



May 4, 2003 - Barrow Street

May 5, 2004

SOURCE: BARROW STREET

Pioneer Behavioral Health (PHC, Inc.) (OTC-BB-PIHC)
Current Price: \$1.16 (05-03-04)

52-Week Range: \$0.72-\$1.71

Since we last reviewed Pioneer Behavioral Health the company reported results for the second fiscal quarter and the six months ended December 31, 2003. Specifically, revenues in the second quarter increased 14 % to \$6.5 million, from the \$5.7 million reported in the fiscal second quarter of 2003. Revenue from the company's Wellplace division increased 193 % from \$252,312 to \$740,014 for the second quarter of last year. Net income applicable to common shareholders for the three months was \$2,659, or \$0.00 per diluted share, compared to \$113,375, or \$0.01 per diluted share for the second quarter of fiscal 2003. This was the company's 12th consecutive quarter of profitability. Revenues for the six-month period ended December 31, 2003 increased 8 percent to \$12.6 million from \$11.6 million for the comparable six-month period in fiscal 2003. Net income applicable to common shareholders for the six months was \$55,808, or \$0.00 per diluted share, compared to \$667,145, or \$0.05 per diluted share in the comparable period last year.

On balance, we believe that the second quarter was productive for PIHC and helped lay the groundwork for solid results for the balance of the year and fiscal 2005. During the quarter PIHC announced the acquisition of Pivotal Research Centers, a Clinical Research company which will enhance the pharmaceutical research services PIHC offers to its customer base. Pivotal reported \$4 million in revenues last year with net profit margins in excess of 20 percent. This acquisition is expected to make a significant contribution to the company's bottom line by the fourth quarter.

In late April PIHC announced that it had reached a settlement in a pending law suit. As a result of the settlement, the company will be making a payment of approximately \$463,000, which compares to a previous judgment of approximately \$3 million. At the same time the PIHC has not released other parties, including two insurance companies. Payments made by insurance and other related parties, if collected, could significantly reduce the company's financial burden below the \$463,000 payment. Still, this settlement will impact PIHC's third quarter results, similarly to the way first and second quarter results were impacted by legal costs related to this action. Consequently, we don't believe the full measure of the company's earnings potential will be reached until the fourth quarter is reported. Moreover, the fact that this law suit is now settled will allow management to concentrate more fully on a continuation of an aggressive business plan focused on expansion and acquisition.

In recent weeks, the PIHC common shares have retreated from their 52-week high of \$1.71. However, we view this as an excellent buying opportunity. Famed investor Peter Lynch retains his position in the stock and other savvy institutional investors have also noted the company's potential. For our part, we maintain our STRONG BUY rating and believe that a \$4 price target over the next 12-18 months is a reasonable expectation.

Posted May 3, 2004