Premier Behavioral Systems of Tennessee, LLC
Management's Discussion and Analysis
Supplement to the Annual Statement
For the Year Ended December 31, 2008

Premier Behavioral Systems of Tennessee, LLC (the "Company" or "Premier") was organized in May 1996. Financial and governance rights equal to fifty percent each were held and owned by Premier Holdings, Inc. (ultimately, a wholly owned subsidiary of Magellan Health Services, Inc. ("Magellan") and Columbia Behavioral Health, LLC ("CBH"). In April 2006, Premier Holdings purchased CBH's fifty percent interest in the Company. Magellan manages behavioral healthcare programs for payers across various segments of the healthcare industry. Premier was organized for the purpose of contracting with the State of Tennessee Department of Mental Health and Developmental Disabilities ("TDMHDD") to deliver mental health and substance abuse services to participants of TennCare Partners Program ("TennCare"). The Company's contract with TDMHDD was effective and operations of the Company commenced July 1, 1996. Effective July 1, 2004, the Company amended its contract with the State to continue to cover members located in the Middle and West regions of the State. This contract has been extended through June 30, 2009.

On July 26, 2006, TennCare announced the managed care organizations which were awarded the contracts to provide integrated behavioral and physical health services in the Middle Region of the State. Since the Company was not a party to either of the contract awards, effective April 1, 2007, the Company will cease providing services to TennCare members in the Middle region, with the exception of TennCare Select members, if any.

In January 2008 TennCare issued an RFP for the management by managed care organizations of the integrated delivery of behavioral and physical health to TennCare enrollees in the East and West Grand Regions. The RFP set forth intended start dates of November 1, 2008 for the West Grand Region and January 1, 2009 for the East Grand Region. On April 22, 2008, the State announced the winning bidders to the RFP process. The Company was not a winning bidder. Accordingly, the Company ceased providing services in the East Grand and West Grand regions after the implementation dates for the new contracts. The Company will continue to manage TennCare Select Children in the East, Middle, and West Grand regions through the June 30, 2009 contract term.

The State of Tennessee pays the Company a monthly capitation based on the number of enrollees in program. These payments are used to pay for behavioral health services provided to enrollees under various provider arrangements, including agreements with community mental health centers, state regional mental health institutes and to pay for the administrative costs associated with the program.

Financial Condition

Assets:

The Company's total admitted assets were $32.3 million and $41.2 million at December 31, 2008 and 2007 respectively. The company's cash balance decreased by $9.1 million over 2006, primarily due to a dividend that was paid to the parent. Additionally, the uncollected premiums balance increased by $.1 million.

Liabilities:

The Company's total liabilities were $23.6 million and $26.8 million at December 31, 2008 and 2007 respectively. The company's liabilities primarily consist of IBNR reserves which were computed in accordance with accepted actuarial standards. Due primarily to the loss of the West Region membership the company's IBNR decreased by $4.4 million during 2007. The reduction in IBNR was offset by a $1.8 million increase in the Risk Share liability to the State.

Capital Surplus:

Capital and surplus for the Company was $8.7 million and $14.5 million at December 31, 2008 and 2007 respectively. During 2008, the company generated an income of $5.4 million and paid its parent company, Premier Holdings, a dividend of $11.0 million.

Results of Operations

Net Income:

The company generated $5.4 million in income during the course of 2008 compared to $11.0 million in 2007. The reduction in Net Income was primarily driven by the loss of the Middle Region membership in the second quarter of 2007 and the loss of the West Region in the fourth quarter of 2008.

Revenues:

Premium revenue in 2008 decreased by $41.7 million over 2006. The reduction was primarily driven by the loss of the Middle Region membership in the second quarter of 2007 and the loss of the West Region in the fourth quarter of 2008.

Risk sharing revenue in 2008 increased by $3.5 million over 2007.

Expenses:

Total medical and hospital expenses decreased $29.4 million from 2007. The reduction was primarily driven by the loss of the Middle Region membership in the second quarter of 2007 and the loss of the West Region in the fourth quarter of 2008. Additionally, the company had $1.8 million in favorable prior year IBNR development.

Administration and Claims adjustment costs decreased by $4.9 million during the same period. The reduction is attributable to the losses of the Middle and West Regions.

Cash Flows

The company's primary source of cash flow is premiums received from the State. Capital contributions are made as needed by the parent companies.

Year 2009

The Company's contract with the State is set to expire on June 30, 2009.