PHC Reports Record Fourth Quarter and Fiscal Year 2007

September 25, 2007

PEABODY, Mass.--(BUSINESS WIRE)--Sept. 25, 2007--PHC, Inc., d.b.a. Pioneer Behavioral Health (AMEX:PHC), a leading provider of inpatient and outpatient behavioral health services and pharmaceutical research, announced financial results for the fourth quarter and fiscal year 2007 ended June 30, 2007.

Fourth Quarter and Fiscal 2007 Financial Highlights

-- Record revenues at $12.8 million, up 23% over Q4 FY2006

-- Record quarterly income before taxes up 68% over same year-ago quarter

-- Quarterly net income up 62% sequentially to $0.8 million or $0.04 per share

-- Patient care revenue increased 38% for Q4 FY07 over Q4 FY06

-- Fifth consecutive year of record revenues; up 19% year-over-year to $45.1 million

-- Fiscal year income before taxes totaled $2.8 million vs. $2.7 million in fiscal 2006

-- Fiscal year net income of $1.7 million, or $0.09 per fully diluted share

Key Financial Indicators
(In thousands, except per-share amounts.)

Q4 2007 vs. Q4 2006	Q4 2007	Q4 2006	Change	% Change
Consolidated revenues	$12,795	$10,412	$2,383	23%
Patient care revenues	10,177	7,391	2,786	38%
Net income before taxes	1,421	848	573	68%
Net Income*	822	2,364	(1,542)	(65%)
Earnings per share - Basic*	0.04	0.13	(0.09)	(69%)
Earnings per share - Diluted*	0.04	0.12	(0.08)	(67%)
FY 2007 vs. FY 2006	FY2007	FY 2006		
Consolidated revenues	$45,127	$38,013	$7,114	19%
Patient care revenues	36,023	27,862	8,161	29%
Net income before taxes	2,829	2,735	94	3%
Net Income*	1,682	4,045	(2,363)	(58%)
Earnings per share - Basic*	0.09	0.22	(0.13)	(59%)
Earnings per share - Diluted*	0.09	0.21	(0.12)	(57%)

* Includes one-time gain of $1.6 million in Fiscal Year 2006 due to the change in the valuation allowance

Operational Highlights for Fiscal 2007

-- Patient days increased 5,291 days year-over-year, primarily due to an increase of 20 additional beds.

-- PHC's Harmony Healthcare subsidiary signed a ten-year, $80

Million contract with a major healthcare provider. This was the largest in company history and is expected to increase Harmony's annual revenue by 160%.

-- Construction of the Seven Hills Behavioral Institute near Las Vegas, Nevada continues, keeping it on track to opening in early 2008. Seven Hills is projected to contribute annualized revenue of approximately $12 million, with higher margins than the company's other inpatient facilities.

-- Reduced cost of capital by successfully renegotiating the company's line of credit, increasing it to $6.5 million and at a lower, more conventional interest rate.

-- The Boston Globe added PHC to its "Globe 100" list of top performing companies in Massachusetts.

-- Common Stock began trading on the American Stock Exchange.

Fourth Quarter Financial Results

For the three months ended June 30, 2007 and compared to the same quarter a year ago:

Total net revenue from operations increased 23% to a record $12.8 million as compared to $10.4 million a year ago. The increase is primarily attributable to an increase in net revenue of the company's patient care segment, which was up 38% to $10.2 million from $7.4 million last year. This was offset by a 22% decrease in revenue from the pharmaceutical studies segment, which totaled $1.5 million as compared to $1.9 million last year. Contract support services revenue provided by PHC's Wellplace subsidiary was essentially unchanged from last year at $1.1 million.

Income from operations for the quarter totaled $1.2 million, an increase of 32% from $921,000 reported a year ago. Net Income before taxes increased 68% to a record $1.4 million from $848,000 a year ago.

Net income was $822,000 or $0.04 per fully diluted share (based on 20.5 million fully diluted shares), a decrease of 65% compared to net income of $2.4 million or $0.12 per fully diluted share (based on 19.3 million shares) last year, due to last year's tax loss carry forward recapture. However, net income in the fourth fiscal quarter represented an increase of 160% over the third fiscal quarter net income of $316,000 or $0.02 per fully diluted share (based on 20.6 million fully diluted shares).

Total operating expenses for the quarter increased 22% to $11.6 million from $9.5 million last year. Included in this increase were expenses related to ramping up new programs and services associated with new contracts and the Seven Hills Behavioral Institute.

The company's provision for doubtful accounts increased to $706,700 in the quarter from $445,600 a year ago. The percentage of bad debt expense to net patient care revenue for the quarter was 6.9% percent as compared to 5.3% percent for the year.

Patient care operating expenses increased 39% as compared to the same year-ago period, reflecting the ramp up on new major contracts and hospital completion. Pharmaceutical patient care expenses increased 9% and contract support expenses increased nearly 3%. The increase in patient care expense reflects the company's investments in its Las Vegas market initiatives, including the Seven Hills project and the company's 10-year, $80 million agreement with Health Plan of Nevada's Behavioral Healthcare Options network agreement announced in December 2006.

"This second consecutive quarter of record-breaking revenue exceeded our expectations," said Bruce A. Shear, Pioneer's president and CEO. "It was driven by a 38% expansion of our patient care revenues. The quarter-over-quarter increase in our net profit is reflective of the fact that direct expense related to our Las Vegas contract expansion is behind us, and we see this income growth trend continuing as our new Seven Hills facility comes on line in fiscal 2008."

Full Year Fiscal 2007 Financial Results

For the 12 months ended June 30, 2007, as compared to the previous fiscal year:

Total net revenue was $45.1 million, a 19% increase from $38.0 million in the previous year -- representing the fifth consecutive year of record revenue. The increase is largely due to a 29% increase in net patient care revenues, which increased to $36.0 million from $27.9 million in fiscal 2006. The improvement in net patient care revenue is mostly the result of a new capitated contract. This was offset by a 21% year-over-year decrease in pharmaceutical study revenues which total $4.6 million versus $5.8 million in fiscal 2006. This decrease is largely due to the delay in the start of some significant studies and an unusually large study that occurred in the last half of fiscal 2006. Contract support services revenue increased 4% from $4.4 million to $4.5 million year-over-year, primarily due to increases in contract rates.

Total operating expenses were $42.1 million, an increase of 21% from $34.8 million in fiscal 2006. The increase was primarily due to a 38% increase in patient care expense resulting from increased patient census and utilization of patient services. The provision for bad debt remained approximately the same as the previous year at $1.9 million and administrative expenses increased 13% to $12.7 million.

Income from operations for the fiscal year was $3.0 million, a 5% decrease from $3.2 million in fiscal 2006. Net income was $1.7 million or $0.09 per basic and fully diluted share (based on 19.3 million shares), a decrease of 58% from $4.1 million or $0.21 per basic and $0.20 per fully diluted share (based on 18.2 million shares) in the prior year. This decrease is primarily the result of a $1.1 million provision for tax expense recorded in fiscal 2007, as compared to $1.3 million in income tax benefit recorded in fiscal 2006.

Income before taxes increased 3% to a record $2.8 million from $2.7 million in fiscal 2006. This increase was primarily due to the two new contracts added during the year that are projected to increase gross revenues by $10 million annually and increased patient census. This increase is significant since it includes ramp-up costs of these contracts and uncapitalized costs of the Meditech software implementation in progress and the construction in progress of the Seven Hills Behavioral Institute.

"Fiscal 2007 was an excellent year for Pioneer, as we realized a number of major milestones across our organization," said Shear. "Our Harmony Healthcare subsidiary signed the largest contract in company history and we started construction on our new major facility near Las Vegas. Our success was reflected in another year of record revenues and record pre-tax profit, as well as record stockholders' equity. Supported by an expanded and more favorable credit facility, our pipeline for new business and outlook for internal expansion has never been stronger. This has set the stage for another record year in fiscal 2008."

The company's cash and equivalents totaled $3.4 million at June 30, 2007, an increase from $1.6 million at the end of the previous fiscal year. Total net receivables from patient care at 2007 fiscal year end was $6.6 million, a decrease of 6% from $7.0 million at the previous year end. The balance sheet current ratio was 2:1 at June 30, 2007. Stockholders' equity increased 36% to a record $18.3 million at June 30, 2007 from $13.5 million at the end of the previous year.

Teleconference Information

PHC will host a conference call today at 4:30 p.m., Eastern Time. A question and answer session will follow management's presentation.

To participate in the call, dial the appropriate number 5-10 minutes prior to the start time, request the PHC conference call and provide the conference ID.

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Domestic callers: 1-800-683-1525
International callers: 1-973-872-3197
Conference ID#: 9241101
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A web simulcast of the call can be accessed via PHC's website at www.phc-inc.com. The call will be available for replay starting at 7:30 p.m. Eastern Time until October 25, 2007:

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Toll-Free Replay number: 1-877-519-4471
International Replay number: 1-973-341-3080
Replay PIN #: 9241101
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If you have any difficulty connecting with the conference call or webcast, please contact the Liolios Group at 949-574-3860.

About PHC, Inc.

PHC, dba 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.

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.

PHC, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	June 30, 2007	June 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$3,395,173	$1,820,105
Accounts receivable, net of allowance for doubtful accounts of $3,764,585 and $3,100,586 at June 30, 2007 and 2006, respectively	6,524,387	6,955,475
Pharmaceutical research receivables	1,942,268	1,470,019
Prepaid expenses	688,600	490,655
Other receivables and advances	868,628	751,791
Deferred tax assets	2,354,000	3,110,000
Total current assets	15,817,073	14,598,045

Accounts receivable, non-current	35,000	40,000
Other receivables	91,697	53,457
Property and equipment, net	2,121,191	1,799,888
Deferred financing costs, net of amortization of $143,376 and $106,422 at June 30, 2007 and 2006, respectively	163,733	117,023
Customer relationships, net of amortization of $380,000 and $260,000 at June 30, 2007 and 2006, respectively	2,020,000	2,140,000
Goodwill	3,508,576	2,664,643
Other assets	3,465,356	571,931
Total assets	$27,178,609	$21,984,987
LIABILITIES		
Current liabilities:		
Accounts payable	$1,261,841	$1,509,659
Current maturities of long-term debt	1,134,300	918,013
Revolving credit note	1,518,742	1,603,368
Deferred revenue	433,301	385,742
Current portion of obligations under capital leases	205,858	57,881
Accrued payroll, payroll taxes and benefits	1,631,693	1,619,672
Accrued expenses and other liabilities	1,702,772	1,026,419
Total current liabilities	7,888,507	7,120,754
Long-term debt, less current maturities	381,255	1,021,546
Obligations under capital leases	226,706	61,912
Deferred tax liabilities	432,000	325,000
Total liabilities	8,928,468	8,529,212
Commitments and contingent liabilities		
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, 19,622,076 and 17,874,966 shares issued at June 30, 2007 and 2006, respectively	196,221	178,749
Class B common stock, $.01 par value; 2,000,000 shares authorized, 775,760 and 775,760 issued and outstanding at June 30, 2007 and 2006, respectively, each convertible into one share of Class A Common Stock	7,758	7,758
Additional paid-in capital	26,812,808	23,718,197
Treasury stock, 199,098 and 199,098 class A common shares at cost at June 30, 2007 and 2006, respectively.	(191,700)	(191,700)
Accumulated deficit	(8,574,946)	(10,257,229)
Total stockholders' equity	18,250,141	13.455,775
Total liabilities and stockholders' equity	$27,178,609	$21,984,987

PHC, INC. AND SUBSIDIARIES
Consolidated Statements of Income

	For the Years Ended June 30, 2007	2006	2005
Revenues:			
Patient care, net	$36,022,529	$27,861,701	$26,087,088
Pharmaceutical study	4,564,314	5,799,815	4,509,338
Contract support services	4,540,634	4,351,576	3,466,832
Total revenues	45,127,477	38,013,092	34,063,258
Operating expenses:			
Patient care expenses	19,738,357	14,269,540	12,905,286
Patient care expenses, pharmaceutical	2,182,357	2,242,900	1,676,749
Cost of contract support services	3,102,551	2,676,340	2,197,518
Provision for doubtful accounts	1,933,499	1,912,516	1,272,037
Administrative expenses	12,722,007	11,210,296	9,667,138
Administrative expenses, pharmaceutical	2,438,802	2,517,074	2,757,118
Total operating expenses	42,117,573	34,828,666	30,475,846
Income from operations	3,009,904	3,184,426	3,587,412
Other income (expense):			
Interest income	159,946	68,397	73,176
Interest expense	(649,166)	(606,893)	(654,871)
Other income, net	308,599	89,449	76,760
Total other expense, net	(180,621)	(449,047)	(504,935)
Income before income taxes	2,829,283	2,735,379	3,082,477
Benefit from (provision for) income taxes	(1,147,000)	1,310,103	73,423
Net income	$1,682,283	$4,045,482	$3,155,900
Basic net income per common share	$0.09	$0.22	$0.18
Basic weighted average number of shares outstanding	19,287,665	18,213,901	17,574,678
Fully diluted net income per common share	$0.09	$0.21	$0.17
Fully diluted weighted average number of shares outstanding	19,704,697	19,105,193	18,364,076

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SOURCE: PHC, Inc.