PHC, Inc. Announces Record Revenues and Net Income for Its Fiscal 2006 Third Quarter

May 15, 2006

*** Q3FYO6 Net Income of $950,549, $.05 VS. $880,456, $.05 for Q3 FY05 * Q3FY06 Revenue Increased 13.6% TO $10.0 Million vs. $8.8 million over Q3FY05 * Q3FY06 Non-Patient Operations Revenue Increased 31.2% Over Q3FY05 * Year-To-Date Revenues Up 11.3% From the Same Period Last Year * Company Breaks Ground On Las Vegas Hospital * Pivotal Research Signs Largest Contract in Company History - Enters Phase I Market * Harmony and Wellplace Announce New Contracts to Drive Incremental Growth**

PEABODY, Mass., May 15, 2006 /PRNewswire-FirstCall via COMTEX News Network/ -- PHC, Inc., d.b.a. Pioneer Behavioral Health (OTC Bulletin Board: PIHC), a leading provider of inpatient and outpatient behavioral health services and pharmaceutical research, today announced its fiscal 2006 third quarter financial results, for the quarter ended March 31, 2006.

Third Quarter and Recent Highlights:

* Pioneer's Pivotal Research Centers subsidiary recently initiated a large Phase I study with a Fortune 500 global pharmaceutical company. The contract, which is the largest in Pivotal's history and Pivotal's first major Phase I trial, involves the evaluation of a compound for the treatment of patients with Type 2 (insulin resistant) Diabetes and is anticipated to generate in excess of $1.1 million in revenue for Pivotal, and could be as much as $2 million.

* Pioneer's Harmony Healthcare subsidiary was awarded a $300,000, 3-year annual contract for Member Assistance Program (MAP) and Mental Health Services for the Teamsters Local 631 Security Fund, effective June 1. The Teamsters Local 631 Security Fund is a multi-employer, Taft-Hartley Trust that provides benefits to approximately 4,900 employee participants in Southern Nevada.

* Harmony was selected as the EAP and Behavioral Health provider for a number of the larger Casinos in Las Vegas. The new, multi-year contract is effective April 1, and will cover more than 6,500 total employees and more than 13,000 covered lives and is expected to generate in excess of $400,000 in incremental business additions to the existing Harmony Healthcare base of business.

* Pioneer broke ground for its Seven Hills Behavioral Institute, a 60-bed acute care psychiatric and chemical dependency hospital, located in Henderson, Nevada on March 15, 2006. The facility will increase Pioneer's total number of beds to approximately 250 nationwide and is expected to contribute annualized revenue of approximately $8.5 million when fully operational. The Company expects the facility to be open during the first calendar quarter of 2007.

Financial Results

Total net revenue from operations increased 13.6 percent to $10.0 million compared to $8.8 million for the third quarter last year, and increased 14.4 percent sequentially compared to the $8.7 million for the second fiscal quarter of 2006. Net patient care revenue increased 8.3 percent to $7.3 million from the $6.7 million for the same period last year, and increased 12.8 percent sequentially compared to the $6.5 million for the second quarter of fiscal 2006. The increase as compared to last year was primarily due to the addition of the 20 new beds at the Detroit Behavioral Institute, which contributed to a 14.5 percent increase in patient days. Revenue from pharmaceutical studies increased 38.1 percent to $1.5 million for the third quarter compared to $1.1 million for the third quarter last year. Contract support services revenue provided by Wellplace increased 22.9 percent to $1.1 million for the quarter compared to $925,000 for the same quarter last year, which resulted from the October 2005 commencement of a smoking cessation contract with a major government contractor.

Total operating expenses for the quarter increased 13.6 percent to $8.8 million from $7.8 million during the third quarter of last year. Included in this increase, were expenses related to ramping up new programs and services associated with contracts signed during the previous two quarters. In addition, the Company's provision for doubtful accounts increased to $334,248 from $217,756 in the year ago period while the total allowance for doubtful accounts was $3.1 million, compared to $3.2 million as of December 31, 2005. The percentage of bad debt expense to net patient care revenue decreased from 9.8 percent for the quarter ended September 30, 2005, to 7.4 percent for the quarter ended December 31, 2005 to 4.6 percent for the current quarter ended March 31, 2006.

"We have made incremental progress in our collection activity as we recognized a trend in sequentially lower bad debt expense as a percentage of patient revenue since the billing issue occurred in the first quarter, confirming our belief that the strength of our payer mix is intact," commented Bruce A. Shear, Pioneer's President and Chief Executive Officer. "We expect to have our new billing system installed by the end of this year and believe it will have a positive impact on operating efficiencies and functionality over the entire organization."

Other notable increases in operating expenses were a 24.2 percent in patient care expense in the Company's pharmaceutical business, a 37.1 percent increase in cost of contract support services and a 16.8 percent increase in administrative expenses as compared to the year ago period. The increase in patient care expense in the pharmaceutical business was necessary to support the Company's over 38 percent revenue growth in this segment. Contract support expenses increased due to the new services provided under the previously announced contracts. Increases in administrative expenses related to personnel for the opening of Detroit Behavioral Institute and pre-construction expenses for the Las Vegas hospital.

Income from operations for the quarter was $1,112,980, higher than the $982,872 reported for the same period last year. Net income for the three months was $950,549, or $0.05 per fully diluted share (based on 19.2 million shares) compared to net income of $880,456, or $0.05 per fully diluted share (based on 18.7 million shares) for the third quarter last year. The net income for the third quarter of 2006 increased 174.1 percent sequentially from $346,782 reported in the second quarter of 2006. The Company's provision for income taxes was $45,427 for the quarter, versus no provision for income taxes in the prior-year period due to the Company's net operating loss carry-forwards.

"The third fiscal quarter and year-to-date periods represent some of the most important strategic events in the Company's history," Mr. Shear continued. "We reported major announcements in each of our three business units, which collectively will drive future top line growth and profitability, particularly as we enter our 2007 fiscal year. We broke ground on the Seven Hills Medical Complex, our biggest project in the Company's history, a 60-bed acute psychiatric hospital in Las Vegas, and we have already secured commitments from major referral sources to ensure a rapid utilization upon opening the new facility. Similar to our Detroit expansion, we anticipate high demand and census due to the lack of adequate facilities currently available. Our Clinical research division continues to grow, supported by signing its largest contract to date. This significant Phase I contract is expected to yield revenues over a $1 million, which could ultimately be as high as $2 million. Wellplace and Harmony have also contributed with previously announced contracts that will accelerate our growth rate. As our core business continues to grow we anticipate a moderation in overall operating expenses leading to higher future levels of profit and margin improvements."

For the first nine months of fiscal 2006, the Company reported revenue of $27.6 million, an increase of 11.3 percent compared to the $24.8 million for the first nine months of last year. Net patient care revenues were $20.5 million, an increase of 8.3 percent compared to the $18.9 million reported for the first nine months of last year. Pharmaceutical study revenues increased 15.6 percent to $3.9 million from the $3.4 million reported for the same period last year. Contract support services revenue increased 28.1 percent to $3.2 million from $2.5 million last year. Total operating expenses were $25.3 million, an increase of 13.9 percent from the $22.2 million for the first nine months of fiscal 2005, including a 83.2 percent increase in the Company's bad debt expense to $1.5 million due to the previously mentioned software billing issue and a 16.9 percent increase in administrative expenses. Income from operations was $2.3 million, a decrease of 11.2 percent compared to the $2.5 million reported last year. Net income for the nine-month period was $1.7 million or $0.09 per fully diluted share (based on 19.2 million shares), compared with net income of $2.1 million or $0.11 per fully diluted share (based on 18.2 million shares) for the same period last year.

The Company reported $957,437 in cash as of March 31, 2006, up from $917,630 on June 30, 2005. Total net receivables from patient care for the third quarter of 2006, were $6.6 million, which was a 5.0 percent increase from $6.3 million at June 30, 2005. The Company's balance sheet reported a current ratio of 1.7:1 on March 31, 2006. Stockholders' equity increased 19.1 percent to $10.8 million on March 31, 2006 from $9.1 million on June 30, 2005

Teleconference Information

The Company will conduct a conference call to discuss the fiscal 2006 third quarter results on Monday, May 15, 2006, at 4:30 p.m. Eastern Time. Interested parties within the United States can access the call by dialing 866-825-3209 and international callers may dial 617-213-8061. Please use passcode 80392926. A replay of the call also will be available until May 22, 2006 at 888-286-8010 for callers within the United States, and 617-801-6888 for international callers. Please use passcode 12768524 for the replay. This call is being webcast by CCBN, and can be accessed at PHC, Inc.'s web site at www.phc-inc.com. The webcast is also being distributed over CCBN's Investor Distribution Network to both institutional and individual investors. Individual investors can listen to the call through CCBN's individual investor center at www.fulldisclosure.com, or by visiting any of the investor sites in CCBN's Individual Investor Network. Institutional investors can access the call via CCBN's password-protected event management site, StreetEvents, at www.streetevents.com.

About Pioneer Behavioral Health

Pioneer Behavioral Health operates companies that provide inpatient and outpatient behavioral health care services, clinical research, Internet and telephonic-based referral services. The Companies contract with national insurance companies, government payors, and major transportation and gaming companies, among others, to provide such services. For more information, please visit www.phc-inc.com or www.haydenir.com.

Statement under the Private Securities Litigation Reform Act of 1995:

This press release may include "forward-looking statements" that are subject to risks and uncertainties. Forward-looking statements include information about possible or assumed future results of the operations or the performance of the Company and its future plans and objectives. Various future events or factors may cause the actual results to vary materially from those expressed in any forward-looking statements made in this press release. For a discussion of these factors and risks, see the Company's annual report on Form 10-K for the most recently ended fiscal year.

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PHC, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2006 (unaudited)	June 30, 2005
Current assets:		
Cash and cash equivalents	$957,437	$917,630
Accounts receivable, net of allowance for doubtful accounts of $3,117,247 at March 31, 2006 and $1,956,984 at June 30, 2005	6,601,905	6,265,381
Pharmaceutical receivables	1,977,983	1,414,340
Prepaid expenses	521,297	146,988
Other receivables and advances	612,196	638,654
Deferred income tax asset	1,415,344	1,375,800
Total current assets	12,086,162	10,758,793
Accounts receivable, non-current	45,000	65,000
Other receivable	97,350	84,422
Property and equipment, net	1,865,042	1,516,114
Deferred financing costs, net of amortization of $110,910 at March 31, 2006 and $76,234 June 30, 2005	126,262	145,938
Customer relationships, net of amortization of $230,000 at March 31, 2006 and $140,000 at June 30, 2005	2,170,000	2,260,000
Goodwill	2,704,389	2,648,209
Other assets	506,139	417,172
Total assets	$19,600,344	$17,895,648
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,618,948	$907,569
Current maturities of long-term debt	881,832	769,599
Revolving credit note	2,040,605	2,385,629
Deferred revenue	225,290	85,061
Current portion of obligations under capital leases	59,265	29,777
Accrued payroll, payroll taxes and benefits	1,414,659	1,411,653
Accrued expenses and other liabilities	763,093	1,063,189
Total current liabilities	7,003,692	6,652,477
Long-term debt	1,281,275	1,900,022
Obligations under capital leases	75,446	12,210
Deferred tax liability	244,874	229,000
Total liabilities	8,605,287	8,793,709
Stockholders' equity:		
Preferred Stock, 1,000,000 shares authorized, none issued or outstanding	--	--
Class A common stock, $.01 par value, 30,000,000 shares authorized, 17,617,764 and 17,490,818 shares issued at March 31, 2006 and June 30, 2005, respectively	176,178	174,908
Class B common stock, $.01 par value, 2,000,000 shares authorized, 776,962 and 776,991 issued and outstanding at March 31, 2006 and June 30, 2005, respectively, each convertible into one share of Class A common Stock	7,769	7,770

Additional paid-in capital	23,623,983	23,377,059
Treasury stock, 199,098 shares and 181,738 shares of Class A common stock at March 31, 2006 and June 30, 2005 respectively, at cost	(191,700)	(155,087)
Accumulated deficit	(12,621,173)	(14,302,711)
Total stockholders' equity	10,995,057	9,101,939
Total liabilities and stockholders' equity	$19,600,344	$17,895,648

PHC, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2006	2005	2006	2005
Revenues:				
Patient care, net	$7,292,804	$6,734,949	$20,471,140	$18,895,774
Pharmaceutical studies	1,523,277	1,103,205	3,913,370	3,384,347
Contract support services	1,137,878	925,528	3,216,788	2,510,277
Total revenues	9,953,959	8,763,682	27,601,298	24,790,398
Operating expenses:				
Patient care expenses	3,787,166	3,533,279	10,341,470	9,541,581
Patient care expenses, pharmaceutical	552,477	444,999	1,626,465	1,247,106
Cost of contract support services	713,438	520,475	1,898,300	1,595,478
Provision for doubtful accounts	334,248	217,756	1,466,903	800,503
Administrative expenses	2,815,164	2,410,474	8,193,940	7,008,636
Administrative expenses, pharmaceutical	638,486	653,827	1,810,776	2,049,492
Total operating expenses	8,840,979	7,780,810	25,337,854	22,242,796
Income from operations	1,112,980	982,872	2,263,444	2,547,602
Other income (expense):				
Interest income	11,281	15,004	49,542	49,535
Other income	25,309	31,568	57,357	58,060
Interest expense	(153,594)	(148,988)	(483,150)	(491,840)
Total other expenses, net	(117,004)	(102,416)	(376,251)	(384,245)
Income before provision for taxes	995,976	880,456	1,887,193	2,163,357
Provision for income taxes	45,427	--	205,655	98,469

Net income	$950,549	$880,456	$1,681,538	$2,064,888
Basic net income per common share	$0.05	$0.05	$0.09	$0.12
Basic weighted average number of shares outstanding	18,187,750	17,648,412	18,145,789	17,474,155
Fully diluted net income per common share	$0.05	$0.05	$0.09	$0.11
Fully diluted weighted average number of shares outstanding	19,212,589	18,690,012	19,242,777	18,234,480

SOURCE PHC, Inc.; Pioneer Behavioral Health

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