sheet arrangements.

Credit Agreement. On September 22, 2017, the Company entered into the 2017 Credit Agreement with various lenders that provides for a \$400.0 million senior unsecured revolving credit facility and a \$350.0 million senior unsecured term loan facility to the Company, as the borrower. On August 13, 2018, the Company entered into an amendment to the 2017 Credit Agreement, which extended the maturity date by one year. On February 27, 2019, the Company entered into a second amendment to the 2017 Credit Agreement, which amended the total leverage ratio covenant, and which was necessary in order for the Company to remain in compliance with the terms of the 2017 Credit Agreement. The 2017 Credit Agreement is scheduled to mature on September 22, 2023. See Note A—"General" for more information on the 2017 Credit Agreement.

Restrictive Covenants in Debt Agreements. The 2017 Credit Agreement contains covenants that potentially limit management's discretion in operating the Company's business by, in certain circumstances, 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.

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 2017 Credit Agreement also requires the Company to comply with specified financial ratios and tests. Failure to do so, unless waived by the lenders under the 2017 Credit Agreement pursuant to its terms, or amended, would result in an event of default under the 2017 Credit Agreement. As of September 30, 2020, the Company was in

compliance with all covenants, including financial covenants, under the 2017 Credit Agreement.

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. Significant estimates of the Company can include, among other things, valuation of goodwill and intangible assets, medical claims payable, other medical liabilities, stock compensation assumptions, tax contingencies and legal liabilities. In addition, the Company also makes estimates in relation to revenue recognition under ASC 606 which are explained in more detail in Note A—“General – Revenue Recognition.” Actual results could differ from those estimates. Except as noted above, the Company’s critical accounting policies are summarized in the Company’s Annual Report on Form 10-K, filed with the SEC on February 28, 2020.

Forward-Looking Statements

This Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Although the Company believes that its plans, intentions and expectations as reflected in such forward-looking statements are reasonable, it can give no assurance that such plans, intentions or expectations will be achieved. Existing and 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 include:

- the Company’s inability to renegotiate or extend expiring customer contracts, or the termination of customer contracts;
- the Company’s inability to integrate acquisitions in a timely and effective manner;
- risks relating to the Company’s proposed sale of the MCC business to Molina, including the ability of the Company to realize the expected benefits of the transaction, the ability of the Company to obtain regulatory approvals for the transaction and to satisfy other closing conditions, and the ability of the parties to close the transaction in the anticipated timeframe;
- changes in business practices of the industry, including the possibility that certain of the Company’s managed care customers could seek to provide managed healthcare services directly to their subscribers, instead of contracting with the Company for such services, particularly as a result of further consolidation in the managed care industry and especially regarding managed healthcare customers that have already done so with a portion of their membership;
- the impact of changes in the contracting model for Medicaid contracts, including certain changes in the contracting model used by states for managed healthcare services contracts relating to Medicaid lives;
- the Company’s ability to accurately predict and control healthcare costs, and to properly price the Company’s services;
- the Company’s ability to accurately underwrite and control healthcare costs associated with its expansion into clinically integrated management of special populations eligible for Medicaid and Medicare, including individuals with serious mental illness and other unique high-cost populations;
- the Company’s ability to maintain or secure cost-effective healthcare provider contracts;
- the Company’s ability to maintain relationships with key pharmacy providers, vendors and manufacturers;
- fluctuation in quarterly operating results due to seasonal and other factors;

- the Company's dependence on government spending for managed healthcare, including changes in federal, state and local healthcare policies;
- restrictive covenants in the Company's debt instruments;
- present or future state regulations and contractual requirements that the Company provide financial assurance of its ability to meet its obligations;
- the impact of the competitive environment in the managed healthcare services industry which may limit the Company's ability to maintain or obtain contracts, as well as its ability to maintain or increase its rates;
- the impact of healthcare reform legislation;
- the Mental Health and Substance Abuse Benefit Parity Law and Regulations;
- government regulation;
- proposed changes to current Federal law and regulations;
- noncompliance with regulations;
- the Company's participation in Medicare Part D is subject to government regulation;
- failure to maintain satisfactory Medicare and Medicaid quality performance measures;
- the unauthorized disclosure of sensitive or confidential member or other information;
- a breach or failure in the Company's operational security systems or infrastructure, or those of third parties with which it does business;
- risk associated with outsourcing services and functions to third parties;
- the possible impact of additional regulatory scrutiny and liability associated with the Company's Pharmacy Management segment;
- the inability to realize the value of goodwill and intangible assets;
- pending or future actions or claims for professional liability;
- claims brought against the Company that either exceed the scope of the Company's liability coverage or result in denial of coverage;
- class action suits and other legal proceedings;
- negative publicity;
- the impact of governmental investigations;
- the impact of varying economic and market conditions on the Company's investment portfolio;
- the state of the national economy and adverse changes in economic conditions;
- the Company's ability to successfully implement its margin improvement initiatives and plans;

- tax matters, including changes in corporate tax rates, disagreements with taxing authorities and imposition of new taxes;
- the impact to contingent consideration as a result of changes in operational forecasts and probabilities of payment; and
- the impact of an epidemic or health crisis such as the COVID-19 pandemic, natural disasters, political disruptions, acts of war or terrorism, cybersecurity attacks or other data breaches or intrusions and other extraordinary events.

Further discussion of factors currently known to management that could cause actual results to differ materially from those in forward-looking statements is set forth under the heading “Risk Factors” in Item 1A of Magellan’s Annual Report on Form 10-K for the year ended December 31, 2019 and in Item 1A of this Quarterly Report on Form 10-Q. When used in this Quarterly Report on Form 10-Q, the words “estimate,” “anticipate,” “expect,” “believe,” “should,” and similar expressions are intended to be forward-looking statements. Magellan undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time, except as required by law.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Changes in interest rates affect interest income earned on the Company’s cash equivalents and investments, as well as interest expense on the variable interest rate borrowings under the 2017 Credit Agreement. In addition, interest rates on the Notes is subject to adjustment upon the occurrence of certain credit rating events. Based on the amount of cash equivalents and investments, the borrowing levels under the 2017 Credit Agreement and the principal amount of the Notes as of September 30, 2020, 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 4. Controls and Procedures

a) 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 Rule 13a-15(e) under the Exchange Act), as of September 30, 2020. Based on their evaluation, the Company’s principal executive and principal financial officers concluded that the Company’s disclosure controls and procedures were effective as of September 30, 2020.

b) Under the supervision and with the participation of management, including the Company’s principal executive and principal financial officers, the Company has determined that there has been no change in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company’s quarter ended September 30, 2020 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. 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 for whom the Company provides managed care services. 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 including employment practices, and privacy and data protection.

The Company maintains a program of insurance coverage against a broad range of risks in the Company's business, including certain of the class actions and other litigation and claims asserted against the Company, subject to deductibles and self-insured retentions as is described more fully in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on February 28, 2020. The Company has recorded reserves that, in the opinion of management, 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 1A. Risk Factors.

Other than the risk factors below, there have been no material changes in the risk factors as disclosed in Part I—Item 1A—"Risk Factors" of the Company's Annual Report on Form 10 K for the year ended December 31, 2019, which was filed with the SEC on February 28, 2020:

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

As part of its normal operations, the Company collects, processes and retains confidential member and protected personal or health information making the Company subject to various federal and state laws and rules regarding the use and disclosure of confidential member and protected personal or health information, including HIPAA. The Company also maintains other confidential information related to its business and operations. Despite our security measures, the Company is subject to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. For example, we have experienced data security breaches resulting in disclosure of confidential or protected personal or health information. Noncompliance with any privacy or security laws and regulations (including, but not limited to, state and federal laws and international regulations, such as GDPR) or any security incident or breach, whether by the Company or by its vendors, could result in enforcement actions, material fines and penalties, reputational and financial harm to the Company, and could also subject the Company to litigation.

IT Systems – The Company's ability to effectively maintain and upgrade its information systems is critical to its business.

The Company's operations are dependent on effective information systems. Our information systems require routine maintenance, enhancements and upgrades in order to meet operational needs and regulatory requirements. The maintenance, upgrade and enhancement of our information systems requires significant economic resources. If the Company encounters difficulties in its information systems, or with the transition to or from its information systems, or does not appropriately maintain, enhance and upgrade its information systems, such events could adversely impact the Company's operations materially. In addition, our ability to manage effectively our information systems could be impacted by events outside of our control, including acts of nature, such as floods, earthquakes, fires, pandemics, or acts of terrorism or war.

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, including protected personal or health information. Security incidents or breaches may arise from, among other things, computer hackers penetrating our systems or approaching our employees to obtain personal information for financial gain, attempting to cause harm to our operations, or intending to obtain competitive, confidential or protected personal or health information. It is widely reported that the healthcare industry, including providers, plans and pharmacies, are increasingly prime targets for cyber-attacks. Our data assets and systems continue to be subject to attack by viruses, worms, phishing attempts and other malicious software programs on a regular basis, and we routinely identify attempts to gain unauthorized access to our systems.

We maintain a comprehensive system of preventive and detective controls through our security programs; however given the rapidly evolving nature and proliferation of cyber threats, our controls may not prevent or identify all

such attacks in a timely manner or otherwise prevent unauthorized access to, damage to, or interruption of our systems and operations, and we cannot eliminate the risk of human error or employee or vendor malfeasance. For example, we were the target of a criminal ransomware attack on our computer network recently, which resulted in a temporary systems outage and the exfiltration of certain confidential company and personal information as well as protected health information of certain members. We are investigating the incident with forensic experts, notifying our customers, employees, impacted individuals, and appropriate government agencies, as applicable, and working with law enforcement authorities.

Any costs that we incur as a result of a data security incident or breach, including costs to update our security protocols to mitigate such an incident or breach could be significant. Any breach or failure in our operational security systems can result in loss of data or an unauthorized disclosure of or access to sensitive or confidential member or protected personal or health information and could result in significant penalties or fines, litigation, loss of customers, significant damage to our reputation and business, and other losses, which could adversely impact the Company's financial condition and results of operations materially.

We are subject to risks associated with outsourcing services and functions to third parties.

We contract with third party vendors and service providers who provide services to us and our subsidiaries or to whom we delegate selected functions. Some of these third parties also have direct access to our systems. Our arrangements with third party vendors and service providers may make our operations vulnerable if those third parties fail to satisfy their obligations to us, including their obligations to maintain and protect the security and confidentiality of our information and data or the protected personal or health information and data relating to our members or customers. We are also at risk of a data security incident or breach involving a vendor or third party, which could result in a breakdown of such third party's data protection processes or cyber-attackers gaining access to our infrastructure through the third party, or can result in loss of data or an unauthorized disclosure of or access to sensitive or confidential member or protected personal or health information.

To the extent that a vendor or third party suffers a security incident or breach that compromises its operations, we could incur significant costs and possible service interruption, which could have an adverse effect on our business, operations and reputation. In addition, we may have disagreements with third party vendors and service providers regarding relative responsibilities for any such failures or security incidents or breaches under applicable business associate agreements or other applicable outsourcing agreements.

Any contractual remedies and/or indemnification obligations we may have for vendor or service provider failures or security incidents or breaches may not be adequate to fully compensate us for any losses suffered as a result of any vendor's failure to satisfy its obligations to us or under applicable law. Further, we may not be adequately indemnified against all possible losses through the terms and conditions of our contracts with third party vendors and service providers. Our outsourcing arrangements could be adversely impacted by changes in vendors' or service providers' operations or financial condition or other matters outside of our control.

If we fail to adequately monitor and regulate the performance of our third-party vendors and service providers, we could be subject to additional risk, including significant cybersecurity risk. Violations of, or noncompliance with, laws and/or regulations governing our business (including, but not limited to, state and federal laws and international regulations, such as GDPR) or noncompliance with contract terms by third-party vendors and service providers could increase our exposure to liability to our members, providers, or other third parties, or sanctions and/or fines from the regulators that oversee our business, as well as litigation. In turn, this could increase the costs associated with the operation of our business or have an adverse impact on our business and reputation. Moreover, if these vendor and service provider relationships were terminated for any reason, we may not be able to find alternative partners in a timely manner or on acceptable financial terms, and may incur significant costs and/or disruption to our operations in connection with any such vendor or service provider transition. As a result, we may not be able to meet the full demands of our members or customers and, in turn, our business, financial condition, or results of operations may be harmed materially. In addition, we may not fully realize the anticipated economic and other benefits from our outsourcing projects or other relationships we enter into with third party vendors and service providers, as a result of regulatory restrictions on outsourcing, unanticipated delays in transitioning our operations to the third party, vendor or service provider noncompliance with contract terms or violations of laws and/or regulations, or otherwise. This could result in substantial costs or other operational or financial problems that could have a material adverse effect on our business, financial condition, cash flows, or results of operations.

Extraordinary Events—Extraordinary events, including the COVID-19 pandemic, could adversely affect the Company's business, financial condition and results of operations.

The Company's operations could be subject to an epidemic or health crisis such as the COVID-19 pandemic, natural disasters, political disruptions, acts of war or terrorism and other such extraordinary events. These events could cause significant disruptions in the Company's operations and its ability to serve its members. If a business interruption occurs and we are unsuccessful in our continuing efforts to minimize the impact of these events, our business, results of operations, financial position and cash flows could be materially adversely affected. Such events could also impact the Company's utilization, which could have a favorable or unfavorable impact to its medical loss ratios. In addition, such events could impact the financial markets, which could adversely impact the Company's investment portfolio and its ability to access the credit markets.

In 2020, the spread of the COVID-19 pandemic has caused significant financial market volatility and economic uncertainty, and is currently impacting countries, communities and workforces around the world. The effects of the COVID-19 pandemic on the Company and the duration of any such effects, including any impact on the Company's medical loss ratios (which could increase or decrease), are not known and are not quantifiable at this time. To date, other than the transition of our employees to a work at home environment, the Company has not experienced any significant interruptions to normal business activities and has not experienced any disruptions in its services. In addition, the Company does not expect the valuation of its investments to be materially affected. No effect from the subsequent events associated with the COVID-19 pandemic has been recorded within the accompanying financial statements.

The extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition are dependent on future developments for which there is significant uncertainty at this time and cannot be predicted, such as the scope, duration and severity of the pandemic, the extent and effectiveness of containment actions, any actions that may be taken by various governmental authorities in response to the outbreak, the possible impact on the global economy and local economies in which we operate and the resumption of normal economic conditions. The long-term financial and economic impacts of the COVID-19 pandemic may continue for a significant period of time and cannot be reliably quantified or estimated at this time due to the uncertainty of future developments.

Risks Associated with the Intended Sale of the MCC Business to Molina.

On April 30, 2020, the Company and Molina entered into the Purchase Agreement pursuant to which the Company has agreed to sell the MCC business to Molina for \$850.0 million in cash, subject to certain adjustments, and Molina has agreed to assume liabilities of the MCC business. The Company has also agreed to provide certain transition services to Molina following the closing.

There are numerous risks associated with the MCC Sale, including but not limited to the ability of the Company to obtain regulatory approvals for the MCC Sale and to satisfy other closing conditions; the anticipated timing of the closing of the MCC Sale; the benefits to the Company of the commercial agreements entered into in connection with the MCC Sale; the ability of the Company to use the proceeds of the MCC Sale to fund future growth initiatives or otherwise create value for the Company, the ability of the Company to strategically focus on enhancing its behavioral and specialty health business, as well as the continued growth of its pharmacy business; the ability of the Company to achieve our strategic and growth goals; any disruption that may result from the announcement or pendency of the MCC Sale, including potential adverse reactions by customers, employees, suppliers, regulators, or federal or state legislators, making it more difficult to maintain business and operational relationships; any disruption to our operations that may result from the diversion of management's attention from our day-to-day operations and efforts to grow our other businesses due to the significant resources that the separation of the MCC business from the rest of the Company's business will require; unexpected costs are incurred in connection with the completion and/or divestiture of the MCC business; and the possibility that we will be required to perform under the indemnification obligations that we provided to Molina under the Purchase Agreement in a manner that has a material adverse effect on our business, results of operations and financial condition. Any of the foregoing risks could have an adverse effect on our business, financial condition, cash flows, or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

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.

The Company's board of directors approved, and subsequently amended, a stock repurchase plan which authorizes the Company to purchase up to \$400 million of its outstanding common stock through October 22, 2020. On October 27, 2020, the Company's board of directors extended the Repurchase Program through November 15, 2021. The Company made no repurchases during the nine months ended September 30, 2020. As of September 30, 2020, the Company had approximately \$186.3 million remaining available for future repurchases under the current plan. The Company made no share repurchases from October 1, 2020 through October 22, 2020.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

See Exhibit Index.

Exhibit Index

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
*10.1	Employment Agreement, dated September 2, 2020, between the Company and David Bourdon which was filed as Exhibit 10.1 to the Company's current report on Form 8-K, which was filed on September 3, 2020 and is incorporated herein by reference.
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 (furnished).
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished).
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the cover page, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) related notes.
104	Cover Page Interactive Data File – The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

* Constitutes a management contract, compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements 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.

Date: October 29, 2020

MAGELLAN HEALTH, INC.
(Registrant)

By: /s/ DAVID P. BOURDON
 David P. Bourdon
 Chief Financial Officer
 (Principal Financial Officer and Duly Authorized Officer)

CERTIFICATIONS

I, Kenneth J. Fasola, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 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/ KENNETH J. FASOLA

Kenneth J. Fasola
Chief Executive Officer

Date: October 29, 2020

CERTIFICATIONS

I, David P. Bourdon, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 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/ DAVID P. BOURDON

David P. Bourdon

Chief Financial Officer

Date: October 29, 2020

**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, Kenneth J. Fasola, 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 Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2020 (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/ KENNETH J. FASOLA

Kenneth J. Fasola

Chief Executive Officer

Date: October 29, 2020

**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, David P. Bourdon, 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 Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2020 (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/ DAVID P. BOURDON

David P. Bourdon

Chief Financial Officer

Date: October 29, 2020
