



## PHC, Inc. Announces Financial Results for the First Quarter of Fiscal 2007

November 14, 2006

Management Expects to Announce Company's Largest Contract Award Beginning in

Third Quarter of 2007

### FINANCIAL HIGHLIGHTS:

- \* Record first-quarter revenue
- \* Corporate milestone of second consecutive quarter of revenues above \$10 million
- \* Net revenue increased 12.5% to 10.1 million over the same period last year
- \* 23% increase in contract support revenues over the same period last year
- \* 31% increase in patient days over the same period last year
- \* Provision for doubtful accounts decreased 31.1% to \$452,500 from \$656,900 for the same period last year.

PEABODY, Mass., Nov. 14 /PRNewswire-FirstCall/ -- 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 2007 first quarter financial results, for the period ended September 30, 2006.

### Key Financial Indicators

(all numbers in thousands, except per-share amounts)

	Q1 2007	Q1 2006	Increase (decrease)	% Change
Consolidated revenues	\$10,062	\$8,945	\$1,117	12.5%
Patient care revenues	\$7,876	\$6,713	\$1,163	17.3%
Pharmaceutical study revenues	\$1,051	\$1,306	\$(255)	(19.5%)
Contract support service revenues	\$1,134	\$926	\$208	22.5%
Income from operations	\$554	\$601	\$(47)	(7.8%)
Net Income*	\$283	\$384	\$(101)	(26.3%)
Earnings per share - Basic	\$0.02	\$0.02	\$0.00	--
Diluted	\$0.01	\$0.02	\$(0.01)	(50.0%)

\* Fully taxed for the quarter ended September 30, 2006 (Q1 2007)

### Financial Results

Total net revenue from operations increased 12.5 percent to \$10.1 million compared to \$8.9 million for the first quarter last year. Net patient care revenue increased 17.3 percent to \$7.9 million from the \$6.7 million for the same period last year. The increase was primarily due to a 31 percent increase in patient days, and another 20 new beds at the Detroit Behavioral Institute. Revenue from pharmaceutical studies decreased 19.6 percent to \$1.1 million from \$1.3 million in the quarter due to inherent cyclicity and quarter-to-quarter fluctuation within this segment. Contract support services revenue provided by Wellplace increased 22.5 percent to \$1.1 million for the quarter compared to \$925,800 for the same quarter last year, primarily

due to the start of a smoking cessation contract with a major government contractor.

Total operating expenses for the quarter increased 14.0 percent to \$9.5 million from \$8.3 million during the first quarter of last year. Included in this increase was a 17 percent increase in administrative expenses, which were incurred to bolster the Company's receivable collections resources and to add the appropriate level of staffing and space at the Detroit Behavioral Institute.

The Company's provision for doubtful accounts in the quarter decreased to \$452,500 from \$656,900 in the year-ago same period. The percentage of bad debt expense to net patient care revenue for the quarter ended September 30, 2006 was 5.7 percent compared to 9.8 percent last year.

"Prospects for increasing our bed count, a key metric of our financial health, have never been stronger, and we believe that for fiscal 2008, we can grow this number in excess of 50 percent compared to a prior best for us of about 22 percent," commented Bruce Shear, President and Chief Executive Officer of Pioneer Behavioral Health. "We are particularly pleased to announce one particular significant new contract underway that we anticipate signing, based on several months of negotiations, prior to the end of this calendar year. If successful, this contract would represent the largest contract in the Company's history, while furthering Pioneer's leadership position in a critical geographic market. While we lay the groundwork for our next growth phase in fiscal 2007 and 2008, we continue to execute on our business plan as evidenced by our net revenues topping the \$10 million milestone for the second consecutive quarter. Patient days increased more than 30 percent for the quarter, due to strong demand and higher bed count in our facilities. In our largest business segment, treatment services, we generated 17.3 percent increase in revenue, despite significant ramp-up costs, primarily related to increasing our investment in the Detroit Behavioral Institute."

The increases in operating expenses included a \$694,000, or 21.3 percent, increase in patient treatment care expenses, and a \$241,000, or 40.3 percent, increase in contract support costs. Increases in administrative costs of \$466,000, or 17.7% percent, over last year's period were primarily due to various set-up and other infrastructure costs necessitated by the expansion at Detroit Behavioral Institute. Interest expense for the quarter decreased 22.8 percent in the quarter due to a reduction of long term debt since last year's same period.

Income from operations for the quarter was \$554,000, down 7.9 percent from the \$601,000 reported for the same period last year. Net income for the three months was \$283,000, or \$0.01 per fully diluted share (based on 19.3 million fully diluted shares) compared to net income of \$384,000, or \$0.02 per fully diluted share (based on 19.3 million shares) for the first quarter last year.

This year's first fiscal quarter was the first quarter in which the Company recorded an income tax provision assuming an estimated 39 percent corporate tax rate, while in the prior-year quarter, the Company recorded a 20 percent tax rate for the income tax provision. Had the Company incurred the same 39 percent tax rate, net income for the first quarter of fiscal 2006 would have been \$292,700, which is comparable to this year.

The Company reported \$1.8 million in cash as of September 30, 2006, largely unchanged from June 30, 2006. Total net receivables from patient care for the first quarter of 2007, were \$7.2 million, which was a 2.9 percent increase from \$7.0 million at June 30, 2006. The Company's balance sheet had a current ratio of 2:1 on September 30, 2006 and stockholders' equity increased 3.1 percent to \$13.8 million as of September 30, 2006 from \$13.5 million as of June 30, 2006.

Mr. Shear concluded, "This was a solid start to what we believe will be a year of growth and continued profitability. In late fiscal 2007, we expect to open our Seven Hills Behavioral Institute in the fast-growing metropolitan area of Las Vegas. We continue to have active and productive discussions with key constituents in the region, reinforcing our confidence in our ability to quickly fill this important facility due to strong demand and the lack of alternatives in the region. These discussions are leading to a substantial network of supporters, further demonstrating that we continue to be a leader in the behavioral health care industry."

#### Teleconference Information

The Company will host a conference call to discuss the fiscal 2007 first quarter results on Tuesday, November 14, 2006 at 4:15 p.m. Eastern Time. Interested parties within the United States can access the call by dialing 800-299-6183 and international callers may dial 617-801-9713. Please use passcode 25512706. A replay of the call also will be available until November 21, 2006 at 888-286-8010 for callers within the United States, and 617-801-6888 for international callers. Please use passcode 24225834 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](http://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](http://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](http://www.streetevents.com).

#### About Pioneer Behavioral Health

Pioneer Behavioral Health operates companies that provide inpatient and outpatient behavioral health care services, clinical research and 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](http://www.phc-inc.com) or [www.haydenir.com](http://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	September 30, 2006 (unaudited)	June 30, 2006
Current assets:		
Cash and cash equivalents	\$1,774,410	\$1,820,105
Accounts receivable, net of allowance for doubtful accounts of \$3,155,365 at September 30, 2006 and \$3,100,586 at June 30, 2006	7,167,055	6,955,475
Pharmaceutical receivables	1,474,353	1,470,019
Prepaid expenses	948,474	490,655
Other receivables and advances	907,769	751,791
Deferred income tax asset	2,960,768	3,110,000
Total current assets	15,232,829	14,598,045
Accounts receivable, non-current	35,000	40,000
Other receivable	47,680	53,457
Property and equipment, net	1,943,734	1,799,888
Deferred financing costs, net of amortization of \$115,661 at September 30, 2006 and \$106,422 June 30, 2006	107,785	117,023
Customer relationships, net of amortization of \$290,000 at September 30, 2006 and \$260,000 at June 30, 2006	2,110,000	2,140,000
Goodwill	2,664,643	2,664,643
Other assets	555,377	571,931
Total assets	\$22,697,048	\$21,984,987
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$1,831,519	\$1,518,615
Current maturities of long-term debt	872,518	909,057
Revolving credit note	1,777,931	1,603,368
Deferred revenue	246,286	385,742
Current portion of obligations under capital leases	146,660	57,881
Accrued payroll, payroll taxes and benefits	1,632,449	1,619,672
Accrued expenses and other liabilities	1,052,408	1,026,419
Total current liabilities	7,559,771	7,120,754
Long-term debt	890,997	1,021,546
Obligations under capital leases	47,075	61,912
Deferred tax liability	325,000	325,000
Total liabilities	8,822,843	8,529,212
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, 17,953,463 and 17,874,966 shares issued at September 30, 2006 and June 30, 2006, respectively	179,535	178,749
Class B common stock, \$.01 par value, 2,000,000 shares authorized, 775,760 issued and outstanding at September 30, 2006 and June 30, 2006, respectively, each convertible into one share of		

Class A common Stock	7,758	7,758
Additional paid-in capital	23,852,558	23,718,197
Treasury stock, 199,098 shares of Class A common stock at September 30, 2006 and June 30, 2006, at cost	(191,700)	(191,700)
Accumulated deficit	(9,973,946)	(10,257,229)
Total stockholders' equity	13,874,205	13,455,775
Total liabilities and stockholders' equity	\$22,697,048	\$21,984,987

See Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended September 30,	
	2006	2005
Revenues:		
Patient care, net	\$7,876,432	\$6,712,980
Pharmaceutical studies	1,051,383	1,306,009
Contract support services	1,134,391	925,837
Total revenues	10,062,206	8,944,826
Operating expenses:		
Patient care expenses	3,955,652	3,261,911
Patient care expenses, pharmaceutical	486,937	563,154
Cost of contract support services	838,555	597,795
Provision for doubtful accounts	452,525	656,887
Administrative expenses	3,095,455	2,629,676
Administrative expenses, pharmaceutical	679,108	633,999
Total operating expenses	9,508,232	8,343,422
Income from operations	553,974	601,404
Other income (expense):		
Interest income	32,849	22,864
Other income	(943)	10,785
Interest expense	(119,830)	(155,218)
Total other expenses, net	(87,924)	(121,569)
Income before provision for taxes	466,050	479,835
Provision for income taxes	182,767	95,628
Net income	\$283,283	\$384,207
Basic net income per common share	\$ 0.02	\$ 0.02
Basic weighted average number of shares outstanding	18,514,142	18,099,342
Fully diluted net income per common share	\$0.01	\$0.02
Fully diluted weighted average number of shares outstanding	19,296,638	19,270,164

See Notes to Condensed Consolidated Financial Statements.

SOURCE PHC, Inc.

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