UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

**PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported): December 4, 2012

Acadia Healthcare Company, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	001-35331	46-2492228
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

830 Crescent Centre Drive, Suite 610, Franklin, Tennessee 37067
(Address of Principal Executive Offices)

(615) 861-6000
(Registrant's Telephone Number, including Area Code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (See General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events

Financial Information

On November 21, 2012, Commodore Acquisition Sub, LLC, a Delaware limited liability company ("BCA Buyer") and wholly-owned subsidiary of Acadia Healthcare Company, Inc., a Delaware corporation ("Acadia"), entered into an Acquisition Agreement (the "Acquisition Agreement") with Behavioral Centers of America, LLC, a Delaware limited liability company ("BCA"), Behavioral Centers of America Holdings, LLC, a Delaware limited liability company ("Holdings"), Linden BCA Blocker Corp., a Delaware corporation ("Linden Blocker"), SBOF-BCA Holdings Corporation, a Delaware corporation ("Siguler Blocker"), HEP BCA Holdings Corp., a Delaware corporation ("HEP Blocker" and together with Linden Blocker and Siguler Blocker, the "Blockers"), Siguler Guff Small Buyout Opportunities Fund, LP, a Delaware limited partnership, and Siguler Guff Small Buyout Opportunities Fund (F), LP, a Delaware limited partnership (together, "Siguler"), Health Enterprise Partners, L.P., a Delaware limited partnership, and HEP BCA Co-Investors, LLC, a Delaware limited liability company (together, "HEP"), and Linden Capital Partners A, LP, a Delaware limited partnership ("Linden"). Under the terms of the Acquisition Agreement, (i) Linden, Siguler and HEP will sell to BCA Buyer, and BCA Buyer will buy from Linden, Siguler and HEP, all of the outstanding capital stock of the Blockers, and (ii) Holdings will sell to BCA Buyer and BCA Buyer will buy from Holdings, all of the outstanding membership interests of BCA held by Holdings, such that BCA Buyer will own, directly or indirectly, all of the outstanding membership interests of BCA.

On November 23, 2012, Acadia entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") with 2C4K, LP, a Texas limited partnership ("2C4K"), ARTC Acquisitions, Inc., a Delaware corporation ("ARTC", and together with 2C4K, each a "Seller" and collectively, the "AmiCare Sellers"), and Acadia Vista, LLC, a Delaware limited liability company and wholly-owned subsidiary of Acadia ("AmiCare Buyer"). Under the terms of the Purchase Agreement, the AmiCare Sellers will sell to AmiCare Buyer, and AmiCare Buyer will buy from the AmiCare Sellers, all of the outstanding membership interests of AmiCare Behavioral Centers, LLC, a Delaware limited liability company ("AmiCare").

BCA, AmiCare and their respective subsidiaries are engaged in the business of owning, operating and managing behavioral healthcare facilities. The closing of each of the BCA and AmiCare transactions is subject to the satisfaction of certain conditions. If these conditions are satisfied, Acadia expects to close the transactions in late December 2012.

The purpose of this Current Report on Form 8-K is to file the following historical and pro forma financial information and other items set forth in Item 9.01 hereto, all of which are incorporated by reference herein, to provide required financial information relating to Acadia's significant acquisitions, some of which has been filed previously with the Securities and Exchange Commission:

Unaudited Pro Forma Condensed Combined Financial Information of Acadia and its Subsidiaries

- Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2012
- Unaudited Pro Forma Condensed Combined Statement of Operations for the Year Ended December 31, 2011
- Unaudited Pro Forma Condensed Combined Statement of Operations for the Nine Months Ended September 30, 2012
- Unaudited Pro Forma Condensed Combined Statement of Operations for the Nine Months Ended September 30, 2011
- Notes to Unaudited Pro Forma Condensed Combined Financial Information

Behavioral Centers of America, LLC and Subsidiaries Consolidated Financial Statements

Unaudited Condensed Consolidated Financial Statements

- Unaudited Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011
- Unaudited Consolidated Statements of Operations and Changes in Member's Equity for the Nine Months Ended September 30, 2012 and September 30, 2011
- Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and September 30, 2011
- Notes to Unaudited Consolidated Financial Statements

Audited Consolidated Financial Statements

- Report of Independent Auditors
- Consolidated Balance Sheets as of December 31, 2011 and 2010
- Consolidated Statements of Operations and Changes in Member's Equity for the Years Ended December 31, 2011 and 2010
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2011 and 2010
- Notes to Consolidated Financial Statements

AmiCare Behavioral Centers, LLC and Subsidiaries Consolidated Financial Statements

Unaudited Condensed Consolidated Financial Statements

- Unaudited Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011
- Unaudited Consolidated Statements of Operations for the Nine Months Ended September 30, 2012 and September 30, 2011
- Unaudited Consolidated Statement of Changes in Members' Equity for the Nine Months Ended September 30, 2012
- Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and September 30, 2011
- Notes to Unaudited Consolidated Financial Statements

Audited Consolidated Financial Statements

- Report of Independent Auditors
- Consolidated Balance Sheet as of December 31, 2011
- Consolidated Statement of Operations for the Year Ended December 31, 2011
- Consolidated Statement of Changes in Members’ Equity for the Year Ended December 31, 2011
- Consolidated Statement of Cash Flows for the Year Ended December 31, 2011
- Notes to Consolidated Financial Statements

Haven Hospital Holdings, LLC and Haven Hospital Holdings of Texas, LLC Combined Financial Statements

On March 1, 2012, Acadia completed the acquisition of three inpatient behavioral healthcare facilities with a combined 166 licensed beds from Haven Behavioral Healthcare Holdings, LLC.

Audited Combined Financial Statements

- Report of Independent Auditors
- Combined Balance Sheets as of December 31, 2011 and December 31, 2010
- Combined Income Statements for the Years Ended December 31, 2011 and December 31, 2010
- Combined Statements of Members’ Equity for the Years Ended December 31, 2011 and December 31, 2010
- Combined Statements of Cash Flows for the Years Ended December 31, 2011 and December 31, 2010
- Notes to Combined Financial Statements

Youth and Family Centered Services, Inc. and Subsidiaries Consolidated Financial Statements

On April 1, 2011, Acadia acquired Youth and Family Centered Services, Inc., the largest private, for-profit provider of behavioral health, education and long term support services exclusively for abused and neglected children and adolescents.

Unaudited Condensed Consolidated Financial Statements

- Unaudited Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010
- Unaudited Consolidated Statements of Operations for the Three Months Ended March 31, 2011 and March 31, 2010
- Unaudited Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and March 31, 2010
- Notes to Unaudited Consolidated Financial Statements

Audited Consolidated Financial Statements

- Report of Independent Auditors
- Consolidated Balance Sheets as of December 31, 2010 and 2009
- Consolidated Statements of Operations for the Years Ended December 31, 2010, 2009 and 2008

- Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2010, 2009 and 2008
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009 and 2008
- Notes to Consolidated Financial Statements

PHC, Inc. and Subsidiaries Consolidated Financial Statements

On November 1, 2011, Acadia completed the acquisition of PHC, Inc. ("PHC"), a publicly-traded behavioral health services company providing psychiatric services to individuals who have behavioral health disorders, including alcohol and drug dependency.

Unaudited Condensed Consolidated Financial Statements

- Unaudited Consolidated Balance Sheets as of September 30, 2011 and June 30, 2011
- Unaudited Consolidated Statements of Operations for the Three Months Ended September 30, 2011 and September 30, 2010
- Unaudited Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2011 and September 30, 2010
- Notes to Unaudited Consolidated Financial Statements

Audited Consolidated Financial Statements

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of June 30, 2011 and 2010
- Consolidated Statements of Income for the Years Ended June 30, 2011 and 2010
- Consolidated Statements of Changes in Stockholders' Equity for the Years Ended June 30, 2011 and 2010
- Consolidated Statements of Cash Flows for the Years Ended June 30, 2011 and 2010
- Notes to Consolidated Financial Statements

HHC Delaware, Inc. and Subsidiary Consolidated Financial Statements

In July 2011, PHC had acquired all of the assets of HHC Delaware, Inc., consisting principally of the MeadowWood Behavioral Health System, an acute care psychiatric hospital ("MeadowWood"). Acadia acquired MeadowWood when it acquired PHC.

Consolidated Financial Statements

- Report of Independent Auditors
- Consolidated Balance Sheets as of December 31, 2010 and 2009 (Predecessor) and as of June 30, 2011 (Unaudited)
- Consolidated Statements of Operations and Changes in Invested Equity (Deficit) for the period from November 16, 2010 to December 31, 2010, for the period from January 1, 2010 to November 15, 2010 (Predecessor), the year ended December 31, 2009 (Predecessor) and the six months ended June 30, 2011 (Unaudited) and 2010 (Unaudited and Predecessor)
- Consolidated Statements of Cash Flows for the period from November 16, 2010 to December 31, 2010, for the period from January 1, 2010 to November 15, 2010 (Predecessor), the year ended December 31, 2009 (Predecessor) and the six months ended June 30, 2011 (Unaudited) and 2010 (Unaudited and Predecessor)

- Notes to Consolidated Financial Statements

Senior Secured Credit Facility

In connection with its acquisition of Park Royal Hospital on November 11, 2012, Acadia entered into the sixth amendment to its Senior Secured Credit Facility to allow for the assumption of approximately $23.0 million in debt as part of the transaction. The amendment is filed as Exhibit 10.1 attached hereto and is incorporated by reference herein.

In connection with the proposed acquisitions of BCA and AmiCare, Acadia anticipates amending the Senior Secured Credit Facility to provide for a credit facility of approximately $389.0 million. We anticipate that the Senior Secured Credit Facility will provide for a $75.0 million revolver, a $149.0 million Existing Term Loan and a $165.0 million Incremental Term Loan A. Acadia is currently negotiating such an amendment and expects it to be effective commensurate with the closing of the acquisitions of BCA and AmiCare in late December 2012.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit Number	Description
10.1	Sixth Amendment to the Credit Agreement, dated as of November 9, 2012, by and among Bank of America, NA (Administrative Agent, Swing Line Lender and L/C Issuer), Acadia Healthcare Company, Inc. (f/k/a Acadia Healthcare Company, LLC), and the lenders listed on the signature pages thereto
23.1	Consent of Lattimore Black Morgan & Cain, an independent registered public accounting firm, with respect to the audited financials of Behavioral Centers of America, LLC
23.2	Consent of Lattimore Black Morgan & Cain, an independent registered public accounting firm, with respect to the audited financials of AmiCare Behavioral Centers, LLC
23.3	Consent of Ernst & Young LLP, independent auditors, with respect to the audited combined financials of Haven Hospital Holdings, LLC and Haven Hospital Holdings of Texas, LLC
23.4	Consent of Ernst & Young LLP, independent auditors, with respect to the audited financials of Youth and Family Centered Services, Inc. and Subsidiaries
23.5	Consent of BDO USA, LLP, an independent registered public accounting firm, with respect to the audited financials of PHC, Inc. and Subsidiaries
23.6	Consent of Ernst & Young LLP, independent auditors, with respect to the audited financials of HHC Delaware, Inc. and Subsidiary
99.1	Unaudited Pro Forma Condensed Combined Financial Information listed in Item 8.01
99.2	Financial Statements of Behavioral Centers of America, LLC and Subsidiaries listed in Item 8.01
99.3	Financial Statements of AmiCare Behavioral Centers, LLC and Subsidiaries listed in Item 8.01
99.4	Financial Statements of Haven Hospital Holdings, LLC and Haven Hospital Holdings of Texas, LLC listed in Item 8.01
99.5	Financial Statements of Youth and Family Centered Services, Inc. and Subsidiaries listed in Item 8.01
99.6	Financial Statements of PHC, Inc. and Subsidiaries listed in Item 8.01
99.7	Financial Statements of HHC Delaware, Inc. and Subsidiary listed in Item 8.01

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ACADIA HEALTHCARE COMPANY, INC.

Date: December 4, 2012

By: /s/ Christopher L. Howard
Christopher L. Howard
Executive Vice President, Secretary and General Counsel

EXHIBIT INDEX

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99.4	Financial Statements of Haven Hospital Holdings, LLC and Haven Hospital Holdings of Texas, LLC listed in Item 8.01
99.5	Financial Statements of Youth and Family Centered Services, Inc. and Subsidiaries listed in Item 8.01
99.6	Financial Statements of PHC, Inc. and Subsidiaries listed in Item 8.01
99.7	Financial Statements of HHC Delaware, Inc. and Subsidiary listed in Item 8.01

SIXTH AMENDMENT

THIS SIXTH AMENDMENT (this "Amendment"), dated as of November 9, 2012, to the Credit Agreement referenced below is by and among Acadia Healthcare Company, Inc. (f/k/a Acadia Healthcare Company, LLC), a Delaware corporation (the "Borrower"), the Guarantors identified on the signature pages hereto, the Lenders identified on the signature pages hereto and Bank of America, N.A., in its capacity as Administrative Agent (in such capacity, the "Administrative Agent").

W I T N E S S E T H

WHEREAS, revolving credit and term loan facilities have been extended to the Borrower pursuant to the Credit Agreement (as amended, modified, supplemented, increased and extended from time to time, the "Credit Agreement") dated as of April 1, 2011, by and among the Borrower, the Guarantors identified therein, the Lenders identified therein and the Administrative Agent; and

WHEREAS, the Borrower has requested certain modifications to the Credit Agreement and the Required Lenders have agreed to such modifications to the Credit Agreement on the terms and conditions set forth herein.

NOW, THEREFORE, IN CONSIDERATION of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. Capitalized terms used herein but not otherwise defined herein shall have the meanings provided to such terms in the Credit Agreement.

2. Amendments. The Credit Agreement is amended as follows:

2.1 In the definition of "Consolidated EBITDA" in Section 1.01, in clause (b) the "and" after clause (xxvii) is deleted and replaced with a ";" and a new clause (xxix) is inserted after clause (xxviii) to read as follows:

> and; (xxix) for any period of four fiscal quarters ending after the effective date of the Sixth Amendment to this Agreement, fees and out-of-pocket expenses incurred in such period in connection with any Permitted Acquisition (whether or not consummated) in an amount not to exceed 10% of the aggregate consideration of such Permitted Acquisition; provided, that the aggregate amount of fees and out-of-pocket expenses added back pursuant to this clause (xxix) for all Permitted Acquisitions in such period shall not exceed $3,000,000;

2.2 The following definitions are added to Section 1.01 in the appropriate alphabetical order to read as follows:

> "Park Royal" means, The Pavilion at HealthPark, LLC, a Florida limited liability company, d/b/a Park Royal Hospital.

> "Park Royal IRB Debt" has the meaning specified in Section 8.03.

2.3 In Section 7.12 of the Credit Agreement the following is added to the end of that section before the period:

provided, that Park Royal shall not be required to become a Guarantor so long as the Park Royal IRB Debt prohibits Park Royal from granting a Guaranty of the Obligations.

2.4 In Section 8.01 of the Credit Agreement the "and" after clause (t) is deleted, clause (u) is renumbered clause (v) and a new clause (u) is added after clause (t) to read as follows:

(u) Liens securing the Park Royal IRB Debt; provided that (i) such Lien does not at any time encumber any property other than the assets of Park Royal described in the documents governing the Park Royal IRB Debt as of the date of the Permitted Acquisition of Park Royal; and

2.5 In Section 8.02 of the Credit Agreement, the "and" after clause (j) is deleted, clause (k) is renumbered clause (m) and a new clauses (k) and (l) are inserted to read as follows:

(k) Investments in Park Royal for working capital in an amount not to exceed $3 million in the aggregate at any time outstanding;

(l) Investments by any Loan Party consisting of the purchase of bonds issued by the Lee County Industrial Development Authority, the proceeds of which were used to fund the Park Royal IRB Debt; provided that no Event of Default shall have occurred and be continuing at the time of such purchase; and

2.6 In Section 8.03 of the Credit Agreement clause (f) is amended in its entirety to read as follows:

(f) Guarantees with respect to Indebtedness permitted under this Section 8.03 other than the Park Royal IRB Debt;

2.7 In Section 8.03 of the Credit Agreement clause (n) is renumbered clause (o) and a new clause (n) is added after clause (m) to read as follows:

(n) Indebtedness of Park Royal constituting loans from the Lee County Industrial Development Authority in an amount not to exceed $23 million assumed in connection with the Permitted Acquisition of Park Royal (the "Park Royal IRB Debt"); and

3. Conditions Precedent. This Amendment shall become effective as of the date hereof upon receipt by the Administrative Agent of counterparts of this Amendment executed by the Borrower, the Guarantors, the Required Lenders and the Administrative Agent.

4. Amendment is a "Loan Document". This Amendment is a Loan Document and all references to a "Loan Document" in the Credit Agreement and the other Loan Documents (including, without limitation, all such references in the representations and warranties in the Credit Agreement and the other Loan Documents) shall be deemed to include this Amendment.

5. Representations and Warranties; No Default. Each Loan Party represents and warrants to the Administrative Agent and each Lender that after giving effect to this Amendment (a) the representations and warranties of each Loan Party contained in the Credit Agreement or any other Loan Document, or which are contained in any document furnished at any time under or in connection with the Credit Agreement or any other Loan Document are true and correct in all material respects on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case such representations and warranties are true and correct in all material respects as of such earlier date, and (b) no Default exists.

6. Reaffirmation of Obligations. Each Loan Party (a) acknowledges and consents to all of the terms and conditions of this Amendment, (b) affirms all of its obligations under the Loan Documents and (c) agrees that this Amendment does not operate to reduce or discharge such Loan Party's obligations under the Loan Documents.

7. Reaffirmation of Security Interests. Each Loan Party (a) affirms that each of the Liens granted in or pursuant to the Loan Documents are valid and subsisting and (b) agrees that this Amendment does not in any manner impair or otherwise adversely affect any of the Liens granted in or pursuant to the Loan Documents.

8. No Other Changes. Except as modified hereby, all of the terms and provisions of the Loan Documents shall remain in full force and effect.

9. Counterparts; Delivery. This Amendment may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of this Amendment by facsimile or other electronic imaging means shall be effective as an original.

10. Governing Law. This Amendment shall be deemed to be a contract made under, and for all purposes shall be construed in accordance with, the laws of the State of New York.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto have caused this Sixth Amendment to be duly executed as of the date first above written.

BORROWER: ACADIA HEALTHCARE COMPANY, INC.,
a Delaware corporation

By: /s/ Brent Turner
Name: Brent Turner
Title: President

GUARANTORS: ACADIA MANAGEMENT COMPANY, INC., a Delaware corporation
ACADIA-YFCS HOLDINGS, INC., a Delaware corporation
YOUTH & FAMILY CENTERED SERVICES, INC., a Georgia corporation
ACADIA HOSPITAL OF LONGVIEW, LLC,
a Delaware limited liability company
KIDS BEHAVIORAL HEALTH OF MONTANA, INC., a Montana corporation
ACADIA VILLAGE, LLC, a Delaware limited liability company
LAKEVIEW BEHAVIORAL HEALTH SYSTEM LLC,
a Delaware limited liability company
ACADIA RIVERWOODS, LLC, a Delaware limited liability company
ACADIA LOUISIANA, LLC, a Delaware limited liability company
ACADIA ABILENE, LLC, a Delaware limited liability company
ACADIA HOSPITAL OF LAFAYETTE, LLC,
a Delaware limited liability company
YFCS MANAGEMENT, INC., a Georgia corporation
YFCS HOLDINGS-GEORGIA, INC., a Georgia corporation
OPTIONS COMMUNITY BASED SERVICES, INC., an Indiana corporation
OPTIONS TREATMENT CENTER ACQUISITION CORPORATION,
an Indiana corporation
RESOLUTE ACQUISITION CORPORATION, an Indiana corporation
RESOURCE COMMUNITY BASED SERVICES, INC., an Indiana corporation
RTC RESOURCE ACQUISITION CORPORATION, an Indiana corporation
SUCCESS ACQUISITION CORPORATION, an Indiana corporation
ASCENT ACQUISITION CORPORATION, an Arkansas corporation
SOUTHWOOD PSYCHIATRIC HOSPITAL, INC., a Pennsylvania corporation
MEMORIAL HOSPITAL ACQUISITION CORPORATION,
a New Mexico corporation
MILLCREEK MANAGEMENT CORPORATION, a Georgia corporation
REHABILITATION CENTERS, INC., a Mississippi corporation
LAKELAND HOSPITAL ACQUISITION CORPORATION,
a Georgia corporation
PSYCHSOLUTIONS ACQUISITION CORPORATION, a Florida corporation
YOUTH AND FAMILY CENTERED SERVICES OF NEW MEXICO, INC.,
a New Mexico corporation

By: /s/ Brent Turner
Name: Brent Turner
Title: President

[SIGNATURE PAGES CONTINUE]

SOUTHWESTERN CHILDREN’S HEALTH SERVICES, INC., an Arizona corporation
YOUTH AND FAMILY CENTERED SERVICES OF FLORIDA, INC.,a Florida corporation
PEDIATRIC SPECIALTY CARE, INC., an Arkansas corporation
CHILD & YOUTH PEDIATRIC DAY CLINICS, INC, an Arkansas corporation
MED PROPERTIES, INC., an Arkansas corporation
ASCENT ACQUISITION CORPORATION-CYPDC, an Arkansas corporation
ASCENT ACQUISITION CORPORATION-PSC, an Arkansas corporation
MEDUCARE TRANSPORT, L.L.C., an Arkansas limited liability company
PEDIATRIC SPECIALTY CARE PROPERTIES, LLC,an Arkansas limited liability company
CHILDRENS MEDICAL TRANSPORTATION SERVICES, LLC,an Arkansas limited liability company
MILLCREEK SCHOOLS INC., a Mississippi corporation
HABILITATION CENTER, INC., an Arkansas corporation
MILLCREEK SCHOOL OF ARKANSAS, INC., an Arkansas corporation
PSYCHSOLUTIONS, INC., a Florida corporation
WELLPLACE, INC., a Massachusetts corporation
DETROIT BEHAVIORAL INSTITUTE, INC., a Massachusetts corporation
RENAISSANCE RECOVERY, INC., a Massachusetts corporation
PHC OF MICHIGAN, INC., a Massachusetts corporation
NORTH POINT PIONEER, INC., a Massachusetts
PHC MEADOWWOOD, INC., a Delaware corporation
PHC OF UTAH, INC., a Massachusetts corporation
PHC OF VIRGINIA, INC., a Massachusetts corporation
PHC OF NEVADA, INC., a Massachusetts corporation
SEVEN HILLS HOSPITAL, INC., a Delaware corporation
BEHAVIORAL HEALTH ONLINE, INC., a Massachusetts corporation
REBOUND BEHAVIORAL HEALTH, LLC,a South Carolina limited liability company
PSYCHIATRIC RESOURCE PARTNERS, INC.,a Delaware limited liability company
SUNCOAST BEHAVIORAL, LLC, a Delaware limited liability company
ACADIA MERGER SUB, LLC, a Delaware limited liability company
HERMITAGE BEHAVIORAL, LLC, a Delaware limited liability company
RED RIVER HOSPITAL, LLC, a Delaware limited liability company
SONORA BEHAVIORAL HEALTH HOSPITAL, LLC,a Delaware limited liability company
ROLLING HILLS PROPERTIES, INC., an Oklahoma corporation
ROLLING HILLS HOSPITAL, INC., an Oklahoma corporation

By: /s/ Brent Turner
Name: Brent Turner
Title: President

[SIGNATURE PAGES FOLLOW]

ADMINISTRATIVE AGENT: BANK OF AMERICA, N.A., as Administrative Agent

By: /s/ Roberto Salazar
Name: Roberto Salazar
Title: Vice President

[SIGNATURE PAGES FOLLOW]

LENDERS: BANK OF AMERICA, N.A., as a Lender, L/C Issuer and Swing Line Lender

By: /s/ Suzanne B. Smith
Name: Suzanne B. Smith
Title: Senior Vice President

FIFTH THIRD BANK

By: /s/ William D. Priester
Name: William D. Priester
Title: Senior Vice President

CITIBANK, N.A.

By: /s/ Laura Fogarty
Name: Laura Fogarty
Title: Vice President

REGIONS BANK

By: /s/ Gregory M. Ratliff
Name: Gregory M. Ratliff
Title: Senior Vice President

RAYMOND JAMES BANK, N.A.

By: /s/ Alexander L. Rody
Name: Alexander L. Rody
Title: Senior Vice President

ROYAL BANK OF CANADA

By: /s/ Sharon M. Liss
Name: Sharon M. Liss
Title: Authorized Signatory

FIRST TENNESSEE BANK

By: /s/ Cathy Wind
Name: Cathy Wind
Title: SVP

CAPSTAR BANK

By: /s/ Timothy B. Fouts
Name: Timothy B. Fouts
Title: Vice President

[SIGNATURE PAGES FOLLOW]

GE CAPITAL BANK,
Formerly known as GE CAPITAL FINANCIAL INC.

By: /s/ Heather-Leigh Glade
Name: Heather-Leigh Glade
Title: Duly Authorized Signatory

GENERAL ELECTRIC CAPITAL CORPORATION

By: /s/ John Dale
Name: John Dale
Title: Duly Authorized Signatory

JEFFERIES FINANCE LLC

By: /s/ Michael Leder
Name: Michael Leder
Title: Managing Director

JFIN FUND III, LLC

By: /s/ Daniel Duval
Name: Daniel Duval
Title: General Counsel

JFIN CLO 2007 LTD,
As a Lender

By Jefferies Finance LLC,
As Collateral Manager

By: /s/ Daniel Duval
Name: Daniel Duval
Title: General Counsel

Exhibit 23.1

Consent of Independent Auditors

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Reg. No. 333-184456) pertaining to the registration of shares of common stock, Form S-8 (No. 333-177990) pertaining to the Acadia Healthcare Company, Inc. 2011 Incentive Compensation Plan, and Post-Effective Amendment No. 1 to Form S-4 on Form S-8 (No. 333-175523) pertaining to the PHC, Inc. 2004 Non-Employee Director Stock Option Plan, the PHC, Inc. 2003 Stock Purchase and Option Plan, the PHC, Inc. 1995 Employee Stock Purchase Plan and the PHC, Inc. 1993 Stock Purchase and Option Plan, of Acadia Healthcare Company, Inc., of our report dated December 3, 2012, with respect to the audited consolidated financial statements of Behavioral Centers of America, LLC, included in this Form 8-K of Acadia Healthcare Company, Inc.

/s/ Lattimore Black Morgan & Cain, PC

Brentwood Tennessee
December 3, 2012

Exhibit 23.2

Consent of Independent Auditors

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Reg. No. 333-184456) pertaining to the registration of shares of common stock, Form S-8 (No. 333-177990) pertaining to the Acadia Healthcare Company, Inc. 2011 Incentive Compensation Plan, and Post-Effective Amendment No. 1 to Form S-4 on Form S-8 (No. 333-175523) pertaining to the PHC, Inc. 2004 Non-Employee Director Stock Option Plan, the PHC, Inc. 2003 Stock Purchase and Option Plan, the PHC, Inc. 1995 Employee Stock Purchase Plan and the PHC, Inc. 1993 Stock Purchase and Option Plan, of Acadia Healthcare Company, Inc., of our report dated December 3, 2012, with respect to the audited consolidated financial statements of AmiCare Behavioral Centers, LLC, included in this Form 8-K of Acadia Healthcare Company, Inc.

/s/ Lattimore Black Morgan & Cain, PC

Brentwood Tennessee
December 3, 2012

Exhibit 23.3

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-184456) and in the related Prospectus of Acadia Healthcare Company, Inc. for the registration of shares of its common stock of our report dated April 26, 2012, with respect to the combined financial statements of Haven Hospital Holdings, LLC and Haven Hospital Holdings of Texas, LLC included in this Current Report on Form 8-K of Acadia Healthcare Company, Inc.

/s/ Ernst & Young LLP

Nashville, Tennessee
December 3, 2012

Exhibit 23.4

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-184456) and in the related Prospectus of Acadia Healthcare Company, Inc. for the registration of shares of its common stock of our report dated March 31, 2011, with respect to the consolidated financial statements of Youth and Family Centered Services, Inc. and Subsidiaries included in this Current Report on Form 8-K of Acadia Healthcare Company, Inc.

/s/ Ernst & Young LLP

Austin, Texas
December 3, 2012

Exhibit 23.5

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-184456) of Acadia Healthcare Company, Inc. and subsidiaries, of our report dated August 18, 2011, relating to the consolidated financial statements of PHC, Inc. and subsidiaries which appears in this Form 8-K.

/s/ BDO USA, LLP

Boston, MA
December 3, 2012

Exhibit 23.6

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 333-184456) and in the related Prospectus of Acadia Healthcare Company, Inc. for the registration of shares of its common stock of our report dated June 24, 2011, except for Note 8 as to which the date is August 18, 2011, with respect to the consolidated financial statements of HHC Delaware, Inc. and Subsidiary included in this Current Report on Form 8-K of Acadia Healthcare Company, Inc.

/s/ Ernst & Young LLP

Nashville, Tennessee
December 3, 2012

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following tables set forth the unaudited pro forma condensed combined financial data for Acadia Healthcare Company, Inc. (“Acadia”), Youth and Family Centered Services, Inc. (“YFCS”), PHC, Inc. (“PHC”), HHC Delaware, Inc. (“HHC Delaware”), three inpatient behavioral health facilities from Haven Behavioral Healthcare Holdings, LLC (“the Haven Facilities”), AmiCare Behavioral Centers, LLC (“AmiCare”) and Behavioral Centers of America, LLC (“BCA”) as a combined company, giving effect to:

- Acadia’s acquisition of YFCS and the related debt and equity financing transactions on April 1, 2011;
- PHC’s acquisition of MeadowWood on July 1, 2011;
- Acadia’s acquisition of PHC and related debt and equity transactions on November 1, 2011;
- Acadia’s acquisition of the Haven Facilities and the related debt financing on March 1, 2012; and
- Acadia’s planned acquisitions of BCA and AmiCare and the related debt financing and equity issuance.

The unaudited pro forma condensed combined statements of operations give effect to each transaction as if it occurred on January 1, 2011. Acadia’s condensed consolidated statement of operations for the year ended December 31, 2011 reflects the results of operations for YFCS for the period from April 1, 2011 to December 31, 2011 and PHC for the period from November 1, 2011 to December 31, 2011. Acadia’s condensed consolidated statement of operations for the nine months ended September 30, 2012 reflects the results of operations for the Haven Facilities for the period from March 1, 2012 to September 30, 2012.

Acadia’s condensed consolidated balance sheet as of September 30, 2012 reflects the effect of the acquisitions of YFCS, PHC, HHC Delaware and the Haven Facilities. The unaudited pro forma condensed combined balance sheet at September 30, 2012 combines the condensed consolidated balance sheet of Acadia at September 30, 2012 with (a) the unaudited consolidated balance sheet of BCA at September 30, 2012 and (b) the unaudited consolidated balance sheet of AmiCare at September 30, 2012.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2011 combines the audited consolidated statement of operations of Acadia for that period with:

- the unaudited condensed consolidated statement of operations of YFCS for the three months ended March 31, 2011;
- the unaudited condensed consolidated statement of operations of HHC Delaware for the six months ended June 30, 2011;
- the unaudited condensed consolidated statement of operations of PHC for the ten months ended October 31, 2011 (which was derived from the audited consolidated statement of operations of PHC for the fiscal year ended June 30, 2011 less the unaudited condensed consolidated statement of operations of PHC for the six months ended December 31, 2010 plus the unaudited condensed consolidated statement of operations of PHC for the three months ended September 30, 2011 plus the unaudited condensed consolidated statement of operations of PHC for the month ended October 31, 2011);
- the audited consolidated statement of operations of the Haven Facilities for the year ended December 31, 2011;
- the audited consolidated statement of operations of BCA for the year ended December 31, 2011; and
- the audited consolidated statement of operations of AmiCare for the year ended December 31, 2011.

The unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2012 combines the unaudited consolidated statement of operations of Acadia for that period with:

- the unaudited condensed consolidated statement of operations of the Haven Facilities for the period from January 1, 2012 to February 29, 2012;
- the unaudited condensed consolidated statement of operations of BCA for the nine months ended September 30, 2012; and
- the unaudited condensed consolidated statement of operations of AmiCare for the nine months ended September 30, 2012.

The unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2011 combines the unaudited consolidated statement of operations of Acadia for that period with:

- the unaudited condensed consolidated statement of operations of YFCS for the three months ended March 31, 2011;
- the unaudited condensed consolidated statement of operations of HHC Delaware for the six months ended June 30, 2011;
- the unaudited condensed consolidated statement of operations of PHC for the nine months ended September 30, 2011 (which was derived from the audited consolidated statement of operations of PHC for the fiscal year ended June 30, 2011 less the unaudited condensed consolidated statement of operations of PHC for the six months ended December 31, 2010 plus the unaudited condensed consolidated statement of operations of PHC for the three months ended September 30, 2011);
- the unaudited consolidated statement of operations of the Haven Facilities for the nine months ended September 30, 2011;
- the unaudited condensed consolidated statement of operations of BCA for the nine months ended September 30, 2011; and
- the unaudited condensed consolidated statement of operations of AmiCare for the nine months ended September 30, 2011.

The unaudited pro forma condensed combined financial data has been prepared using the acquisition method of accounting for business combinations under Generally Accepted Accounting Principles ("GAAP"). The adjustments necessary to fairly present the unaudited pro forma condensed combined financial data have been made based on available information and in the opinion of management are reasonable. Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with this unaudited pro forma condensed combined financial data. The pro forma adjustments relating to the planned acquisitions of BCA and AmiCare are preliminary and revisions to the fair value of assets acquired and liabilities assumed may have a significant impact on the pro forma adjustments. A final valuation of assets acquired and liabilities assumed has not been completed and the completion of fair value determinations may result in changes in the values assigned to property and equipment and other assets (including intangibles) acquired and liabilities assumed.

The unaudited pro forma condensed combined financial data is for illustrative purposes only and does not purport to represent what our financial position or results of operations actually would have been had the events noted above in fact occurred on the assumed dates or to project our financial position or results of operations for any future date or future period.

The unaudited pro forma condensed combined financial data should be read in conjunction with the consolidated financial statements and notes thereto of Acadia, YFCS, PHC, HHC Delaware, the Haven Facilities, BCA and AmiCare.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
As of September 30, 2012
(In thousands)

	ACADIA [1]	AMICARE [2]	BCA [3]	PRO FORMA ADJUSTMENTS	NOTES	PRO FORMA COMBINED
ASSETS						
Current assets:						
Cash and cash equivalents	$ 11,719	$ 804	$ 44	$ (848)	(4)	$ 45,499
				33,780	(8)	
Accounts receivable, net	54,777	4,405	8,177	(1,082)	(10)	66,277
Deferred tax assets	5,230	—	—	—		5,230
Other current assets	15,305	885	2,469	(521)	(10)	18,138
Total current assets	87,031	6,094	10,690	31,329		135,144
Property and equipment, net	155,188	20,694	23,334	229	(7a)	200,058
				613	(7b)	
Property and equipment held for sale	—	—	330	(330)	(10)	—
Goodwill	334,622	14,175	16,550	74,812	(7a)	539,644
				99,485	(7b)	
Intangible assets, net	12,534	—	—	1,790	(7a)	16,249
				1,925	(7b)	
Other assets	14,383	71	646	3,000	(8)	17,642
				(71)	(6)	
				(387)	(10)	
Total assets	$ 603,758	$ 41,034	$51,550	$ 212,395		$ 908,737
LIABILITIES AND EQUITY						
Current liabilities:						
Current portion of long-term debt	$ 12,000	$ 4,283	$ 2,613	$ (11,046)	(9)	$ 7,850
Accounts payable	13,323	504	3,078	(235)	(10)	16,670
Accrued salaries and benefits	19,125	2,373	2,677	(141)	(10)	24,034
Other accrued liabilities	13,374	940	317	(14)	(10)	14,617
Total current liabilities	57,822	8,100	8,685	(11,436)		63,171
Long-term debt	284,632	18,637	2,316	148,197	(9)	453,782
Deferred tax liabilities – noncurrent	1,167	—	—	—		1,167
Other liabilities	6,574	173	958	(431)	(10)	7,274
Total liabilities	350,195	26,910	11,959	136,330		525,394
Equity:						
Common stock	418	—	—	60	(8)	478
Additional paid-in capital	281,687	—	—	131,220	(8)	412,907
Accumulated deficit	(28,542)	—	—	(1,500)	(8)	(30,042)
Members' equity	—	14,124	39,591	(53,715)	(5)	—
Total equity	253,563	14,124	39,591	76,065		383,343
Total liabilities and equity	$ 603,758	$ 41,034	$51,550	$ 212,395		$ 908,737

See accompanying notes to unaudited pro forma financial information.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Year Ended December 31, 2011
(In thousands, except per share amounts)

	ACADIA (1)	COMPLETED ACQUISITIONS (16)	AMICARE (2)	BCA (3)	PRO FORMA ADJUSTMENTS	NOTES	PRO FORMA COMBINED
Revenue before provision for doubtful accounts	$ 219,704	$ 186,977	$ 59,842	$54,507			$ 521,030
Provision for doubtful accounts	(3,206)	(6,207)	(1,381)	(1,443)			(12,237)
Revenue	216,498	180,770	58,461	53,064			508,793
Salaries, wages and benefits	152,609	102,044	37,969	28,920			321,542
Professional fees	8,896	12,043	1,948	3,199			26,086
Supplies	11,349	9,060	1,157	2,886			24,452
Rents and leases	5,576	4,558	2,041	1,152			13,327
Other operating expenses	20,171	20,395	8,543	9,769			58,878
Depreciation and amortization	4,278	3,655	925	955	147	(20e)	10,694
					734	(20f)	
Interest expense, net	9,191	21,114	1,794	135	2,300	(21b)	34,534
Sponsor management fees	1,347	—	—	924	(2,271)	(22)	—
Transaction-related expenses	41,547	—	—	—	(41,547)	(23)	—
Legal settlement	—	446	—	—			446
Total expenses	254,964	173,315	54,377	47,940	(40,637)		489,959
Income (loss) from continuing operations before income taxes	(38,466)	7,455	4,084	5,124	40,637		18,834
Provision (benefit) for income taxes	(5,272)	3,349	—	219	(133)	(25)	14,011
					15,848	(26)	
Income (loss) from continuing operations	$ (33,194)	$ 4,106	$ 4,084	$ 4,905	$ 24,922		$ 4,823
Earnings per share — income (loss) from continuing operations:							
Basic	$ (1.77)						$ 0.10
Diluted	$ (1.77)						$ 0.10
Weighted average shares:							
Basic	18,757	13,342			9,488	(27c)	47,587
					6,000	(27d)	
Diluted	18,757	13,342			9,488	(27c)	47,587
					6,000	(27d)	

See accompanying notes to unaudited pro forma financial information.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Nine Months Ended September 30, 2012
(In thousands, except per share amounts)

	ACADIA [1]	COMPLETED ACQUISITIONS [17]	AMICARE [2]	BCA [3]	PRO FORMA ADJUSTMENTS	NOTES	PRO FORMA COMBINED
Revenue before provision for doubtful accounts	$ 298,638	$ 30,079	$ 47,220	$48,427			$ 424,364
Provision for doubtful accounts	(5,429)	(689)	(1,340)	(1,157)			(8,615)
Revenue	293,209	29,390	45,880	47,270			415,749
Salaries, wages and benefits	173,590	15,391	29,877	24,650			243,508
Professional fees	13,521	1,060	1,249	1,666			17,496
Supplies	14,148	1,328	813	2,223			18,512
Rents and leases	6,244	25	1,773	471			8,513
Other operating expenses	30,768	3,358	6,044	8,727			48,897
Depreciation and amortization	5,332	584	703	951	100	(20e)	7,930
					260	(20f)	
Interest expense, net	22,186	313	1,015	242	2,006	(21b)	25,762
Sponsor management fees	—	—	—	524	(524)	(22)	—
Transaction-related expenses	2,097	—	—	—	(2,097)	(23)	—
Total expenses	267,886	22,059	41,474	39,454	(255)		370,618
Income (loss) from continuing operations before income taxes	25,323	7,331	4,406	7,816	255		45,131
Provision (benefit) for income taxes	9,307	2,827	—	(5)	99	(26)	12,228
Income (loss) from continuing operations	$ 16,016	$ 4,504	$ 4,406	$ 7,821	$ 156		$ 32,903
Earnings per share — income (loss) from continuing operations:							
Basic	$ 0.44						$ 0.69
Diluted	$ 0.43						$ 0.69
Weighted average shares:							
Basic	36,795				4,900	(27c)	47,695
					6,000	(27d)	
Diluted	37,006				4,900	(27c)	47,906
					6,000	(27d)	

See accompanying notes to unaudited pro forma financial information.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Nine Months Ended September 30, 2011
(In thousands, except per share amounts)

	ACADIA [1]	COMPLETED ACQUISITIONS [18]	AMICARE [2]	BCA [3]	PRO FORMA ADJUSTMENTS	NOTES	PRO FORMA COMBINED
Revenue before provision for doubtful accounts	$ 142,797	$ 161,249	$ 43,539	$40,915			$ 388,500
Provision for doubtful accounts	(1,654)	(5,220)	(951)	(1,351)			(9,176)
Revenue	141,143	156,029	42,588	39,564			379,324
Salaries, wages and benefits	108,158	88,869	27,858	22,189			247,074
Professional fees	5,018	10,478	1,457	1,735			18,688
Supplies	7,645	7,792	865	2,117			18,419
Rents and leases	3,576	4,205	1,494	1,334			10,609
Other operating expenses	12,760	17,895	6,438	7,224			44,317
Depreciation and amortization	3,108	3,124	691	674	112	(20e)	8,302
					593	(20f)	
Interest expense, net	4,143	18,667	1,318	105	1,910	(21b)	26,143
Sponsor management fees	1,135	—	—	813	(1,948)	(22)	—
Transaction-related expenses	10,595	—	—	—	(10,595)	(23)	—
Legal settlement	—	446	—	—			446
Total expenses	156,138	151,476	40,121	36,191	(9,928)		373,998
Income (loss) from continuing operations before income taxes	(14,995)	4,553	2,467	3,373	9,928		5,326
Provision (benefit) for income taxes	3,426	2,272	—	160	(133)	(25)	9,597
					3,872	(26)	
Income (loss) from continuing operations	$ (18,421)	$ 2,281	$ 2,467	$ 3,213	$ 6,189		$ (4,271)
Earnings per share — income (loss) from continuing operations:							
Basic	$ (1.05)						$ (0.09)
Diluted	$ (1.05)						$ (0.09)
Weighted average shares:							
Basic	17,633	14,475			9,488	(27c)	47,596
					6,000	(27d)	
Diluted	17,633	14,475			9,488	(27c)	47,596
					6,000	(27d)	

See accompanying notes to unaudited pro forma financial information.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION
(Dollars in thousands, except per share amounts)

(1) The amounts in this column represent, for Acadia, actual results for the periods presented.
(2) The amounts in this column represent, for AmiCare, actual results for the periods presented.
(3) The amounts in this column represent, for BCA, actual results for the periods presented.
(4) Represents cash not acquired as part of the acquisitions.
(5) Reflects the elimination of equity accounts of BCA and AmiCare.
(6) Reflects the elimination of deferred financing costs in connection with the repayment of debt.
(7) Represents adjustments based on preliminary estimates of fair value and the adjustment to goodwill derived from the difference in the estimated total consideration to be transferred by Acadia and the estimated fair value of assets acquired and liabilities assumed by Acadia, calculated as follows:

(a) AmiCare:

Estimated cash consideration	$113,000
Cash and cash equivalents	—
Accounts receivable	4,405
Other current assets	885
Property and equipment	20,923
Intangible assets	1,790
Other long-term assets	—
Accounts payable	(504)
Accrued salaries and benefits	(2,373)
Other accrued liabilities	(940)
Other long-term liabilities	(173)
Fair value of assets acquired less liabilities assumed	$ 24,013
Estimated goodwill	$ 88,987
Less: historical goodwill	(14,175)
Goodwill adjustment	$ 74,812

(b) BCA:

Estimated cash consideration	$145,000
Cash and cash equivalents	—
Accounts receivable	7,095
Other current assets	1,948
Property and equipment	23,947
Intangible assets	1,925
Other long-term assets	259
Accounts payable	(2,843)
Accrued salaries and benefits	(2,536)
Other accrued liabilities	(303)
Other long-term liabilities	(527)
Fair value of assets acquired less liabilities assumed	$ 28,965
Estimated goodwill	$116,035
Less: historical goodwill	(16,550)
Goodwill adjustment	$ 99,485

The acquired assets and liabilities assumed will be recorded at their relative fair values as of the closing date of the acquisitions. Estimated goodwill is based upon a determination of the fair value of assets acquired and liabilities assumed that is preliminary and subject to revision as the value of total consideration is finalized and additional information related to the fair value of property and equipment and other assets (including intangible assets) acquired and liabilities assumed becomes available. The actual determination of the fair value of assets acquired and liabilities assumed will differ from that assumed in these unaudited pro forma condensed combined financial statements and such differences may be material. Qualitative factors comprising goodwill include efficiencies derived through synergies expected by the elimination of certain redundant corporate functions and expenses, the ability to leverage call center referrals to a broader provider base, coordination of services provided across the combined network of facilities, achievement of operating efficiencies by benchmarking performance and applying best practices throughout the combined company.

(8) Represents a $33,780 increase in cash as a result of the planned acquisitions of BCA and AmiCare and relating financing transactions. Acadia expects to issue $165,000 of incremental term loans through an amendment to its existing senior credit facility ("Incremental Term Loans") and to issue additional common shares for estimated net proceeds of $131,280. Based on the assumed public offering price of $22.95, which was the closing price of our common stock on November 30, 2012, as reported on The NASDAQ Global Market, the number of shares to be issued is 6,000,000 with a par value of $0.01, which results in additional common stock of $60 and additional paid-in capital of $131,220 and includes estimated underwriting discounts and other offering expenses of $6,420. The sources and uses of cash in connection with the acquisitions are expected to be as follows:

Sources:	
Incremental Term Loans	$ 165,000
Equity issuance	131,280
Uses:	
AmiCare cash consideration	(113,000)
BCA cash consideration	(145,000)
Transaction-related expenses[(a)]	(4,500)
Cash adjustment	$ 33,780

(a) Estimated costs to be incurred in connection with the BCA and AmiCare transactions include $3,000 of debt financing costs associated with the Incremental Term Loans and $1,500 of acquisition costs.

(9) Represents the issuance of Incremental Term Loans, the elimination of debt not assumed in the BCA and AmiCare acquisitions and the amendment to the credit agreement to adjust the payment schedule for existing loans, as follows:

	CURRENT PORTION	LONG-TERM PORTION	TOTAL DEBT
Elimination of AmiCare debt not assumed	$ (4,283)	$ (18,637)	$ (22,920)
Elimination of BCA debt not assumed	(2,613)	(2,316)	(4,929)
Incremental Term Loan	4,125	160,875	165,000
Amendment to credit agreement	(8,275)	8,275	—
Adjustments	$ (11,046)	$ 148,197	$137,151

(10) Represents the following adjustments to eliminate the assets and liabilities of BCA's Permian Basin facility, which will be divested prior to the acquisition:

Accounts receivable, net	$1,082
Other current assets	521
Property and equipment held for sale	330
Other assets	387
	$2,320
Accounts payable	$ 235
Accrued salaries and benefits	141
Other accrued liabilities	14
Other liabilities	431
	$ 821

(11) The amounts in this column represent, for YFCS, actual results for the periods presented, up to the April 1, 2011 acquisition date. The condensed consolidated statements of operations of YFCS have been reclassified to present the provision for doubtful accounts as a deduction from revenue in accordance with Accounting Standards Update ("ASU") No. 2011-07, *"Health Care Entities* (Topic 954): *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities"* ("ASU 2011-07").

(12) The amounts in this column represent, for PHC, actual results for the periods presented, up to the November 1, 2011 acquisition date. The condensed consolidated statements of operations of PHC have been reclassified to conform to Acadia's expense classification policies, including the reclassification of the provision for doubtful accounts from operating expenses to a deduction from revenue.

(13) The amounts in this column represent, for HHC Delaware, actual results for the periods presented, up to July 1, 2011, the date of PHC's acquisition of HHC Delaware. The condensed consolidated statements of operations of HHC Delaware have been reclassified to present the provision for doubtful accounts as a deduction from revenue in accordance with ASU 2011-07.

(14) The amounts in this column represent, for the Haven Facilities, actual results for the periods presented, up to the March 1, 2012 acquisition date.

(15) The amounts in this column represent, for other acquisitions, actual results for the periods presented, up to the acquisition dates.

(16) The amounts in this column represent pro forma combined results of operations for acquisitions completed as of September 30, 2012 for the year ended December 31, 2011 as detailed below.

	YFCS (11)	PHC (12)	HHC DELAWARE (13)	HAVEN FACILITIES (14)	OTHER ACQUISITIONS (15)	PRO FORMA ADJUSTMENTS	NOTES	COMPLETED ACQUISITIONS
Revenue before provision for doubtful accounts	$45,686	$59,786	$ 7,541	$ 43,448	$ 30,516			$ 186,977
Provision for doubtful accounts	(208)	(3,466)	(339)	(1,458)	(736)			(6,207)
Revenue	45,478	56,320	7,202	41,990	29,780			180,770
Salaries, wages and benefits	29,502	31,569	4,747	21,391	14,835			102,044
Professional fees	—	6,365	454	1,374	1,949	1,901	(19)	12,043
Supplies	—	2,299	469	2,819	1,269	2,204	(19)	9,060
Rents and leases	—	3,048	19	171	—	1,320	(19)	4,558
Other operating expenses	9,907	7,576	410	4,119	3,808	(5,425)	(19)	20,395
Depreciation and amortization	819	1,051	179	1,046	475	(294)	(20a)	3,655
						430	(20b)	
						(470)	(20c)	
						419	(20d)	
Interest expense, net	1,726	1,160	224	343	—	17,661	(21a)	21,114
Sponsor management fees	—	—	226	—	—	(226)	(22)	—
Transaction-related expenses	—	3,374	—	—	—	(3,374)	(23)	—
Change in fair value of derivatives	—	—	—	(276)	—	276	(24)	—
Legal settlement	—	446	—	—	—			446
Total expenses	41,954	56,888	6,728	30,987	22,336	14,422		173,315
Income (loss) from continuing operations before income taxes	3,524	(568)	474	11,003	7,444	(14,422)		7,455
Provision (benefit) for income taxes	1,404	403	193	4,071	2,903	(5,625)	(26)	3,349
Income (loss) from continuing operations	$ 2,120	$ (971)	$ 281	$ 6,932	$ 4,541	$ (8,797)		$ 4,106
Weighted average shares:								
Basic						4,074	(27a)	13,342
						9,268	(27b)	
Diluted						4,074	(27a)	13,342
						9,268	(27b)	

(17) The amounts in this column represent pro forma information for acquisitions completed as of September 30, 2012 for the nine months ended September 30, 2012.

	HAVEN FACILITIES (14)	OTHER ACQUISITIONS (15)	PRO FORMA ADJUSTMENTS	NOTES	COMPLETED ACQUISITIONS
Revenue before provision for doubtful accounts	$ 7,158	$ 22,921			$ 30,079
Provision for doubtful accounts	(233)	(456)			(689)
Revenue	6,925	22,465			29,390
Salaries, wages and benefits	3,694	11,697			15,391
Professional fees	222	838			1,060
Supplies	461	867			1,328
Rents and leases	25	—			25
Other operating expenses	687	2,671			3,358
Depreciation and amortization	172	341	(76)	(20c)	584
			147	(20d)	
Interest expense, net	56	—	257	(21a)	313
Total expenses	5,317	16,414	328		22,059
Income (loss) from continuing operations before income taxes	1,608	6,051	(328)		7,331
Provision (benefit) for income taxes	595	2,360	(128)	(26)	2,827
Income (loss) from continuing operations	$ 1,013	$ 3,691	$ (200)		$ 4,504

(18) The amounts in this column represent pro forma information for acquisitions completed as of September 30, 2012 for the nine months ended September 30, 2011.

	YFCS (11)	PHC (12)	HHC DELAWARE (13)	HAVEN FACILITIES (14)	OTHER ACQUISITIONS (15)	PRO FORMA ADJUSTMENTS	NOTES	COMPLETED ACQUISITIONS
Revenue before provision for doubtful accounts	$45,686	$52,989	$ 7,541	$ 32,872	$ 22,161			$ 161,249
Provision for doubtful accounts	(208)	(3,006)	(339)	(1,225)	(442)			(5,220)
Revenue	45,478	49,983	7,202	31,647	21,719			156,029
Salaries, wages and benefits	29,502	27,840	4,747	16,097	10,683			88,869
Professional fees	—	5,630	454	1,024	1,469	1,901	(19)	10,478
Supplies	—	2,062	469	2,128	929	2,204	(19)	7,792
Rents and leases	—	2,736	19	130	—	1,320	(19)	4,205
Other operating expenses	9,907	6,914	410	3,015	3,074	(5,425)	(19)	17,895
Depreciation and amortization	819	918	179	789	387	(294)	(20a)	3,124
						397	(20b)	
						(357)	(20c)	
						286	(20d)	
Interest expense, net	1,726	968	224	261	—	15,488	(21a)	18,667
Sponsor management fees	—	—	226	—	—	(226)	(22)	—
Transaction-related expenses	—	2,896	—	—	—	(2,896)	(23)	—
Change in fair value of derivatives	—	—	—	(221)	—	221	(24)	—
Legal settlement	—	446	—	—	—			446
Total expenses	41,954	50,410	6,728	23,223	16,542	12,619		151,476
Income (loss) from continuing operations before income taxes	3,524	(427)	474	8,424	5,177	(12,619)		4,553
Provision (benefit) for income taxes	1,404	459	193	3,118	2,019	(4,921)	(26)	2,272
Income (loss) from continuing operations	$ 2,120	$ (886)	$ 281	$ 5,306	$ 3,158	$ (7,698)		$ 2,281
Weighted average shares:								
Basic						4,892	(27a)	14,475
						9,583	(27b)	
Diluted						4,892	(27a)	14,475
						9,583	(27b)	

(19) Reflects the reclassification from YFCS other operating expenses of: (a) professional fees of $1,901 for the three months ended March 31, 2011, (b) supplies expense of $2,204 for the three months ended March 31, 2011, and (c) rent expense of $1,320 for the three months ended March 31, 2011.

(20) Represents the adjustments to depreciation and amortization expense as a result of recording the property and equipment and intangible assets at preliminary estimates of fair value as of the respective dates of the acquisitions, as follows:

(a) YFCS acquisition:

	AMOUNT	USEFUL LIVES (IN YEARS)	MONTHLY DEPRECIATION	TWELVE MONTHS ENDED DECEMBER 31, 2011	NINE MONTHS ENDED SEPTEMBER 30, 2011
Land	$ 5,122	N/A	$ —	$ —	$ —
Land improvements	2,694	10	22	66	66
Building and improvements	21,562	25, or lease term	73	219	219
Equipment	2,024	3-7	53	159	159
Construction in progress	239	N/A	—	—	—
	31,641		148	444	444
Indefinite-lived intangible assets	3,835	N/A	—	—	—
Non-compete intangible asset	321	1	27	81	81
Patient-related intangible asset	1,200	0.25	400	—	—
Total depreciation and amortization expense				525	525
Less: historical depreciation and amortization expense				(819)	(819)
Depreciation and amortization expense adjustment				$ (294)	$ (294)

The adjustment to decrease depreciation and amortization expense relates to the excess of the historical amortization of the pre-acquisition intangible assets of YFCS over the amortization expense resulting from the intangible assets identified by Acadia in its acquisition of YFCS.

(b) PHC acquisition:

	AMOUNT	USEFUL LIVES (IN YEARS)	MONTHLY DEPRECIATION	TWELVE MONTHS ENDED DECEMBER 31, 2011	NINE MONTHS ENDED SEPTEMBER 30, 2011
Land	$ 2,940	N/A	$ —	$ —	$ —
Building and improvements	12,194	25, or lease term	102	1,020	918
Equipment	1,751	3-7	29	290	261
	16,885		131	1,310	1,179
Indefinite-lived intangible assets	1,425	N/A	—	—	—
Customer contract intangibles	2,100	5	35	350	315
Total depreciation and amortization expense				1,660	1,494
Less: PHC and MeadowWood historical depreciation and amortization expense				(1,230)	(1,097)
Depreciation and amortization expense adjustment				$ 430	$ 397

(c) Haven Facilities acquisition:

	AMOUNT	USEFUL LIVES (IN YEARS)	MONTHLY DEPRECIATION	TWELVE MONTHS ENDED DECEMBER 31, 2011	NINE MONTHS ENDED SEPTEMBER 30, 2012	NINE MONTHS ENDED SEPTEMBER 30, 2011
Land	$ 2,960	N/A	$ —	$ —	$ —	$ —
Building and improvements	8,840	25, or lease term	29	348	58	261
Equipment	871	3-7	15	180	30	135
Construction in progress	52	N/A	—	—	—	—
	12,723		44	528	88	396
Indefinite-lived intangible assets	1,050	N/A	—	—	—	—
Non-compete intangible asset	150	3	4	48	8	36
Total depreciation and amortization expense				576	96	432
Less: historical depreciation and amortization expense				(1,046)	(172)	(789)
Depreciation and amortization expense adjustment				$ (470)	$ (76)	$ (357)

(d) Other acquisitions:

	AMOUNT	USEFUL LIVES (IN YEARS)	MONTHLY DEPRECIATION	TWELVE MONTHS ENDED DECEMBER 31, 2011	NINE MONTHS ENDED SEPTEMBER 30, 2012	NINE MONTHS ENDED SEPTEMBER 30, 2011
Land	$ 1,137	N/A	$ —	$ —	$ —	$ —
Land improvements	2,601	10	22	260	176	198
Building and improvements	9,296	25, or lease term	31	372	248	279
Equipment	481	3-7	8	96	64	72
Construction in progress	109	N/A	—	—	—	—
	13,624		61	728	488	549
Indefinite-lived intangible assets	3,151	N/A	—	—	—	—
Non-compete intangible asset	166	1	14	166	—	124
Total depreciation and amortization expense				894	488	673
Less: historical depreciation and amortization expense				(475)	(341)	(387)
Depreciation and amortization expense adjustment				$ 419	$ 147	$ 286

(e) AmiCare acquisition:

	AMOUNT	USEFUL LIVES (IN YEARS)	MONTHLY DEPRECIATION	TWELVE MONTHS ENDED DECEMBER 31, 2011	NINE MONTHS ENDED SEPTEMBER 30, 2012	NINE MONTHS ENDED SEPTEMBER 30, 2011
Land	$ 1,381	N/A	$ —	$ —	$ —	$ —
Building and improvements	16,930	25, or lease term	56	677	508	508
Equipment	1,723	3-7	29	345	258	258
Construction in progress	889	N/A	—	—	—	—
	20,923		85	1,022	766	766
Indefinite-lived intangible assets	1,640	N/A	—	—	—	—
Non-compete intangible asset	150	3	4	50	37	37
Total depreciation and amortization expense				1,072	803	803
Less: historical depreciation and amortization expense				(925)	(703)	(691)
Depreciation and amortization expense adjustment				$ 147	$ 100	$ 112

(f) BCA acquisition:

	AMOUNT	USEFUL LIVES (IN YEARS)	MONTHLY DEPRECIATION	TWELVE MONTHS ENDED DECEMBER 31, 2011	NINE MONTHS ENDED SEPTEMBER 30, 2012	NINE MONTHS ENDED SEPTEMBER 30, 2011
Land	$ 1,301	N/A	$ —	$ —	$ —	$ —
Building and improvements	15,073	25, or lease term	50	603	452	452
Equipment	5,057	3-7	84	1,011	759	759
Construction in progress	2,516	N/A	—	—	—	—
	23,947		134	1,614	1,211	1,211
Indefinite-lived intangible assets	1,850	N/A	—	—	—	—
Non-compete intangible asset	75	1		75	—	56
Total depreciation and amortization expense				1,689	1,211	1,267
Less: historical depreciation and amortization expense				(955)	(951)	(674)
Depreciation and amortization expense adjustment				$ 734	$ 260	$ 593

(21)

(a) Represents adjustments to interest expense to give effect to the senior secured credit facility entered into by Acadia on April 1, 2011 (the "Senior Secured Credit Facility"), the issuance of $150,000 of 12.875% Senior Notes ("Senior Notes") on November 1, 2011, the amendment to the interest rate applicable to the Senior Secured Credit Facility on November 1, 2011, and the amendment to the Senior Secured Credit Facility on March 1, 2012 to issue incremental term loans of $25,000 and increase the revolving line of credit from $30,000 to $75,000 and to the borrowing of $7,000 under the revolving line of credit. Interest expense includes related amortization of $1,000 of deferred financing cost and debt discounts for the year ended December 31, 2011 and $900 for the nine months ended September 30, 2011. The interest expense calculation for the amendment to the Senior Secured Credit Facility on March 1, 2012 assumes the 4.5% rate in effect as of such date was in place throughout the period.

	TWELVE MONTHS ENDED DECEMBER 31, 2011	NINE MONTHS ENDED SEPTEMBER 30, 2012	NINE MONTHS ENDED SEPTEMBER 30, 2011
Interest related to Senior Secured Credit Facility entered into on April 1, 2011	$ 1,992	$ —	$ 1,992
Interest related to Senior Notes issued on November 1, 2011	17,100	—	15,390
Interest related to amendment to the Senior Secured Credit Facility on November 1, 2011	331	—	249
Interest related to amendment to the Senior Secured Credit Facility on March 1, 2012	1,914	313	1,036
Less: historical interest expense of Acadia (for the period prior to April 1, 2011), YFCS, PHC, MeadowWood, and Haven as to which the related debt has been repaid	(3,676)	(56)	(3,179)
Interest expense adjustment	$ 17,661	$ 257	$ 15,488

(b) Represents adjustments to interest expense to give effect to the Incremental Term Loans based on an estimated interest rate of 3.25% and to adjust historical interest expense on the Senior Secured Credit facility entered on April 1, 2011 from the interest rate that was in effect for that period to 3.25%. Interest expense includes related amortization of $650 of deferred financing cost and debt discounts for the year ended December 31, 2011 and $450 for the nine months ended September 30, 2011 and 2012. The interest expense calculation for the Senior Secured Credit Facility assumes the 3.25% rate was in place throughout the period.

	TWELVE MONTHS ENDED DECEMBER 31, 2011	NINE MONTHS ENDED SEPTEMBER 30, 2012	NINE MONTHS ENDED SEPTEMBER 30, 2011
Interest related to Incremental Term Loans	$ 5,916	$ 4,449	$ 4,358
Effect of amendment to lower interest rate on Senior Secured Credit Facility	(1,687)	(1,186)	(1,025)
Less: historical interest expense of BCA and AmiCare as to which the related debt will not be assumed	(1,929)	(1,257)	(1,423)
Interest expense adjustment	$ 2,300	$ 2,006	$ 1,910

An increase or decrease of 0.125% in the assumed interest rate would result in a change in interest expense of $395 for the year ended December 31, 2011 and $269 and $304 for the nine month periods ended September 30, 2012 and 2011.

(22) For Acadia, represents the elimination of advisory fees paid to Waud Capital Partners pursuant to Acadia's professional services agreement, which was terminated on November 1, 2011 in connection with the PHC acquisition. For BCA, represents management fees paid to its equity sponsor and parent company. For HHC Delaware, represents management fees paid to its parent company.

(23) Reflects the removal of acquisition-related expenses included in the historical statements of operations relating to Acadia's acquisition of YFCS, PHC, the Haven Facilities and other acquisitions and PHC's acquisition of HHC Delaware and sale to Acadia.

(24) Reflects the elimination of the change in fair value associated with interest rate swap agreements, which were not assumed by Acadia in the acquisition of the Haven Facilities.

(25) Reflects a decrease in income taxes of $133 for the three months ended March 31, 2011 to give effect to the election by Acadia Healthcare Company, LLC to be treated as a taxable corporation effective April 1, 2011.

(26) Reflects adjustments to income taxes to reflect the impact of the above pro forma adjustments applying combined federal and state statutory tax rates for the respective periods.

(27) Represents adjustments to weighted average shares used to compute basic and diluted earnings (loss) per share to reflect the following:

(a) The effect of the 4,892,000 shares of common stock of Acadia issued to PHC stockholders on November 1, 2011, which resulted in an increase in weighted average shares outstanding of 4,074,000 shares for the year ended December 31, 2011 and 4,892,000 shares for the nine months ended September 30, 2011.

(b) The effect of the 9,583,000 shares of common stock issued by Acadia on December 20, 2011, which resulted in an increase in weighted average shares outstanding of 9,268,000 shares for the year ended December 31, 2011and 9,583,000 shares for the nine months ended September 30, 2011. The proceeds from such offering of common stock were used to partially fund Acadia's acquisition of the Haven Facilities.

(c) The effect of the 9,488,000 shares of common stock issued by Acadia on May 9, 2012, which resulted in an increase in weighted average shares outstanding of 9,488,000 shares for the year ended December 31, 2011, 4,900,000 shares for the nine months ended September 30, 2012 and 9,488,000 shares for the nine months ended September 30, 2011. The proceeds from such offering of common stock were used to partially fund Acadia's acquisition of the Haven Facilities.

(d) The effect of an estimated 6,000,000 shares of common stock to be issued by Acadia in the offering, which resulted in an increase in weighted average shares outstanding of 6,000,000 shares for the year ended December 31, 2011, 6,000,000 shares for the nine months ended September 30, 2012 and 6,000,000 shares for the nine months ended September 30, 2011. The proceeds from such offering of common stock are to be used to partially fund Acadia's planned acquisition of BCA and AmiCare.

BEHAVIORAL CENTERS OF AMERICA, LLC AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 44,269	$ 40,993
Accounts receivable, less allowance for doubtful account of $2,349,568 and $2,146,864 in 2012 and 2011, respectively	8,177,294	9,555,912
Agency receivables	466,644	1,351,065
Other receivables	964,209	634,306
Other current assets	1,037,650	924,619
Total current assets	10,690,066	12,506,895
Property and equipment, net	23,333,980	14,419,162
Property and equipment held for sale	330,413	281,592
Goodwill	16,549,781	16,549,781
Other long-term assets	645,518	1,817,151
	$ 51,549,758	$45,574,581
Liabilities and Member's Equity		
Current liabilities:		
Current installments of long-term debt	$ 336,564	$ —
Line of credit	2,276,425	3,128,878
Accounts payable	3,078,410	2,371,315
Accrued salaries and benefits	2,677,186	3,135,276
Other accrued expenses	316,639	367,771
Total current liabilities	8,685,224	9,003,240
Long-term debt, excluding current installments	2,316,149	—
Other long-term liabilities	957,814	835,018
Total liabilities	11,959,187	9,838,258
Member's equity	39,590,571	35,736,323
	$ 51,549,758	$45,574,581

See accompanying notes to the consolidated financial statements.

BEHAVIORAL CENTERS OF AMERICA, LLC AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Member's Equity
(Unaudited)

	Nine months ended September 30, 2012	2011
Revenue:		
Net patient revenues	$ 48,239,773	$ 40,771,217
Other revenue	187,122	143,721
Total revenue before provision for doubtful accounts	48,426,895	40,914,938
Less provision for doubtful accounts	1,156,931	1,350,759
Total revenue	47,269,964	39,564,179
Operating expenses:		
Salaries and benefits	24,649,975	22,189,389
Professional fees	1,665,597	1,735,346
Supplies	2,222,898	2,116,989
Rent	471,097	1,334,049
Depreciation and amortization	951,321	674,266
Insurance	421,465	540,424
Utilities	849,509	756,534
Repairs and maintenance	421,969	358,870
Other expenses	7,035,901	5,566,839
Total operating expenses	38,689,732	35,272,706
Operating income from continuing operations	8,580,232	4,291,473
Other income (expense):		
Interest expense, net	(241,584)	(105,364)
Management fees	(523,688)	(812,521)
Gain on disposal of property	1,000	—
Total other expense	(764,272)	(917,885)
Income from continuing operations before income taxes	7,815,960	3,373,588
Income tax expense (benefit)	(5,230)	160,399
Net income from continuing operations	7,821,190	3,213,189
Net loss from discontinued operations	(2,839,493)	(1,626,166)
Net income	4,981,697	$ 1,587,023
Distributions to member, net	(1,127,449)	
Member's equity at beginning of period	35,736,323	
Member's equity at end of period	$ 39,590,571	

See accompanying notes to the consolidated financial statements.

BEHAVIORAL CENTERS OF AMERICA, LLC AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(Unaudited)

	Nine months ended September 30, 2012	2011
Cash flows from operating activities:		
Net income	$ 4,981,697	$ 1,587,023
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,003,559	713,840
Provision for doubtful accounts	1,688,638	1,930,307
Gain on disposal of property	(1,000)	—
(Increase) decrease in operating assets:		
Accounts receivable	(639,923)	(2,539,976)
Agency receivables	884,421	(554,680)
Other current assets	(183,797)	(82,037)
Other long-term assets	62,098	1,215
Increase in operating liabilities:		
Accounts payable	707,095	796,418
Other accrued expenses	(509,222)	711,959
Other liabilities	122,796	412,171
Total adjustments	3,134,665	1,389,217
Net cash provided by operating activities	8,116,362	2,976,240
Cash flows from investing activities:		
Routine and maintenance capital additions	(5,908,795)	(3,667,186)
Net cash used by investing activities	(5,908,795)	(3,667,186)
Cash flows from financing activities:		
Repayments of line of credit, net	(852,453)	819,510
Payments of long-term debt	(224,389)	—
Distributions to members, net	(1,127,449)	(142,788)
Net cash provided (used) by financing activities	(2,204,291)	676,722
Increase (decrease) in cash	3,276	(14,224)
Cash and cash equivalents at beginning of period	40,993	40,906
Cash and cash equivalents at end of period	$ 44,269	$ 26,682
Supplemental disclosures of cash flow information:		
Interest paid	$ 243,246	$ 105,163
Income taxes paid (refunded)	$ 102,907	$ 61,895

See accompanying notes to the consolidated financial statements.

(1) Description of Business and Basis of Presentation

(a) Organization

Behavioral Centers of America, LLC, and Subsidiaries ("BCA"), a wholly-owned subsidiary of Behavioral Centers of America Holdings, LLC, was formed to provide behavioral health services, including acute psychiatric care, residential treatment, partial hospitalization care, intensive outpatient services and outpatient services. BCA currently serves patients in Ohio, Texas, and Michigan. Its corporate office is located in Nashville, Tennessee.

(b) Principles of consolidation

These consolidated financial statements include the accounts of all of the Company's wholly-owned subsidiary companies. All significant intercompany accounts and transactions have been eliminated.

(c) Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Fair value measurements

Fair value is a market based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of September 30, 2012 or December 31, 2011.

(e) New accounting pronouncements

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2012-02, "Intangibles--Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment" ("ASU 2012-02"). ASU 2012-02 states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. This allows for the same evaluation as described in ASU 2011-08 for "Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment." The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued, or for nonpublic entities, have not yet been made available for issuance. ASU 2012-02 is not expected to significantly impact the Company's consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, "*Comprehensive Income (Topic 220) — Presentation of Comprehensive Income*" ("ASU 2011-05"). ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Instead, ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 is required to be applied retrospectively and is effective for public companies for fiscal years beginning after December 15, 2011 and interim periods within those fiscal years. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. These changes became effective for the Company beginning January 1, 2012. The adoption of ASU 2011-05 did not have a significant impact on the Company's consolidated financial statements.

(f) Events occurring after reporting date

On November 21, 2012, the Company entered into an agreement with Acadia Healthcare Company, Inc. ("Acadia") whereby Acadia will acquire the membership interest of the Company for approximately $145.0 million of cash consideration. The sale is expected to close by December 31, 2012.

The Company has evaluated events and transactions that occurred between September 30, 2012 and December 3, 2012, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(2) Credit risk and other concentrations

The Company may maintain cash on deposit at banks in excess of federally insured amounts. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk related to cash.

Accounts receivable consist primarily of amounts due from patients (funded through Medicare, Medicaid, health management organizations, other contractual programs and private payors). As of September 30, 2012 and December 31, 2011, approximately 40% and 39% of the Company's accounts receivable were from Medicare and Medicaid programs, respectively. For the nine months ended September 30, 2012 and 2011, approximately 47% and 48%, respectively, of the Company's net revenues were from Medicare and Medicaid programs.

(3) Property and equipment

A summary of property and equipment, including property and equipment held for sale, as of September 30, 2012 and December 31, 2011 is as follows:

	September 30, 2012	December 31, 2011
Land and land improvements	$ 1,287,869	$ 787,869
Buildings	16,871,345	11,050,226
Leasehold improvements	1,524,659	1,485,522
Computer equipment and furniture and fixture	6,172,423	3,868,075
Construction in progress	2,491,560	1,272,091
	28,347,856	18,463,783
Less accumulated depreciation and amortization	4,683,463	3,763,029
	$23,664,393	$14,700,754

During October 2012, the Company entered into a purchase agreement to purchase the property of the Company's facility in Midland, Texas. The property was previously leased by the Company. Under this agreement, the property included all real property, personal property, equipment and furniture for total consideration of approximately $6,300,000, which was funded through a draw on the Company's existing line of credit (see Note 4). The facility in Midland, Texas, Permian Basin, is accounted for within these consolidated financial statements as discontinued operations (see Note 7).

(4) Line of credit

The Company has a $13,000,000 line of credit arrangement available with a bank at September 30, 2012. There was $2,276,425 and $3,128,878 outstanding on the line of credit at September 30, 2012 and December 31, 2011, respectively. Borrowings under the line of credit bear interest, payable monthly, on the amount borrowed at an annual interest rate fluctuating between 30-day LIBOR plus 300 and 400 basis points, with a floor of 4%. The interest rate is based on a financial ratio of measurement determined monthly and was 4% as of September 30, 2012. The line of credit is secured by substantially all non-real estate assets of the Company and matures on July 5, 2013. The line of credit places certain restrictions and limitations upon the Company. These include the maintenance of certain financial ratios. The Company was in compliance with all covenants as of September 30, 2012 and December 31, 2011.

(5) Long-term debt

The Company has a loan agreement with a bank in the amount of $2,652,713 at September 30, 2012. The loan bears interest at a 4.75% fixed rate per annum is due in monthly principal installments of $28,047 through July 2015. The loan is secured by certain assets of a subsidiary.

(6) Note receivable from physician

The Company has a note receivable from a physician of approximately $226,000 and $264,000 as of September 30, 2012 and December 31, 2011, respectively, which is included in other long-term assets on the consolidated balance sheets. The note bears interest at the prime rate which is 3.25% at September 30, 2012. The Company may withhold certain amounts owed to the physician under an employment agreement and credit such amounts to the note receivable on a monthly basis. All unpaid principal and interest is due on December 31, 2016. The Company's management regularly reviews the notes receivable and provides an allowance for uncollectible amounts when considered necessary. As of September 30, 2012, the Company did not consider any allowance to be necessary.

(7) Discontinued Operations

Generally accepted accounting principles requires that all components of an entity that have been disposed of (by sale, by abandonment or in a distribution to owners) or are held for sale and whose cash flows can be clearly distinguished from the rest of the entity be presented as discontinued operations. In connection with the sale of the Company to Acadia, the Company will divest its Permian Basin facility. The results of operations of the Company's Permian Basin facility have been reported as discontinued operations in the accompanying consolidated financial statements for all periods presented.

A summary of results from discontinued operations is approximately as follows:

	Nine months ended September 30,	
	2012	2011
Net revenue	$4,635,000	$5,360,000
Net loss from discontinued operations	$2,839,000	$1,626,000

Assets and liabilities associated with this facility which are included in the accompanying consolidated balance sheets as of September 30, 2012 and December 31, 2011 are approximately as follows:

	September 30, 2012	December 31, 2011
Current assets	$ 1,603,000	$1,758,000
Property and equipment	330,000	282,000
Other long-term assets	387,000	387,000
Total assets	$ 2,320,000	$2,427,000
Current liabilities	$ 390,000	$ 291,000
Other long-term liabilities	431,000	365,000
Total liabilities	$ 821,000	$ 656,000

(8) Income taxes

The Company is organized as a limited liability company and is taxed as a partnership for federal and state tax purposes. Under federal and state income tax provisions, the Company is not subject to income taxes on its taxable income. Instead, the Company's income and losses pass through to the members and are taxed at the individual level. All taxable income and losses are allocated to the members in accordance with operating agreements for inclusion in their personal tax returns. Certain subsidiaries in Ohio, Texas and Michigan, however, are subject to various state and local income taxes. In addition, Cedar Crest Clinic, a Texas not-for-profit corporation and StoneCrest Clinic, a Michigan not for profit corporation, both controlled by the Company, are taxable for federal and state income tax purposes.

Under generally accepted accounting principles, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company has no material uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

As of September 30, 2012, the Company has accrued no interest and no penalties related to uncertain tax positions. It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company files a U.S. Partnership Information return and state of Michigan, Ohio, Tennessee and Texas tax returns. The Company is currently open to audit under the statute of limitations for the years ended December 31, 2009 through 2011.

The Company has subsidiaries that are subject to various federal, regional and local income taxes. Two of the Company's subsidiaries had approximately $150,000 in federal net operating losses to offset future taxable income as of December 31, 2011. The federal net operating losses were to expire at various times between 2019 and 2025. Deferred tax assets of approximately $38,000 at December 31, 2011 which related to net operating losses, were not reflected within the accompanying consolidated balance sheet due to the establishment of a full valuation allowance. Other differences between the financial reporting basis and tax basis of the Company's assets and liabilities are not material to the consolidated financial statements.

(9) Commitments and contingencies

Litigation

BCA is involved in litigation with the former owner of one of its subsidiaries in Texas related to payments made by the State of Texas under the Medicaid Disproportionate Share Hospital Program. These payments were paid to BCA subsequent to its acquisition of the subsidiary in April 2005; however, the former owner is claiming that these amounts should have been excluded from the assets purchased. BCA was acquired during 2007 and since the litigation relates to a transaction occurring prior to the acquisition date, the Company believes and has notified the former shareholders that this claim would fall under the indemnity provision of the 2007 unit purchase agreement. Management plans on vigorously defending this case and at this time, the ultimate outcome and any potential loss is uncertain; however, management believes that any settlement would not exceed the indemnity that has been established and therefore would not have a material adverse effect on the Company's financial position or results of operation. As these matters develop, it is reasonably possible management's estimate of their effect could change and an accrual could be required.

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations. At September 30, 2012 and December 31, 2011, the Company has a general reserve of approximately $489,000 and $420,000, respectively, which is included in other long-term liabilities on the consolidated balance sheet.

Healthcare Industry

The delivery of personal and health care services entails an inherent risk of liability. Participants in the health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. The Company and its subsidiaries are insured with respect to medical malpractice risk on a claims-made basis. The Company also maintains insurance for general liability, director and officer liability and property. Certain policies are subject to deductibles. In addition to the insurance coverage provided, the Company indemnifies certain officers and directors for actions taken on behalf of the Company and its subsidiaries. Management is not aware of any claims against it or its subsidiaries which would have a material financial impact.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare fraud and abuse. Recently, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

Healthcare Reform

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act ("collectively, the "Health Care Reform Legislation"). The Health Care Reform Legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements. Due to the complexity of the Health Care Reform Legislation, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. While the full impact of Health Care Reform Legislation is not yet fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the Company's operations.

(10) Related party transactions

The Company paid consulting fees to a board member which approximated $22,500 and $195,000 during the nine months ended September 30, 2012 and 2011, respectively. The Company also paid $524,000 and $813,000 for management services fees during the nine months ended September 30, 2012 and 2011, respectively, to the member and an affiliate of the member.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Behavioral Centers of America, LLC and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Behavioral Centers of America, LLC and Subsidiaries (collectively, the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations and changes in member's equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Behavioral Centers of America, LLC and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12(b) to the consolidated financial statements, subsequent to December 31, 2011 the member of the Company has entered into an agreement to sell its membership interests.

/s/ Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
December 3, 2012

BEHAVIORAL CENTERS OF AMERICA, LLC AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	$ 40,993	$ 40,906
Accounts receivable, less allowance for doubtful account of $2,146,864 and $1,725,092 in 2011 and 2010, respectively	9,555,912	7,539,438
Agency receivables	1,351,065	1,528,001
Other receivables	634,306	955,847
Other current assets	924,619	976,871
Total current assets	12,506,895	11,041,063
Property and equipment, net	14,419,162	11,404,234
Property and equipment, held for sale	281,592	217,322
Goodwill	16,549,781	16,549,781
Other long-term assets	1,817,151	643,752
	$45,574,581	$39,856,152
Liabilities and Member's Equity		
Current liabilities:		
Line of credit	$ 3,128,878	$ 2,836,964
Accounts payable	2,371,315	2,040,591
Accrued salaries and benefits	3,135,276	2,141,425
Other accrued expenses	367,771	252,124
Total current liabilities	9,003,240	7,271,104
Other long-term liabilities	835,018	959,748
Total liabilities	9,838,258	8,230,852
Member's equity	35,736,323	31,625,300
	$45,574,581	$39,856,152

See accompanying notes to the consolidated financial statements.

BEHAVIORAL CENTERS OF AMERICA, LLC AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Member's Equity

Years ended December 31, 2011 and 2010

	2011	2010
Revenue:		
Net patient revenues	$54,318,353	$47,918,827
Other revenue	188,207	238,444
Total revenue before provision for doubtful accounts	54,506,560	48,157,271
Less provision for doubtful accounts	1,443,025	1,009,425
Total revenue	53,063,535	47,147,846
Operating expenses:		
Salaries and benefits	28,920,292	26,422,057
Professional fees	3,198,905	2,551,959
Supplies	2,885,739	2,861,730
Rent	1,151,578	1,737,724
Depreciation and amortization	954,869	946,225
Insurance	683,397	802,388
Utilities	999,728	1,035,093
Repairs and maintenance	458,021	414,607
Other expenses	7,628,315	6,800,338
Total operating expenses	46,880,844	43,572,121
Operating income from continuing operations	6,182,691	3,575,725
Other income (expense):		
Interest expense, net	(134,635)	(120,851)
Management fees	(923,577)	(469,513)
Gain on disposal of property	—	497,069
Total other income (expense)	(1,058,212)	(93,295)
Income from continuing operations before income taxes	5,124,479	3,482,430
Income taxes	219,226	196,195
Net income from continuing operations	4,905,253	3,286,235
Net loss from discontinued operations	2,455,613	3,215,594
Net income	2,449,640	70,641
Contributions from members, net	1,661,383	13,960
Member's equity at beginning of year	31,625,300	31,540,699
Member's equity at end of year	$35,736,323	$31,625,300

See accompanying notes to the consolidated financial statements.

BEHAVIORAL CENTERS OF AMERICA, LLC AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Net income	$ 2,449,640	$ 70,641
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,010,758	989,936
Provision for doubtful accounts	2,330,120	1,990,601
Gain on disposal of property	—	(497,069)
(Increase) decrease in operating assets:		
Accounts receivable	(4,025,053)	(2,571,076)
Agency receivables	176,936	(867,997)
Other current assets	29,537	733,632
Other long-term assets	(63,864)	(72,053)
Increase in operating liabilities:		
Accounts payable	330,724	(9,898)
Accrued expenses	1,109,498	353,727
Other liabilities	(124,730)	525,603
Total adjustments	773,926	575,406
Net cash provided by operating activities	3,223,566	646,047
Cash flows from investing activities:		
Routine and maintenance capital additions	(5,176,776)	(1,336,201)
Net cash used by investing activities	(5,176,776)	(1,336,201)
Cash flows from financing activities:		
Proceeds from line of credit, net	291,914	665,688
Contributions from members, net	1,661,383	13,960
Net cash provided by financing activities	1,953,297	679,648
Increase (decrease) in cash	87	(10,506)
Cash and cash equivalents at beginning of year	40,906	51,412
Cash and cash equivalents at end of year	$ 40,993	$ 40,906

See accompanying notes to the consolidated financial statements.

(1) Nature of operations

Behavioral Centers of America, LLC, and Subsidiaries ("BCA"), a wholly-owned subsidiary of Behavioral Centers of America Holdings, LLC, was formed to provide behavioral health services, including acute psychiatric care, residential treatment, partial hospitalization care, intensive outpatient services and outpatient services. BCA currently serves patients in Ohio, Texas, and Michigan. Its corporate office is located in Nashville, Tennessee.

(2) Summary of significant accounting policies

(a) Principles of consolidation

These consolidated financial statements include the accounts of all of the Company's wholly-owned subsidiary companies. All significant intercompany accounts and transactions have been eliminated.

(b) Fair value measurements

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2011 and 2010.

(c) Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

(d) Accounts receivable

The Company receives payment for services rendered from federal and state agencies (including Medicare and Medicaid programs), private insurance carriers, employers, managed care programs and patients. The Company manages receivables by regularly reviewing its accounts and contracts and by providing appropriate allowances for uncollectible amounts. The Company records an allowance for uncollectible accounts for all self-pay receivables greater than 90 days outstanding and all other receivables greater than 150 days outstanding. Late and interest charges, if any, are recorded when received. Receivables are generally uncollateralized, but credit risk relating to accounts receivable is limited to some extent by the diversity and number of patients and payors.

(e) Third party settlements

Accounts receivable and the related revenues are recorded during the period the related healthcare services are provided, based upon the estimated amounts due from third-party payors, including federal and state agencies (including the Medicare and Medicaid programs), private insurance carriers, employers, managed care programs and patients. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreement. Managed care agreements' contractual payment terms are generally based upon predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount. The estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined. The adjustments resulting from tentative or final settlements to estimated reimbursement amounts resulted in a decrease to revenue of approximately $400,000 for the year ended December 31, 2010.

(f) Inventories

Inventories consist of medical and other supplies and are stated at the lower of cost, determined on a first-in, first-out (FIFO) basis, or market (net realizable value).

(g) Property and equipment

Property and equipment are stated at cost. Depreciation and amortization are provided over the assets' estimated useful lives using the straight-line method. Leasehold improvements are amortized over the shorter of their estimated lives or the respective lease term. Land improvements are depreciated over ten years, buildings are depreciated over twenty to forty years, computer equipment and furniture and fixtures are depreciated over three to ten years.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation or amortization are removed from the accounts, and the resulting gain or loss is included in operations.

(h) Goodwill

The Company reviews goodwill for impairment on an annual basis or more frequently if impairment indicators arise. In the event goodwill is considered to be impaired, the asset would be required to be recorded at fair value and a charge to earnings would be recorded during the period in which management makes such impairment assessment. During the years ended December 31, 2011 and 2010, the Company did not recognize any amounts in earnings related to changes in fair value.

(i) Income taxes

The Company is organized as a limited liability company and is taxed as a partnership for federal and state tax purposes. Under federal and state income tax provisions, the Company is not subject to income taxes on its taxable income. Instead, the Company's income and losses pass through to the members and are taxed at the individual level. All taxable income and losses are allocated to the members in accordance with operating agreements for inclusion in their personal tax returns. Certain subsidiaries in Ohio, Texas and Michigan, however, are subject to various state and local income taxes. In addition, Cedar Crest Clinic, a Texas not-for-profit corporation and StoneCrest Clinic, a Michigan not-for-profit corporation, both controlled by the Company, are taxable for federal and state income tax purposes.

Under generally accepted accounting principles, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax purposes not meeting the "more likely than not" test, no tax benefit is recorded. The Company has no material uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

As of December 31, 2011, the Company has accrued no interest and no penalties related to uncertain tax positions. It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company files a U.S. Partnership Information return and state of Michigan, Ohio, Tennessee and Texas tax returns. The Company is currently open to audit under the statute of limitations for the years ended December 31, 2008 through 2010.

(j) Revenue recognition

Substantially all revenues of the Company are derived from behavioral health services, including acute psychiatric care, residential treatment, partial hospitalization care, intensive outpatient services and outpatient services. It is the Company's policy to recognize revenues as services are provided to patients. Revenue is reported at the estimated net realizable amount from patients, third-party payors and others for services rendered. Provisions for estimated adjustments have been reflected in net revenues and approximated $37,100,000 and $29,400,000 in 2011 and 2010, respectively, which is inclusive of $6,000,000 and $2,600,000, respectively, in provisions for estimated adjustments related to discontinued operations. Differences between estimated adjustments and final settlements are recorded in the year of the settlement.

The Company provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of costs recognized in the statements of operations for providing charity care aggregated approximately $2,900,000 and $4,640,000 in 2011 and 2010, respectively, which is inclusive of $850,000 and $580,000, respectively, in charity care related to discontinued operations. These costs were estimated based on the ratio of total costs to gross charges.

(k) Advertising costs

Advertising costs are expensed as incurred.

(l) Realization of long-lived assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(m) Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) New accounting pronouncements

In September 2011, the Financial Accounting Standards Board ("FASB") issued accounting standards relating to goodwill and other intangibles. This guidance allows an entity the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test prescribed by current accounting standards. Under that option, an entity would no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on the qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. An entity can bypass the qualitative assessment for any reporting unit in any period and proceed directly to the quantitative goodwill impairment test, and then resume performing the qualitative assessment in any subsequent period. These standards are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The adoption of this accounting standard is not expected to have a material impact on the Company's consolidated financial statements.

In July 2011, the FASB issued accounting standards that require changes in financial statement presentation and enhanced disclosures by health care entities that recognize significant amounts of patient service revenue at the time services are rendered without taking account of patients' ability to pay. These standards require health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, these entities will be required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. These changes have been reflected within the consolidated financial statements for all periods presented.

(o) Events occurring after reporting date

The Company has evaluated events and transactions that occurred between December 31, 2011 and December 3, 2012, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Credit risk and other concentrations

The Company may maintain cash on deposit at banks in excess of federally insured amounts. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk related to cash.

Accounts receivable consist primarily of amounts due from patients (funded through Medicare, Medicaid, health management organizations, other contractual programs and private payors). As of December 31, 2011 and 2010, approximately 39% and 44% of the Company's accounts receivable were from Medicare and Medicaid programs, respectively. For 2011 and 2010, approximately 45% and 49% of the Company's net revenues were from Medicare and Medicaid programs, respectively.

(4) Property and equipment

A summary of property and equipment, including property and equipment held for sale, as of December 31, 2011 and 2010 is as follows:

	2011	2010
Land and land improvements	$ 787,869	$ 787,869
Buildings	11,050,226	9,104,149
Leasehold improvements	1,485,522	846,306
Computer equipment and furniture and fixture	3,868,075	3,264,244
Construction in progress	1,272,091	398,791
	18,463,783	14,401,359
Less accumulated depreciation and amortization	3,763,029	2,779,803
	$ 14,700,754	$ 11,621,556

The Company is in the process of constructing various expansions and additions to existing facilities. The total commitment for these projects in 2012 is approximately $138,000.

(5) Line of credit

The Company has a $8,000,000 line of credit arrangement available with a bank at December 31, 2011. There was $3,128,878 and $2,836,964 outstanding on the line of credit at December 31, 2011 and 2010, respectively. Borrowings under the line of credit bear interest, payable monthly, on the amount borrowed at an annual interest rate fluctuating between 30-day LIBOR plus 300 and 400 basis points, with a floor of 4%. The interest rate is based on a financial ratio of measurement determined monthly and was 4% as of December 31, 2011. The line of credit is secured by substantially all non-real estate assets of the Company and matured on July 5, 2012. During 2012, the Company amended the line of credit and extended the maturity to July 5, 2013. The line of credit places certain restrictions and limitations upon the Company. These include the maintenance of certain financial ratios. The Company was in compliance with all covenants as of December 31, 2011 and 2010.

(6) Note receivable from physician

The Company has a note receivable from a physician of approximately $264,000 as of December 31, 2011 which is included in other long-term assets on the consolidated balance sheet. The note bears interest at the prime rate which is 3.25% at December 31, 2011. The Company may withhold certain amounts owed to the physician under an employment agreement and credit such amounts to the note receivable on a monthly basis. All unpaid principal and interest is due on December 31, 2016. The Company's management regularly reviews the notes receivable and provides an allowance for uncollectible amounts when considered necessary. As of December 31, 2011, the Company did not consider any allowance to be necessary.

(7) Employee benefit plan

The Company sponsors a 401(k) plan covering substantially all employees. Company contributions are made at management's discretion. The Company contributed approximately $142,000 and $129,000 to the plan during 2011 and 2010, respectively.

(8) Income taxes

The Company has subsidiaries that are subject to various federal, regional and local income taxes. Two of the Company's subsidiaries have approximately $150,000 in federal net operating losses to offset future taxable income. The federal net operating losses expire at various times between 2019 and 2025. Deferred tax assets of approximately $38,000 at December 31, 2011 which relate to net operating losses, have not been reflected within the accompanying consolidated balance sheet due to the establishment of a full valuation allowance. The valuation allowance was established to reduce the deferred income tax assets to the amount that will more likely than not be realized. Other differences between the financial reporting basis and tax basis of the Company's assets and liabilities are not material to the consolidated financial statements.

(9) Commitments and contingencies

Operating Lease Commitments

The Company utilizes various office space and equipment under operating leases. In addition, the Company leases two of its inpatient facilities and two of its outpatient facilities. Rent expense under these leases amounted to approximately $2,032,000 and $2,623,000 in 2011 and 2010, respectively, inclusive of rent expense related to discontinued operations of $880,000 and $885,000, respectively. A summary of approximate future minimum payments, excluding the facility purchased in January 2012 (see Note 12(a)), under these leases as of December 31, 2011 is as follows:

Year	
2012	$ 1,294,000
2013	1,146,000
2014	1,056,000
2015	903,000
2016	898,000
Thereafter	6,725,000
	$ 12,022,000

It is expected that in the normal course of business, leases that expire will be renewed or replaced by other leases; thus, it is anticipated that future lease payments will not be less than the commitments for 2012.

Litigation

BCA is involved in litigation with the former owner of one of its subsidiaries in Texas related to payments made by the State of Texas under the Medicaid Disproportionate Share Hospital Program. These payments were paid to BCA subsequent to its acquisition of the subsidiary in April 2005; however, the former owner is claiming that these amounts should have been excluded from the assets purchased. BCA was acquired during 2007 and since the litigation relates to a transaction occurring prior to the acquisition date, the Company believes and has notified the former shareholders that this claim would fall under the indemnity provision of the 2007 unit purchase agreement. Management plans on vigorously defending this case and at this time, the ultimate outcome and any potential loss is uncertain; however, management believes that any settlement would not exceed the indemnity that has been established and therefore would not have a material adverse effect on the Company's financial position or results of operation. As these matters develop, it is reasonably possible management's estimate of their effect could change and an accrual could be required.

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations. At December 31, 2011 and 2010, the Company has a general reserve of approximately $420,000 and $180,000, respectively, which is included in other long-term liabilities on the consolidated balance sheet.

Healthcare Industry

The delivery of personal and health care services entails an inherent risk of liability. Participants in the health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. The Company and its subsidiaries are insured with respect to medical malpractice risk on a claims-made basis. The Company also maintains insurance for general liability, director and officer liability and property. Certain policies are subject to deductibles. In addition to the insurance coverage provided, the Company indemnifies certain officers and directors for actions taken on behalf of the Company and its subsidiaries. Management is not aware of any claims against it or its subsidiaries which would have a material financial impact.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare fraud and abuse. Recently, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

Healthcare Reform

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (“collectively, the “Health Care Reform Legislation”). The Health Care Reform Legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements. Due to the complexity of the Health Care Reform Legislation, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. While the full impact of Health Care Reform Legislation is not yet fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the Company’s operations.

(10) Related party transactions

The Company paid consulting fees to a board member which approximated $210,000 during 2011. The Company also paid approximately $924,000 and $470,000 for management services fees during 2011 and 2010, respectively, to the member and an affiliate of the member.

(11) Supplemental disclosures of cash flow statement information

	2011	2010
Cash paid during the year for:		
Interest paid	$ 145,519	$ 121,627
Income taxes paid	$ 94,895	$ 296,195

During 2010, the Company sold land to the state of Texas, resulting in an increase to receivables of approximately $550,000.

(12) Subsequent events

(a) Property acquisitions

During January 2012, the Company finalized a purchase agreement to purchase the property of the Company's facility in Detroit, Michigan. The property was previously leased by the Company. Under this agreement, the property included all real property, personal property and equipment and furniture for total consideration of approximately $6,000,000. The Company assumed debt of approximately $2,900,000 and paid the remaining consideration in cash. The Company also reclassed a receivable from the lessor related to HVAC additions amounting to $720,000 at December 31, 2011 to property and equipment. The receivable was included in long-term assets at December 31, 2011. Associated with this transaction, the Company also wrote-off an accumulated deferred rent liability related to this facility amounting to $627,000 as a reduction in rent expense during 2011.

During October 2012, the Company entered into a purchase agreement to purchase the property of the Company's facility in Midland, Texas. The property was previously leased by the Company. Under this agreement, the property included all real property, personal property, equipment and furniture for total consideration of approximately $6,300,000, which was funded through a draw on the Company's existing line of credit (see Note 5). The facility in Midland, Texas, Permian Basin, is accounted for within these consolidated financial statements as discontinued operations (see Note 12(b)).

(b) Acadia acquisition

On November 21, 2012, the Company entered into an agreement with Acadia Healthcare Company, Inc. ("Acadia") whereby Acadia will acquire the membership interest of the Company for approximately $145.0 million of cash consideration. The sale is expected to close by December 31, 2012.

Generally accepted accounting principles requires that all components of an entity that have been disposed of (by sale, by abandonment or in a distribution to owners) or are held for sale and whose cash flows can be clearly distinguished from the rest of the entity be presented as discontinued operations. In connection with the sale of the Company to Acadia, the Company will divest its Permian Basin facility. The results of operations of the Company's Permian Basin facility have been reported as discontinued operations in the accompanying consolidated financial statements for all periods presented.

A summary of results from discontinued operations is as follows:

	2011	2010
Net revenue	$ 7,048,000	$ 4,116,000
Net loss from discontinued operations	$ 2,456,000	$ 3,216,000

Assets and liabilities associated with this facility which are included in the accompanying consolidated balance sheets as of December 31, 2011 and 2010 are approximately as follows:

	2011	2010
Current assets	$ 1,758,000	$ 1,052,000
Property and equipment	282,000	217,000
Other long-term assets	387,000	611,000
Total assets	$ 2,427,000	$ 1,880,000
Current liabilities	$ 291,000	$ 238,000
Other long-term liabilities	365,000	257,000
Total liabilities	$ 656,000	$ 495,000

AMICARE BEHAVIORAL CENTERS, LLC AND SUBSIDIARIES

Consolidated Balance Sheets

	(Unaudited) September 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash	$ 803,845	$ 758,312
Accounts receivable, less allowance for doubtful accounts of $898,525 and $651,934, respectively	4,405,418	4,343,277
Other receivables	613,140	501,926
Prepaid expenses	271,453	399,997
Total current assets	6,093,856	6,003,512
Property and equipment, net	20,694,216	20,181,988
Goodwill	14,174,940	14,174,940
Loan costs, net	71,010	71,010
	$ 41,034,022	$ 40,431,450
Liabilities and Members' Equity		
Current liabilities:		
Current installments of long-term debt	$ 2,550,000	$ 2,100,000
Lines of credit	1,733,122	1,210,814
Accounts payables	503,394	1,896,203
Accrued salaries and benefits	2,372,967	2,396,974
Other accrued expenses	940,232	1,716,494
Total current liabilities	8,099,715	9,320,485
Long-term debt, excluding current installments	18,636,745	20,661,745
Interest rate swaps	173,261	256,494
Total liabilities	26,909,721	30,238,724
Members' equity	14,124,301	10,192,726
	$ 41,034,022	$ 40,431,450

See accompanying notes to the consolidated financial statements.

AMICARE BEHAVIORAL CENTERS, LLC AND SUBSIDIARIES

Consolidated Statements of Operations
(Unaudited)

	Nine Months Ended September 30, 2012	2011
Net patient revenues before provision for doubtful accounts	$ 47,220,280	$ 43,539,669
Provision for doubtful accounts	1,340,531	951,271
Net patient revenues	45,879,749	42,588,398
Operating expenses:		
Salaries and benefits	29,876,905	27,858,238
Purchased services	1,586,736	2,064,338
Supplies	812,548	864,651
Rent	1,773,375	1,493,632
Depreciation and amortization	703,307	691,165
Travel and entertainment	553,873	591,616
Professional services	1,248,509	1,456,506
Repairs and maintenance	405,418	377,115
Other expenses	3,498,477	3,406,975
Total operating expenses	40,459,148	38,804,236
Income from continuing operations	5,420,601	3,784,162
Other expense - interest, net	(1,015,022)	(1,317,661)
Net earnings from continuing operations	4,405,579	2,466,501
Net earnings from discontinued operations (Note 7)	—	1,490,892
Net earnings	$ 4,405,579	$ 3,957,393

See accompanying notes to the consolidated financial statements.

AMICARE BEHAVIORAL CENTERS, LLC AND SUBSIDIARIES

Consolidated Statement of Changes in Members' Equity
(Unaudited)

	Member Contributions	Notes Receivable from Members	Retained Earnings	Total Members' Equity
Balance at December 31, 2011	$ 8,506,028	$ (157,210)	$ 1,843,908	$ 10,192,726
Issuance of notes receivable from members	—	(474,004)	—	(474,004)
Net income	—	—	4,405,579	4,405,579
Balance at September 30, 2012	$ 8,506,028	$ (631,214)	$ 6,249,487	$ 14,124,301

See accompanying notes to the consolidated financial statements.

AMICARE BEHAVIORAL CENTERS, LLC AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net earnings	$ 4,405,579	$ 3,957,393
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	703,307	1,061,794
Provision for doubtful accounts	1,340,531	987,755
Interest earned on note receivable from member	—	(5,896)
Change in fair value of interest rate swap liability	(83,233)	(114,826)
(Increase) decrease in operating assets, net of effects of distribution (see Note 1(b)):		
Receivables	(1,513,886)	(859,737)
Prepaid expenses	128,544	(283,121)
Other assets	—	(70,185)
Increase (decrease) in operating liabilities, net of effects of distribution (see Note 1(b)):		
Accounts payable	(1,392,809)	(389,876)
Accrued expenses	(800,269)	(411,117)
Total adjustments	(1,617,815)	(85,209)
Net cash provided by operating activities	2,787,764	3,872,184
Cash flows from investing activities-purchase of property and equipment	(1,215,535)	(1,060,693)
Cash flows from financing activities, net of effects of distribution:		
Issuance of notes receivable to members	(474,004)	—
Payments of long-term debt and line-of-credit, net	(1,052,692)	(1,181,117)
Distributions to members	—	(1,328,893)
Distribution of membership interest (see Note 1(b))	—	(135,096)
Net cash used by financing activities	(1,526,696)	(2,645,106)
Increase in cash	45,533	166,385
Cash at beginning of period	758,312	690,345
Cash at end of period	$ 803,845	$ 856,730
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,067,632	$ 1,396,715

See accompanying notes to the consolidated financial statements.

(1) Description of Business and Basis of Presentation

(a) Organization

AmiCare Behavioral Centers, LLC and Subsidiaries (collectively, the "Company" or "AmiCare") was formed to provide comprehensive psychiatric treatment to children, adolescents and adults. The Company currently serves patients in Arkansas. The Company's corporate office is in Fayetteville, Arkansas.

(b) Distribution of membership interest

On August 1, 2011, two members of AmiCare redeemed 100% of their membership interest in the Company in exchange for a distribution of certain assets and liabilities. The assets and liabilities distributed on August 1, 2011 in exchange for their membership interest were as follows:

Cash	$ 135,096
Accounts receivable	1,646,489
Prepaid expenses	170,412
Property and equipment	7,141,893
Goodwill and other intangible	7,600,000
Accounts payable	(204,422)
Accrued expenses	(1,003,508)
Long term debt	(3,500,000)
	$ 11,985,960

(c) Principles of consolidation

These consolidated financial statements include the accounts of all of the Company's wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

(d) Income taxes

The Company is organized as a limited liability company and is taxed as a partnership for federal and state income tax purposes. Under federal and state income tax provisions, the Company is not subject to income taxes on its taxable income. Instead, the Company's income and loss pass through to the members and are taxed at the individual level. Certain subsidiaries in Arkansas are subject to various state income taxes. State income taxes are not material to the Company.

Under generally accepted accounting principles, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax purposes not meeting the "more likely than not" test, no tax benefit is recorded. The Company has no material uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

As of September 30, 2012 and December 31, 2011, the Company has accrued no interest and no penalties related to uncertain tax positions. It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company files U.S. Federal and various state income tax returns. The Company is currently open to audit under that statute of limitations by the Internal Revenue Service and various states for the years ending after 2008.

(e) Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(f) New accounting pronouncements

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2012-02,"*Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*" ("ASU 2012-02"). ASU 2012-02 states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. This allows for the same evaluation as described in ASU 2011-08 for "*Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment.*" The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued, or for nonpublic entities, have not yet been made available for issuance. ASU 2012-02 is not expected to significantly impact the Company's consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, "*Comprehensive Income (Topic 220) — Presentation of Comprehensive Income*" ("ASU 2011-05"). ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Instead, ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 is required to be applied retrospectively and is effective for public companies for fiscal years beginning after December 15, 2011 and interim periods within those fiscal years. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. These changes became effective for the Company beginning January 1, 2012. The adoption of ASU 2011-05 did not have a significant impact on the Company's consolidated financial statements.

(g) Fair value measurements

Fair value is a market based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of September 30, 2012 or December 31, 2011. The Company has derivative instruments that are classified as Level 2 liabilities since the fair value is based on modeling techniques that include inputs such as market volatilities, spot rates and interest differentials from published sources.

(h) Events occurring after reporting date

On November 23, 2012, the members of the Company entered into an agreement with Acadia Healthcare Company, Inc. ("Acadia") whereby Acadia will acquire the membership interest of the Company for approximately $113.0 million of cash consideration. The sale is expected to close by December 31, 2012.

The Company has evaluated events and transactions that occurred between September 30, 2012 and December 3, 2012, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(2) Credit risk and other concentrations

The Company may maintain cash on deposit at banks in excess of federally insured amounts. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk related to cash.

The Company grants credit without collateral to its patients, most of whom are individuals that are insured under third-party payor agreements. Concentrations of credit risk relating to accounts receivable is limited to some extent by the diversity and number of patients and payors. The mix of net accounts receivable from patients and third-party payors as of September 30, 2012 and December 31, 2011, was as follows:

	September 30, 2012	December 31, 2011
Medicare	24%	24%
Medicaid and other state programs	51%	53%
Insurance	21%	21%
Self pay	4%	2%
	100%	100%

Approximately 88% and 87% of net patient revenues in the nine months ended September 30, 2012 and 2011, respectively, were derived under contractual agreements with certain government funded programs (principally Medicare and Medicaid).

(3) Note receivable from members

The Company had a note receivable from a member amounting to $157,210 as of December 31, 2011. During the period ended September 30, 2012, the Company issued additional notes receivable amounting to $474,004 to certain members. The notes are payable on demand. The uncollected portion of the member notes receivable as of the date of the applicable report is reflected as a component of members' equity.

(4) Property and equipment

A summary of property and equipment as of September 30, 2012 and December 31, 2011 is as follows:

	September 30, 2012	December 31, 2011
Land	$ 1,367,080	$ 1,518,280
Buildings and improvements	17,676,650	17,654,078
Leasehold improvements	1,063,396	647,449
Transportation equipment	245,457	136,975
Furniture and fixtures	1,662,538	1,200,013
Construction in progress	880,272	530,483
	22,895,393	21,687,278
Less accumulated depreciation and amortization	2,201,177	1,505,290
	$ 20,694,216	$ 20,181,988

(5) Lines of credit

The Company has two lines of credit amounting to $4,000,000 available with two banks at September 30, 2012 and December 31, 2011. Borrowings of $1,374,433 and $394,326, exclusive of checks drawn in excess discussed in the following paragraph, were outstanding under the lines of credit at September 30, 2012 and December 31, 2011, respectively. Borrowings under the lines of credit bear interest, payable quarterly, at a variable interest rate equal to the base rate and applicable margin (5.24% at September 30, 2012). The lines of credit are secured by substantially all assets of the Company. The lines of credit mature in February 2014. The lines of credit place certain restrictions and limitations upon the Company (see Note 6).

Pursuant to the credit agreement, one of the banks mentioned above has made up to $2,000,000 of the commitment available pursuant to a swing line credit agreement. The total commitment available at any time is subject to borrowing base limitations as defined in the agreement. Borrowings of $1,374,433 and $394,326 were outstanding under this swing line of credit at September 30, 2012 and December 31, 2011, respectively. Borrowings under the line of credit bear interest, payable quarterly, at a variable interest rate equal to the highest of the prime rate, federal funds effective rate plus 0.50% or LIBOR plus 1.25% (5.24% at September 30, 2012). Due to contractual provisions of the swing line of credit which allow for current receipts of the Company to reduce the outstanding balance, this portion of the obligation is classified as a short-term liability in accordance with generally accepted accounting standards. Since the swing line of credit agreement is drawn upon to satisfy disbursements clearing the operating account when sufficient cash is not available, management has included checks drawn in excess of cash balance totaling $358,689 and $816,488 at September 30, 2012 and December 31, 2011, respectively, within this line of credit balance on the accompanying consolidated balance sheet.

(6) Long-term debt

A summary of long-term debt as of September 30, 2012 and December 31, 2011 is as follows:

	2012	2011
Term loan to bank; interest at a variable rate of ABR or Eurodollar rate plus the applicable margin (5.24% at September 30, 2012); variable quarterly principal and interest payments with all unpaid principal and interest due February 2014; secured by substantially all assets of the Company.	$ 20,000,000	$ 21,575,000
Subordinated note payable to related party; interest at a variable rate of ABR or Eurodollar rate plus the applicable margin (5.24% at September 30, 2012); principal and interest due February 2014.	1,186,745	1,186,745
Total long-term debt	21,186,745	22,761,745
Less current installments	2,550,000	2,100,000
Long-term debt, excluding current installments	$ 18,636,745	$ 20,661,745

During 2007, AmiCare entered into an interest rate swap agreement to reduce or eliminate the risk associated with debt interest rate fluctuations. The swap had an original notional principal amount of $5,000,000 and expired on May 1, 2012. Under the swap agreement, the Company paid interest at a fixed rate of 7.60% and received interest at the LIBOR rate plus 200 basis points. Due to interest rate fluctuations, the Company could have incurred a cost upon early termination or sale of the swap agreement. A liability thereon of $76,959 at December 31, 2011, was reported in the accompanying consolidated financial statements. No costs were incurred at the termination of the swap.

During 2010, the Company entered into a second interest rate swap agreement to comply with the terms of a credit agreement the Company has with a bank. The swap has a remaining notional principal amount totaling $12,862,500 and $9,344,257 at September 30, 2012 and December 31, 2011, respectively, and expires on February 28, 2014. Under the swap agreement, the Company pays interest at a fixed rate of 1.25% and receives interest at 1 month LIBOR. A liability thereon of $173,261 and $179,535 at September 30, 2012 and December 31, 2011, respectively, has been reported in the accompanying consolidated financial statements.

Any change in the fair value of the interest rate swaps is included in interest expense in accordance with generally accepted accounting principles.

The provisions of the lines of credit (see Note 5) and the long term debt require the maintenance of certain financial ratios. The Company was in compliance with all covenants as of September 30, 2012 and December 31, 2011.

(7) Discontinued Operations

Generally accepted accounting principles requires that all components of an entity that have been disposed of (by sale, by abandonment or in a distribution to owners) or are held for sale and whose cash flows can be clearly distinguished from the rest of the entity be presented as discontinued operations. The results of operations of the facilities divested on August 1, 2011 as discussed in Note 1(b) have been reported as discontinued operations in the accompanying consolidated financial statements.

A summary of results from discontinued operations for the nine months ended September 30, 2011 is as follows:

Net patient revenues	$ 11,500,000
Net earnings from discontinued operations	$ 1,491,000

(8) Contingent liabilities

General liability

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on these financial statements.

Healthcare Industry

The delivery of personal and health care services entails an inherent risk of liability. Participants in the health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. The Company and its subsidiaries are insured with respect to medical malpractice risk on a claims-made basis. The Company also maintains insurance for general liability, director and officer liability and property. Certain policies are subject to deductibles. In addition to the insurance coverage provided, the Company indemnifies certain officers and directors for actions taken on behalf of the Company and its subsidiaries. Management is not aware of any claims against it or its subsidiaries which would have a material financial impact.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare fraud and abuse. Recently, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

Healthcare Reform

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act ("collectively, the "Health Care Reform Legislation"). The Health Care Reform Legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements. Due to the complexity of the Health Care Reform Legislation, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. While the full impact of Health Care Reform Legislation is not yet fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the Company's operations.

(9) Unit option plan

The Company has reserved 486,000 common units to be issued under the 2007 Option Plan ("the Plan"). The Plan is designed to promote the interest and long-term success of the Company by granting unit options to selected employees. The Plan is administered by a committee appointed by the Board of Directors (the "Committee"). Under the plan, the Committee has the sole discretion to grant unit options with exercise prices determined by the Committee at the time of grant but not less than the fair market value of the units at the date of grant. The unit option term and vesting period will be determined by the Committee at the date of grant. The unit options cannot be sold or transferred to any other party without consent of the Committee.

At September 30, 2012 and December 31, 2011, the weighted-average exercise price of the outstanding units was approximately $1.59. The Company used the Black-Scholes-Merton formula to estimate the calculated value of the unit-based payments. Using this method, management has determined that the applicable compensation expense is immaterial and, accordingly, has not been recorded in the accompanying consolidated financial statements. Management does not expect future compensation expense related to existing and future unit options to be material to the consolidated financial statements. A schedule of the option activity is as follows:

	Number of shares
Balance, December 31, 2011	253,000
Granted	35,000
Exercised	—
Forfeited	—
Balance, September 30, 2012	288,000

INDEPENDENT AUDITORS' REPORT

The Members
AmiCare Behavioral Centers, LLC and Subsidiaries:

We have audited the accompanying consolidated balance sheet of AmiCare Behavioral Centers, LLC and Subsidiaries (collectively the "Company") as of December 31, 2011, and the related consolidated statements of operations, changes in members' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmiCare Behavioral Centers, LLC and Subsidiaries as of December 31, 2011, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the consolidated financial statements, the Company has restated its statement of operations to account for the distribution of certain facilities as discontinued operations.

As discussed in Note 14 to the consolidated financial statements, the members of the Company have entered into an agreement to sell their membership interests.

/s/ Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
December 3, 2012

AMICARE BEHAVIORAL CENTERS, LLC AND SUBSIDIARIES

Consolidated Balance Sheet

December 31, 2011

Assets	
Current assets:	
Cash	$ 758,312
Accounts receivable, less allowance for doubtful accounts of $651,934	4,343,277
Other receivables	501,926
Prepaid expenses	399,997
Total current assets	6,003,512
Property and equipment, net	20,181,988
Goodwill	14,174,940
Loan costs, net	71,010
	$ 40,431,450
Liabilities and Members' Equity	
Current liabilities:	
Current installments of long-term debt	$ 2,100,000
Lines of credit	1,210,814
Accounts payable	1,896,203
Accrued salaries and benefits	2,396,974
Other accrued expenses	1,716,494
Total current liabilities	9,320,485
Long-term debt, excluding current installments	20,661,745
Interest rate swaps	256,494
Total liabilities	30,238,724
Members' equity	10,192,726
	$ 40,431,450

See accompanying notes to the consolidated financial statements.

AMICARE BEHAVIORAL CENTERS, LLC AND SUBSIDIARIES

Consolidated Statement of Operations

For the Year Ended December 31, 2011

Net patient revenues before provision for doubtful accounts	$ 59,841,436
Provision for doubtful accounts	1,380,846
Net patient revenues	58,460,590
Operating expenses:	
Salaries and benefits	37,969,192
Purchased services	2,665,183
Supplies	1,157,486
Rent	2,041,260
Depreciation and amortization	925,054
Travel and entertainment	782,998
Professional services	1,948,130
Repairs and maintenance	518,880
Other expenses	4,574,761
Total operating expenses	52,582,944
Income from continuing operations	5,877,646
Other expense - interest	(1,793,871)
Net earnings from continuing operations	4,083,775
Net earnings from discontinued operations (Note 13)	1,490,892
Net earnings	$ 5,574,667

See accompanying notes to the consolidated financial statements.

AMICARE BEHAVIORAL CENTERS, LLC AND SUBSIDIARIES

Consolidated Statement of Changes in Members' Equity

For the Year Ended December 31, 2011

	Member Contributions	Note Receivable from Member	Retained Earnings (Deficit)	Total Members' Equity
Balance at December 31, 2010	$ 19,791,988	$ (157,210)	$ (389,005)	$ 19,245,773
Distribution of membership interest (see Note 1(b))	(11,985,960)	—	—	(11,985,960)
Member contributions	700,000	—	—	700,000
Distributions to members	—	—	(3,341,754)	(3,341,754)
Net income	—	—	5,574,667	5,574,667
Balance at December 31, 2011	$ 8,506,028	$ (157,210)	$ 1,843,908	$ 10,192,726

See accompanying notes to the consolidated financial statements.

AMICARE BEHAVIORAL CENTERS, LLC AND SUBSIDIARIES

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2011

Cash flows from operating activities:	
Net earnings	$ 5,574,667
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation and amortization	1,295,683
Provision for doubtful accounts	1,417,330
Loss on disposal of property and equipment	32,571
Interest earned on note receivable from member	(7,861)
Change in fair value of interest rate swap liability	(65,791)
(Increase) decrease in operating assets, net of effects of distribution (see Note 1(b)):	
Receivables	(680,034)
Prepaid expenses	(168,017)
Other assets	825
Increase (decrease) in operating liabilities, net of effects of distribution (see Note 1(b)):	
Accounts payable	959,238
Accrued expenses	261,901
Total adjustments	3,045,845
Net cash provided by operating activities	8,620,512
Cash flows from investing activities:	
Proceeds from disposal of property and equipment	135,000
Purchases of property and equipment	(1,512,666)
Net cash used by investing activities	(1,377,666)
Cash flows from financing activities, net of effects of distribution (see Note 1(b)):	
Payment of loan costs	(71,010)
Payment on line-of-credit, net	(682,860)
Payments of long-term debt	(3,100,000)
Distributions to members	(3,185,913)
Distribution of membership interest (see Note 1(b))	(135,096)
Net cash used by financing activities	(7,174,879)
Increase in cash	67,967
Cash at beginning of year	690,345
Cash at end of year	$ 758,312

See accompanying notes to the consolidated financial statements.

(1) Nature of operations

(a) Organization

AmiCare Behavioral Centers, LLC and Subsidiaries (collectively, the "Company" or "AmiCare") was formed to provide comprehensive psychiatric treatment to children, adolescents and adults. The Company currently serves patients in Arkansas. The Company's corporate office is in Fayetteville, Arkansas.

(b) Distribution of membership interest

On August 1, 2011, two members of AmiCare redeemed 100% of their membership interest in the Company in exchange for a distribution of certain assets and liabilities. The assets and liabilities distributed on August 1, 2011 in exchange for their membership interest was as follows:

Cash	$ 135,096
Accounts receivable	1,646,489
Prepaid expenses	170,412
Property and equipment	7,141,893
Goodwill and other intangible	7,600,000
Accounts payable	(204,422)
Accrued expenses	(1,003,508)
Long term debt	(3,500,000)
	$ 11,985,960

(2) Summary of significant accounting policies

(a) Principles of consolidation

These consolidated financial statements include the accounts of all of the Company's wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

(b) Accounts receivable

The Company receives payment for services rendered from federal and state agencies (including Medicaid, Medicare and other state programs), private insurance carriers, managed care programs and patients. The Company states patient accounts receivable for services rendered at net realizable amounts. The Company manages receivables by regularly reviewing its accounts and contracts and by providing appropriate allowances for uncollectible amounts. The Company records an allowance for uncollectible accounts on a weighted scale based on days outstanding. As a service to the patients, AmiCare bills third-party payers directly and bills the patients when the patient's liability is determined. Patient accounts receivable are due in full when billed. Delinquent accounts are turned over to a third party collection agency, and any subsequent recoveries are recognized in the period received.

(c) Property and equipment

Property and equipment are stated at cost or fair value when contributed. Depreciation and amortization are provided over the assets' estimated useful lives using the straight-line method. Leasehold improvements are amortized over the shorter of their estimated lives or the respective lease term. Buildings and improvements are generally depreciated over thirty years while automobiles and furniture and fixtures are generally depreciated over five years.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation or amortization are removed from the accounts, and the resulting gain or loss is included in operations.

(d) Goodwill

The Company reviews goodwill for impairment on an annual basis or more frequently if impairment indicators arise. In the event goodwill is considered to be impaired, a charge to earnings would be recorded during the period in which management makes such impairment assessment.

(e) Loan costs

Loan costs are amortized on a straight-line basis over the term of the related loans.

(f) Net patient service revenue

Substantially all revenues of the Company are derived from comprehensive psychiatric treatment to residential, inpatient and outpatient patients. It is the Company's policy to recognize revenues as services are provided to patients. In accordance with professional standards, revenues are reported at the estimated net realizable amount from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future period as final settlements are determined.

Inpatient services rendered to Medicare and certain Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, subject to certain cost limitations. The Company is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Company and audit thereof by the Medicare and Medicaid fiscal intermediary. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based on defined allowable charges, and Medicare outpatient services are primarily paid under a prospective payment system. See Note 3 for revenue concentrations.

The Company has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment of the Company under these arrangements includes global payment rates, prospectively-determined rates per patient day and discounts from established charges.

The Company provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of costs recognized in the statements of operations for providing charity care aggregated approximately $100,000 in 2011. These costs were estimated based on the ratio of total costs to gross charges.

(g) Income taxes

The Company is organized as a limited liability company and is taxed as a partnership for federal and state income tax purposes. Under federal and state income tax provisions, the Company is not subject to income taxes on its taxable income. Instead, the Company's income and loss pass through to the members and are taxed at the individual level. Certain subsidiaries in Arkansas are subject to various state income taxes. State income taxes are not material to the Company.

Under generally accepted accounting principles, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax purposes not meeting the "more likely than not" test, no tax benefit is recorded. The Company has no material uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

As of December 31, 2011, the Company has accrued no interest and no penalties related to uncertain tax positions. It is the Company's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company files U.S. Federal and various state income tax returns. The Company is currently open to audit under that statute of limitations by the Internal Revenue Service and various states for the years ending after 2007.

(h) Advertising costs

Advertising costs are expensed as incurred.

(i) Equity incentive compensation

The Company has a unit option plan, which is described more fully in Note 11. Equity based compensation cost is measured at the grant date based upon the fair value of the award and is recognized as expense on a straight line basis over the requisite service period, which is generally the vesting period.

(j) Realization of long-lived assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(k) Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(l) Derivative instruments

The Company has derivative instruments which consist of interest rate swap arrangements entered into in order to hedge the variable interest rates associated with portions of its long-term debt. The swap arrangements involve an exchange of floating rate interest payments for fixed rate interest payments. The difference between the floating rate and the swap rate is recognized as a component of interest expense in the accompanying consolidated statements of operations.

(m) New accounting pronouncements

In September 2011, the Financial Accounting Standards Board ("FASB") issued accounting standards relating to goodwill and other intangibles. This guidance allows an entity the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test prescribed by current accounting standards. Under that option, an entity would no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on the qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. An entity can bypass the qualitative goodwill impairment test, and then resume performing the qualitative assessment in any subsequent period. These standards are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The adoption of this accounting standard is not expected to have a material impact on the Company's consolidated financial statements.

In July 2011, the FASB issued accounting standards that require changes in financial statement presentation and enhanced disclosures by health care entities that recognize significant amounts of patient service revenue at the time services are rendered without taking account of patients' ability to pay. These standards require health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, these entities will be required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. These changes have been reflected within the consolidated financial statements (see Note 14).

(n) Fair value measurements

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2011. The Company has derivative instruments that are classified as Level 2 liabilities since the fair value is based on modeling techniques that include inputs such as market volatilities, spot rates and interest differentials from published sources.

(o) Events occurring after reporting date

The Company has evaluated events and transactions that occurred between December 31, 2011 and December 3, 2012, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Credit risk and other concentrations

The Company may maintain cash on deposit at banks in excess of federally insured amounts. The Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk related to cash.

The Company grants credit without collateral to its patients, most of whom are individuals that are insured under third-party payor agreements. Concentration of credit risk relating to accounts receivable is limited to some extent by the diversity and number of patients and payors. The mix of net accounts receivable from patients and third-party payors as of December 31, 2011, was as follows:

Medicare	24%
Medicaid and other state programs	53%
Insurance	21%
Self pay	2%
	100%

Approximately 91% of net patient revenues in 2011 were derived under contractual agreements with certain government funded programs (principally Medicare and Medicaid).

(4) Note receivable from member

The Company has a note receivable from a member amounting to $157,210 as of December 31, 2011. The note bears interest at a fixed rate of 5% and is due April 1, 2017. The note was issued in exchange for equity. In accordance with accounting standards relating to classifying notes receivable for equity, the uncollected portion of the note receivable as of the date of the applicable report was reflected as a component of members' equity.

(5) Property and equipment

A summary of property and equipment as of December 31, 2011 is as follows:

Land	$ 1,518,280
Buildings and improvements	17,654,078
Leasehold improvements	647,449
Transportation equipment	136,975
Furniture and fixtures	1,200,013
Construction in progress	530,483
	21,687,278
Less accumulated depreciation and amortization	1,505,290
	$ 20,181,988

During 2011, the Company was in the process of constructing various expansions and additions to existing facilities. The estimated costs to complete these projects is approximately $585,000.

(6) Lines of credit

The Company has two lines of credit amounting to $4,000,000 available with two banks at December 31, 2011. Borrowings of $394,326, exclusive of checks drawn in excess discussed in the following paragraph, were outstanding under the lines of credit at December 31, 2011. Borrowings under the lines of credit bear interest, payable quarterly, at a variable interest rate equal to the base rate and applicable margin (5.28% at December 31, 2011). The lines of credit are secured by substantially all assets of the Company. The lines of credit mature in February 2014. The lines of credit place certain restrictions and limitations upon the Company (see Note 7).

Pursuant to the credit agreement, one of the banks mentioned above has made up to $2,000,000 of the commitment available pursuant to a swing line credit agreement. The total commitment available at any time is subject to borrowing base limitations as defined in the agreement. Borrowings of $394,326 were outstanding under this swing line of credit at December 31, 2011. Borrowings under the line of credit bear interest, payable quarterly, at a variable interest rate equal to the highest of the prime rate, federal funds effective rate plus 0.50% or LIBOR plus 1.25% (5.28% at December 31, 2011). Due to contractual provisions of the swing line of credit which allow for current receipts of the Company to reduce the outstanding balance, this portion of the obligation is classified as a short-term liability in accordance with generally accepted accounting standards. Since the swing line of credit agreement is drawn upon to satisfy disbursements clearing the operating account when sufficient cash is not available, management has included checks drawn in excess of cash balance totaling $816,488 at December 31, 2011 within this line of credit balance on the accompanying consolidated balance sheet.

(7) Long-term debt

A summary of long-term debt as of December 31, 2011 is as follows:

Term loan to bank; interest at a variable rate of ABR or Eurodollar rate plus the applicable margin (5.28% at December 31, 2011); variable quarterly principal and interest payments with all unpaid principal and interest due February 2014; secured by substantially all assets of the Company.	$ 21,575,000
Subordinated note payable to related party; interest at a variable rate of ABR or Eurodollar rate plus the applicable margin (5.28% at December 31, 2011); principal and interest due February 2014.	1,186,745
Total long-term debt	22,761,745
Less current installments	2,100,000
Long-term debt, excluding current installments	$ 20,661,745

A summary of approximate future maturities of long-term debt as of December 31, 2011, is as follows:

Year	
2012	$ 2,100,000
2013	2,700,000
2014	17,961,745
	$ 22,761,745

During 2007, AmiCare entered into an interest rate swap agreement to reduce or eliminate the risk associated with debt interest rate fluctuations. The swap had an original notional principal amount of $5,000,000 and expired on May 1, 2012. The remaining notional principal amount totaled $4,291,241 at December 31, 2011. Under the swap agreement, the Company paid interest at a fixed rate of 7.60% and received interest at the LIBOR rate plus 200 basis points. Due to interest rate fluctuations, the Company would have incurred a cost upon early termination or sale of the swap agreement. A liability thereon of $76,959 at December 31, 2011, has been reported in the accompanying consolidated financial statements. No costs were incurred at the termination of the swap in 2012.

During 2010, the Company entered into a second interest rate swap agreement to comply with the terms of a credit agreement the Company has with a bank. The swap has a remaining notional principal amount totaling $9,344,257 at December 31, 2011 and expires on February 28, 2014. Under the swap agreement, the Company pays interest at a fixed rate of 1.25% and receives interest at 1-month LIBOR. A liability thereon of $179,535 at December 31, 2011, has been reported in the accompanying consolidated financial statements.

Any change in the fair value of the interest rate swaps is included in interest expense in accordance with generally accepted accounting principles.

The provisions of the lines of credit (see Note 6) and the long-term debt require the maintenance of certain financial ratios. The Company was in compliance with all covenants as of December 31, 2011.

(8) Employee benefit plan

The Company sponsors a 401(k) plan covering substantially all employees. Company contributions are made at management's discretion. The Company contributed approximately $309,000 to the plan in 2011.

(9) Lease commitments

The Company utilizes various office space and equipment under operating leases, the majority of which are with related parties. Rent expense under these leases amounted to approximately $2,287,000 in 2011. A summary of approximate future minimum payments under these leases as of December 31, 2011 is as follows:

Year	
2012	$ 2,118,000
2013	2,098,000
2014	2,090,000
2015	2,088,000
2016	2,088,000
Thereafter	8,097,000
	$ 18,579,000

It is expected that in the normal course of business, leases that expire will be renewed or replaced by other leases; thus, it is anticipated that future lease payments will not be less than the commitments for 2012.

(10) Contingent liabilities

General liability

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on these financial statements.

Healthcare Industry

The delivery of personal and health care services entails an inherent risk of liability. Participants in the health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. The Company and its subsidiaries are insured with respect to medical malpractice risk on a claims-made basis. The Company also maintains insurance for general liability, director and officer liability and property. Certain policies are subject to deductibles. In addition to the insurance coverage provided, the Company indemnifies certain officers and directors for actions taken on behalf of the Company and its subsidiaries. Management is not aware of any claims against it or its subsidiaries which would have a material financial impact.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare fraud and abuse. Recently, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

Healthcare Reform

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (“collectively, the “Health Care Reform Legislation”). The Health Care Reform Legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements. Due to the complexity of the Health Care Reform Legislation, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. While the full impact of Health Care Reform Legislation is not yet fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the Company’s operations.

(11) Unit option plan

The Company has reserved 486,000 common units to be issued under the 2007 Option Plan (“the Plan”). The Plan is designed to promote the interest and long-term success of the Company by granting unit options to selected employees. The Plan is administered by a committee appointed by the Board of Directors (the “Committee”). Under the plan, the Committee has the sole discretion to grant unit options with exercise prices determined by the Committee at the time of grant but not less than the fair market value of the units at the date of grant. The unit option term and vesting period will be determined by the Committee at the date of grant. The unit options cannot be sold or transferred to any other party without consent of the Committee.

At December 31, 2011, the weighted-average exercise price of the outstanding units was approximately $1.59. The Company used the Black-Scholes-Merton formula to estimate the calculated value of the unit-based payments. Using this method, management has determined that the applicable compensation expense is immaterial and, accordingly, has not been recorded in the accompanying consolidated financial statements. Management does not expect future compensation expense related to existing and future unit options to be material to the consolidated financial statements. A schedule of the option activity is as follows:

	Number of shares
Balance, December 31, 2010	186,000
Granted	230,000
Exercised	—
Forfeited	163,000
Balance, December 31, 2011	253,000

(12) Supplemental disclosures of cash flow statement information

Interest paid	**$1,834,064**

During 2011, certain assets and liabilities of the Company were distributed to certain members in exchange for 100% of their membership interest in the Company (see Note 1(b)).

During 2011, certain members contributed $700,000 to the Company by paying down outstanding long-term debt.

During 2011, the Company recorded distributions to members in the amount of $155,841 related to the release of certain receivables.

(13) Discontinued operations

Generally accepted accounting principles require that all components of an entity that have been disposed of (by sale, by abandonment or in a distribution to owners) or are held for sale and whose cash flows can be clearly distinguished from the rest of the entity be presented as discontinued operations. The results of operations of certain facilities divested on August 1, 2011 as discussed in Note 1(b) were not segregated and reported as discontinued operations in the Company's previously audited statement of operations, dated April 26, 2012. The operations of the divested facilities have been reported as discontinued operations in the accompanying consolidated financial statements as restated.

A summary of results from discontinued operations is as follows:

Net patient revenues	**$ 11,500,000**
Net earnings from discontinued operations	**$ 1,491,000**

(14) Subsequent event

On November 23, 2012, the members of the Company entered into an agreement with Acadia Healthcare Company, Inc. ("Acadia") whereby Acadia will acquire all of the membership interests of the Company for approximately $113.0 million of cash consideration. The acquisition is expected to close by December 31, 2012.

Certain reclassifications have been made to the accompanying consolidated financial statements in order for them to conform to the presentation of other financial statements of the Company included in a registration filing. These reclassifications had no effect on net earnings or members' equity as previously reported.

Exhibit 99.4

Report of Independent Auditors

The Board of Directors of
Acadia Healthcare Company, Inc.

We have audited the accompanying combined balance sheets of Haven Hospital Holdings, LLC and Haven Hospital Holdings of Texas, LLC (the Entities) as of December 31, 2011 and 2010, and the related combined statements of income, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Entities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Entities' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entities' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Entities at December 31, 2011 and 2010, and the combined results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

April 26, 2012

Haven Hospital Holdings, LLC and Haven Hospital Holdings of Texas, LLC
Combined Balance Sheets

	December 31, 2011	December 31, 2010
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 52	$ 563
Accounts receivable, less allowance for doubtful accounts of $906 in 2011 and $816 in 2010	4,008	3,584
Deferred tax asset	783	818
Other current assets	337	387
Total current assets	5,180	5,352
Property and equipment:		
Land	3,155	3,152
Buildings and improvements	16,319	16,137
Equipment	2,942	2,730
Construction in progress	48	33
	22,464	22,052
Less accumulated depreciation and amortization	(4,882)	(3,788)
Net property and equipment	17,582	18,264
Goodwill	22,600	22,600
Other assets	1	2
Total assets	$45,363	$46,218
Liabilities and members' equity		
Current liabilities:		
Accounts payable	$ 832	$ 769
Accrued salaries and benefits	1,429	1,615
Fair value of derivative financial instrument	194	—
Due to parent	19,791	27,724
Other accrued liabilities	25	23
Total current liabilities	22,271	30,131
Fair value of derivative financial instruments	—	470
Deferred income taxes liability	2,737	2,194
Total liabilities	25,008	32,795
Members' equity:		
Common units, $1 par value; authorized: 200 units; issued and outstanding 200 units	—	—
Retained earnings	20,355	13,423
Total members' equity	20,355	13,423
Total liabilities and members' equity	$45,363	$46,218

See accompanying notes.

Haven Hospital Holdings, LLC and Haven Hospital Holdings of Texas, LLC
Combined Income Statements

	Year Ended December 31, 2011	2010
	(In Thousands)	
Revenue:		
Patient service revenue	$ 41,983	$ 40,992
Provision for doubtful accounts	1,458	1,063
Net patient service revenue	40,525	39,929
Other revenue	1,465	1,466
Total revenue	41,990	41,395
Expenses:		
Salaries and wages	18,913	18,127
Employee benefits	2,478	2,349
Professional fees	1,374	1,271
Supplies	2,819	2,835
Rentals and leases	171	159
Other operating expenses	4,119	3,978
Depreciation and amortization	1,046	1,152
Interest expense, net	343	1,115
Change in fair value of derivative financial instrument	(276)	41
Loss on debt extinguishment	—	272
Total expenses	30,987	31,299
Income before income taxes	11,003	10,096
Income tax expense	4,071	3,841
Net income	$ 6,932	$ 6,255

See accompanying notes.

Haven Hospital Holdings, LLC and Haven Hospital Holdings of Texas, LLC
Combined Statements of Members' Equity
(Dollars in Thousands)

	Common Units		Retained	
	Units	Amount	Earnings	Total
Balance, January 1, 2010	200	$ —	$ 7,168	$ 7,168
Net income		—	6,255	6,255
Balance, December 31, 2010	200	—	13,423	13,423
Net income		—	6,932	6,932
Balance, December 31, 2011	200	$ —	$20,355	$20,355

See accompanying notes.

Haven Hospital Holdings, LLC and Haven Hospital Holdings of Texas, LLC
Combined Statements of Cash Flows

	Year Ended December 31, 2011	2010
	(In Thousands)	
Operating activities		
Net income	$ 6,932	$ 6,255
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,046	1,152
Amortization of deferred financing costs	—	72
Loss on debt extinguishment	—	272
Income taxes	4,071	3,841
Change in fair value of derivative financial instrument	(276)	41
Gain on sale of property and equipment	6	—
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(424)	596
Other assets	51	443
Accounts payable and accrued liabilities	(121)	(435)
Due to/from parent	(11,426)	8,612
Net cash provided by (used in) operating activities	(141)	20,849
Investing activities		
Purchases of property and equipment	(370)	(1,019)
Net cash used in investing activities	(370)	(1,019)
Financing activities		
Principal payments on long-term debt	—	(20,144)
Net cash used in financing activities	—	(20,144)
Decrease in cash and cash equivalents	(511)	(314)
Cash and cash equivalents at beginning of year	563	877
Cash and cash equivalents at end of year	$ 52	$ 563
Supplemental cash flows information		
Interest paid	$ 343	$ 1,129

See accompanying notes.

1. Description of the Business and Summary of Significant Accounting Policies

Organization and Basis of Presentation

Haven Behavioral Healthcare Holdings, LLC was formed in June 2006 as a Delaware limited liability entity to acquire and hold 100% of the capital stock of Haven Behavioral Healthcare, Inc. and its affiliates (collectively "Haven" or "Parent") and to acquire, develop and manage behavioral healthcare facilities. Haven Behavioral Healthcare, Inc. through its affiliates is the parent of, among other affiliates, Haven Hospital Holdings, LLC and Haven Hospital Holdings of Texas, LLC. Effective March 1, 2012, Haven sold all of the equity interests of the following (collectively referred to herein as the "Entities") to Hermitage Behavioral, LLC, a subsidiary of Acadia Healthcare Company, Inc.:

Haven Hospital Holdings, LLC

Haven Hospital Holdings, LLC (Haven Holdings) owns the following companies:

Haven Behavioral Services of Tucson, LLC (Sonora) operates a 56-bed acute behavioral facility in Tucson, Arizona providing inpatient behavioral health treatment services for children, adolescents and adults and intensive outpatient chemical dependency treatment services for adults.

Haven Rolling Hills Hospital, Inc. (Rolling Hills) operates a 44-bed acute behavioral facility in Ada, Oklahoma providing inpatient behavioral health treatment services for adults.

Haven Rolling Hills Properties, Inc. (Rolling Hills Properties) is an entity established solely for the purpose of holding the property and equipment of Rolling Hills and the related debt issued under a U.S. Department of Housing and Urban Development financing program. Refer to Note 2.

Haven Hospital Holdings of Texas, LLC

Haven Hospital Holdings of Texas, LLC owns Haven Red River Hospital, LLC (Red River), which operates a 66-bed acute behavioral facility in Wichita Falls, Texas, providing inpatient and outpatient behavioral health treatment services for children, adolescents and adults.

The accompanying financial statements include the combined financial position and combined results of operations of the Entities. All significant intercompany balances and transactions have been eliminated in the preparation of the accompanying combined financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of all liquid investments with a maturity of three months or less when purchased.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, the Entities evaluate their estimates. The Entities base their estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Accounts Receivable (and Related Allowance for Doubtful Accounts)

The Entities report accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. Contractual adjustments are recorded at the time of billing and accrued on all unbilled accounts.

The Entities provide an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Entities bill third-party payers directly and bill the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off to the allowance based on individual credit evaluation and specific circumstances of the account. Collection agencies are used to exhaust all collection efforts.

A summary of activity in the Entities' allowance for doubtful accounts is as follows:

	Balances at Beginning of Period	Additions Charged to Net Patient Service Revenue	Accounts Written Off, Net of Recoveries	Balances at End of Period
Allowance for doubtful accounts:				
Year ended December 31, 2011	$ 816	$ 1,458	$ 1,368	$ 906
Year ended December 31, 2010	$ 969	$ 1,063	$ 1,216	$ 816

Inventories

Inventories consist primarily of pharmaceuticals and supplies and are stated at the lower of cost or market. Inventory costs are determined using the first-in, first-out (FIFO) method. Inventories were $141 and $140 as of December 31, 2011 and 2010, respectively. These balances are included in other current assets in the accompanying balance sheets.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization is computed by applying the straight-line method over the lesser of the estimated useful lives of the assets or lease terms. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase values, change capacities or extend useful lives are capitalized.

Goodwill

Goodwill represents the excess of costs over fair value of assets of businesses acquired. In accordance with Accounting Standard Codification (ASC) Topic 350, *Intangibles – Goodwill and Other*, goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are subject to annual impairment tests. The Entities are one reporting unit for purposes of the impairment test. The fair value of the reporting unit is compared to its carrying amount on at least an annual basis to determine if there is potential impairment. If the fair value is less than carrying value, the fair value of the reporting unit is assigned to its respective assets and liabilities, including goodwill.

An impairment charge is recorded if the implied fair value of goodwill is determined to be less than its carrying value. No goodwill impairments were recognized during the years ended December 31, 2011 and 2010.

Deferred Financing Costs

Deferred financing costs relate solely to the term loan held by Red River. Financing costs related to the Red River term loan are deferred and amortized over the life of the related debt using the effective interest method.

Income Taxes

Haven files a consolidated tax return as a “C” Corporation for all of its affiliates, including the Entities. Rolling Hills and Rolling Hills Properties are also “C” Corporations, while the remaining Entities are Limited Liability Companies (LLC), which are disregarded for tax purposes under the provisions of IRS Code and similar sections of applicable states’ income tax law.

Deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more-likely-than-not that a deferred tax asset will not be realized. Haven follows ASC Topic 740, *Income Taxes*. Only tax positions that meet the more-likely-than-not recognition threshold may be recognized. The final outcome of audits by federal and state taxing authorities may have a significant effect on the financial position and results of operations of the Entities. As a result, the Entities did not derecognize any previously recognized tax benefits.

Net Patient Service Revenue (and Related Allowance for Contractual Discounts)

Net patient service revenue is recorded on the accrual basis in the period in which services are provided. Net patient service revenue includes amounts estimated by management to be reimbursable by Medicare, Medicaid and other payers under provisions of cost or prospective reimbursement formulas in effect. Amounts received are generally less than the established billing rates and the differences (contractual discounts) are reported as deductions from gross charges to arrive at patient service revenue at the time the service is rendered. The effects of other arrangements for providing services at less than established rates, including certain self-pay discounts provided to uninsured patients, are reported as deductions from patient service revenue.

Revenue is recorded based upon the estimated amounts due from Medicare, Medicaid and other payers. The Entities estimate contractual discounts on a payer-specific basis based on their interpretation of the applicable regulations or contract terms and the historical collections of each payer. Changes in estimates related to contractual discounts affect patient service revenue reported in the Entities’ results of operations and are recorded in the period the change in estimate occurs.

Settlements under cost-based reimbursement agreements with third-party payers are estimated and recorded in the period in which the related services are rendered and are adjusted in future periods as final settlements are determined. Final determination of amounts earned under the Medicare, Medicaid and other third-party payer programs often occurs in subsequent years because of audits performed by the programs, rights of appeal, and the application of numerous technical provisions. Estimated amounts due from third-party payers were $326 and $196 at December 31, 2011 and 2010, respectively, and are included in accounts receivable in the accompanying balance sheets.

The Entities' patient service revenue by payor type as a percentage of total patient service revenue for the years ended December 31 is as follows:

	2011	2010
Medicare	42%	40%
Medicaid	5	7
Other governmental programs	29	31
Self-pay	2	2
Managed care and other insurers	22	20
Total patient service revenue	100%	100%

Final determination of amounts earned under prospective payment and cost-based reimbursement activities is subject to review by appropriate governmental authorities or their agents. Net patient service revenue derived under the Medicare and Medicaid programs for which reimbursement is generally less than the Entities' established rates was approximately 47% of net patient revenue for the years ended December 31, 2011 and 2010. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation.

The Entities provide care without charge to patients who are financially unable to pay for the healthcare services they receive based on the Entities' charity care program. The costs of providing charity care services were $34 and $33 for the years ended December 31, 2011 and 2010, respectively.

Other Revenue

Other revenue is comprised primarily of revenue for management services provided by Sonora to a certain not-for-profit corporation which has a contract with the Community Partnership of Southern Arizona, the Regional Behavioral Health Authority, to operate an adolescent crisis stabilization and respite unit in Tucson, Arizona.

Recently Issued Accounting Pronouncements

During 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-24, *Health Care Entities: Presentation of Insurance Claims and Recoveries,* which provides clarification to companies in the healthcare industry on the accounting for professional liability insurance. ASU 2010-24 states that insurance liabilities should not be presented net of insurance recoveries and that an insurance receivable should be recognized on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible accounts. ASU 2010-24 is effective for fiscal years beginning after December 15, 2010 and was adopted by the Entities' on January 1, 2011. The adoption of this standard had no impact on the Entities' financial statements.

During 2010, the FASB issued ASU No. 2010-23, *Health Care Entities: Measuring Charity Care for Disclosure*, which standardizes cost as the basis for charity care disclosures. The Entities estimate their cost of care provided under its charity care program utilizing a ratio of cost to gross charges multiplied by the gross charity care charges. The ratio of cost to gross charges is based on total operating expenses for the Entities divided by gross patient revenue. Previously the Entities reported their estimates of services provided under their charity care programs based on gross charges. The adoption of ASU 2010-23 had no impact on the Entities' financial statements.

During 2011, the FASB issued ASU No. 2011-08 *Intangibles-Goodwill and Other* (Topic 350): *Testing Goodwill for Impairment* (ASU 2011-08). ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test as described in Topic 350. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. In accordance with ASU 2011-08, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. Additionally, ASU 2011-08 permits an entity to resume performing the qualitative assessment in any subsequent period. ASU 2011-08 is effective for annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Entities have not adopted the provisions of ASU 2011-08 as of December 31, 2011. The adoption is not expected to have an impact to the Entities' financial statements.

During 2011, the Entities adopted the provisions of ASU No. 2011-07 *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07). ASU 2011-07 requires health care entities to change the presentation for the statement of operations by reclassifying the provision for doubtful accounts related to patient service revenue from an operating expense to a deduction from patient service revenue. ASU 2011-07 is required to be applied retrospectively effective for non-public entities for fiscal years ending after December 15, 2012, with early adoption permitted. The Entities have adopted the provisions of 2011-07.

2. Long-Term Debt

Haven 2010 Credit Agreements

In 2010, Haven entered into a new senior secured credit agreement ("2010 Senior Credit Agreement") and second lien credit agreement ("2010 Second Lien Credit Agreement"). The credit facilities are secured by substantially all assets of Haven. Haven used a majority of the proceeds to pay off its existing debt. In connection with the 2010 Senior Credit Agreement and 2010 Second Lien Credit Agreement, $272 of unamortized deferred financing costs from the Entities' previous existing credit agreements were written off and recorded as loss on debt extinguishment in the accompanying combined income statement.

Previous Credit Agreements

The previous credit agreements, which were paid in full on October 12, 2010, included the following:

- First lien note payable on Haven Holdings; principal payable in monthly installments of $15; interest payable in monthly installments based on the Eurodollar Rate plus 3.75%.

- First lien mortgage payable on Rolling Hills Properties; principal payable in monthly installments of $32, including interest at 6.85%.
- First lien note payable on Red River; principal payable in monthly installments ranging from $26 to $45 with a balloon payment of $10,500 due June 2012; interest payable in monthly installments based on Adjusted LIBOR plus a margin of indebtedness to EBITDA as defined in the respective agreement.
- Revolving line of credit in the amount of $4,000 collateralized by substantially all assets of Haven Holdings; interest payable in monthly installments based on the Eurodollar Rate plus 3.75%.

3. Derivative Financial Instrument

Haven and its affiliates periodically enter into interest rate swap agreements to manage their exposure to the risk of changes in future cash flows due to interest rate fluctuations. During 2009, Red River entered into an interest rate swap agreement for a notional amount of $12,000. Under the terms of the agreement, Red River receives a floating interest rate equal to one month LIBOR and pays a fixed interest rate of 3.09%.

The interest rate swap agreement is recorded at fair value and was deemed ineffective. Accordingly, changes in fair value are included in net income in the financial statements. The fair value of the Red River swap agreement was a liability of $194 and $470 at December 31, 2011 and 2010, respectively. The changes in the fair value of the swap agreement were $276 of income and $41 of expense for the years ended December 31, 2011 and 2010, respectively.

The interest rate swap agreement was terminated effective February 24, 2012. Refer to Note 10 for further discussion.

4. Members' Equity

Haven Hospital Holdings, LLC and Haven Hospital Holdings of Texas, LLC each had 100 common units outstanding at December 31, 2011 and 2010. The holders of the units are entitled to one vote per unit on all matters to be voted on by the members.

5. Income Taxes

The Entities' effective income tax rate differs from the statutory federal income tax rate of 34% primarily as a result of state income taxes, nondeductible expenses and amortization of goodwill for income taxes.

The tax effects of temporary differences related to deferred taxes shown on the balance sheet are:

	2011	2010
Deferred tax assets:		
Allowance for doubtful accounts	$571	$439
Charitable donations	6	4
Accrued compensated absences and bonuses	274	339
Change in fair value of interest rate swap agreements	66	160
	917	942

Deferred tax liabilities:		
Depreciation	971	946
Prepaid expenses	77	74
Goodwill	1,672	1,151
481(a) Adjustment	95	98
Non accrual experience method	56	49
	2,871	2,318
Net deferred tax liability	$1,954	$1,376

In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the positive and negative evidence from all sources including historical operating results, prudent and feasible tax planning strategies and projections of future taxable income.

Haven and its affiliates are currently under federal tax examination for 2009. The Entities are no longer subject to federal, state or local income tax examinations by taxing authorities before 2006.

The Entities will recognize the impact of a tax position in the financial statements if that position is more likely than not of being sustained on audit based on the technical merits of the position. As of December 31, 2011, the Entities had no unrecognized tax benefits. Penalties and interest are recorded to income tax expense; however, the Entities have no amounts recorded.

The Entities are jointly and severally liable with Parent for U.S. income taxes. Taxes that are determined on a combined basis are presented as though the reporting group filed on a separate basis. Taxes have been allocated to both corporations and LLCs in the reporting group. Amounts due to Parent using this basis were $9.0 million and $5.6 million at December 31, 2011 and 2010, respectively.

6. Employee Retirement Plan/Profit-sharing Plan

Haven sponsors a defined contribution plan that provides for discretionary employer contributions and for optional employee contributions. All employees who meet minimum age and service requirements are eligible to participate in the plan. The plan contains provisions for employer matches of employee contributions up to certain rates of employee contributions. There were no employer contributions made during the years ended December 31, 2011 and 2010.

7. Commitments and Contingencies

Contingencies

The Entities are presently, and from time to time, subject to various claims and lawsuits arising in the normal course of business. In the opinion of the Entities' management, the ultimate resolution of known matters will not have a material adverse effect on the Entities' financial position or results of operations.

Healthcare Regulations

Laws and regulations governing the Medicare and Medicaid and other federal health care programs are complex and subject to interpretation. The Entities' management believes that the Entities are in compliance with all applicable laws and regulations in all material respects and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare, Medicaid and other federal health care programs.

Professional Liability Coverage and Claims – Deferred Risk Liability

Haven maintains claims-made commercial insurance related to professional liability risks for its affiliates. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The Entities are not aware of any unasserted claims or unreported incidents which are expected to exceed malpractice insurance coverage limits as of December 31, 2011.

Acquisitions

The Entities acquired businesses with prior operating histories. Acquired companies may have unknown or contingent liabilities, including liabilities for failure to comply with health care laws and regulations, such as billing and reimbursement, fraud and abuse and anti-kickback laws. Although the Entities institute policies designed to conform practices to its standards following completion of acquisitions, there can be no assurance that the Entities will not become liable for the past activities of these acquired facilities that may later be asserted to be improper by private plaintiffs or government agencies. Although the Entities generally seek to obtain indemnification from prospective sellers covering such matters, there can be no assurance that any such matter will be covered by indemnification, or if covered, that such indemnification will be adequate to cover potential losses and fines.

Current Economic Conditions

The current protracted economic decline continues to present healthcare organizations with difficult circumstances and challenges, which in some cases have resulted in declines in volume of business and constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Entities.

Some of the Entities' patients are covered by government sponsored Medicare, Medicaid or other governmental programs. The effect of the current economic conditions on government budgets may have an adverse effect on the cash flow from these programs. Further, economic conditions have made it difficult for certain of the Entities' patients to pay for services rendered. As employers make adjustments to health insurance plans, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Entities' future operating results.

In addition, given the current protracted economic conditions, the value of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts receivables, realization of deferred tax assets and valuation of goodwill that could negatively impact the Entities' future financial position and results of operations.

Operating Leases

Noncancellable operating leases for equipment expire in various years through 2014. Future minimum lease payments at December 31, 2011, were:

2012	$ 91
2013	43
2014	14
	$148

Rent expense under the operating leases was $171 and $159 for the years ended December 31, 2011 and 2010, respectively.

8. Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurement*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the inputs and valuation methodologies used for liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such liabilities pursuant to the valuation hierarchy. As of December 31, 2011 and 2010, the only liability measured at fair value on a recurring basis in the accompanying balance sheets is the interest rate swap agreement.

Interest Rate Swap Agreement

The fair value of the interest rate swap agreement is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following table presents the fair value measurements of liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the ASC Topic 820 fair value hierarchy in which the fair value measurements fall:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2011:				
Interest rate swap agreement liability	$ 194	$ —	$ 194	$ —
December 31, 2010:				
Interest rate swap agreement liability	$ 470	$ —	$ 470	$ —

The interest rate swap agreement was terminated on February 24, 2012. Refer to Note 10 for further discussion.

Other Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short-term nature of these items.

9. Related Party Transactions

During 2011 and 2010, Haven provided patient financial services to Rolling Hills and Sonora. Costs of providing patient financial services allocated to Rolling Hills and Sonora were $202 and $199 for the years ending December 31, 2011 and 2010, respectively. In addition, Haven maintains a centralized cash processing system. Amounts reported as due to related parties represent the extent that acquisition costs, capital expenditures, debt extinguishment and operating expenses paid by Haven exceed the cash receipts received by Haven from the Entities. Any outstanding amounts due to Haven were forgiven in connection with the sale of the Entities effective March 1, 2012.

10. Subsequent Events

Subsequent events have been evaluated through April 26, 2012, which is the date the financial statements were available for issuance.

On January 17, 2012, the Centers for Medicare and Medicaid Services (CMS) approved the State of Oklahoma’s Supplemental Hospital Offset Payment Program (SHOPP) with an effective date of July 1, 2011. The legislation related to the SHOPP Program was signed into law by the Governor of Oklahoma on May 13, 2011, but subject to approval by CMS. The SHOPP program allows for the establishment of a hospital provider fee assessment on all non-exempt Oklahoma hospitals. Revenues from this assessment will be used to maintain hospital reimbursement from the Oklahoma SoonerCare Medicaid program and secure additional matching Medicaid funds from the federal government. Rolling Hills Hospital was assessed $247 for the program fiscal year ending June 30, 2012 and expects to receive $467 in supplemental revenues, resulting in $220 of additional net income from continuing operations before income taxes. Rolling Hills Hospital did not record any revenue or expense associated with the period of July 1, 2011 through December 31, 2011 in the accompanying financial statements for the year ended December 31, 2011 because CMS did not approve SHOPP until January 17, 2012. This approval was necessary to meet the revenue recognition criterion that persuasive evidence of an arrangement exists. SHOPP assessment expenses and supplemental revenue related to July 1, 2011 through December 31, 2011 totaled $123 and $233, respectively, resulting in $110 of additional net income from continuing operations before income taxes, and will be recorded in the first quarter of 2012.

Effective February 24, 2012, Red River terminated its interest rate swap agreement. The termination of the agreement resulted in a payment of $144 to the counterparty.

Effective March 1, 2012, Haven sold all equity interests of the Entities for approximately $91,000 subject to a working capital settlement. Any liabilities incurred prior to the sale related to professional and general liability claims and workers' compensation claims were retained by Haven.

Exhibit 99.5

YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	QUARTER ENDED MARCH 31, 2011 (Unaudited)	YEAR ENDED DECEMBER 31, 2010
	(Amount in thousand)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 4,009	$ 5,307
Patient accounts receivable, net of allowances for doubtful accounts of $964 and $1,215, respectively.	17,736	16,693
Deferred tax assets	1,514	1,499
Prepaid expenses and other current assets	1,899	2,093
Total Current Assets	25,158	25,592
Property and equipment, net	26,379	26,457
Goodwill	133,974	133,974
Other intangibles, net of accumulated amortization of $6,538 and $6,909, respectively.	28,752	29,081
Debt issuance costs, net of accumulated amortization of $3,593 and $3,423, respectively.	1,330	1,500
Other noncurrent assets	1,016	926
Total Assets	$ 216,609	$ 217,530
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 3,028	$ 3,666
Accrued salaries and wages	5,248	6,417
Other accrued expenses	5,405	4,439
Current maturities of long-term debt	1,248	1,247
Total Current Liabilities	14,929	15,769
Senior secured notes	52,281	54,071
Senior subordinated notes	30,775	30,755
Deferred tax liability	12,546	12,261
Other noncurrent liabilities	1,896	2,548
Total Liabilities	112,427	115,404
Stockholders' Equity		
Series A Convertible Preferred Stock, $.0001 par value, 90,000,000 shares authorized, 83,609,009, issued and outstanding at March 31, 2011 and December 31, 2010, respectively.	8	8
Series B Convertible Preferred Stock, $.0001 par value, 90,000,000 shares authorized, none issued and outstanding at March 31, 2011 and December 31, 2010, respectively.	—	—
Redeemable Preferred Stock, $.0001 par value, 90,000,000 shares authorized, none issued and outstanding at March 31, 2011 and December 31, 2010, respectively.	—	—
Common stock, $.0001 par value, 105,000,000 shares authorized, 85,398 issued and outstanding at March 31, 2011 and December 31, 2010, respectively.	—	—
Additional paid-in capital	100,183	99,577
Retained earnings	3,991	2,541
Total Stockholders' Equity	104,182	102,126
Total Liabilities and Stockholders' Equity	$ 216,609	$ 217,530

See Notes to Consolidated Financial Statements

YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

	QUARTER ENDED MARCH 31, 2011	QUARTER ENDED MARCH 31, 2010
	(Amount in thousand) (Unaudited)	
Net Operating Revenues	$ 45,686	$ 45,489
Expenses:		
Salaries and benefits	29,502	27,813
Other operating expenses	9,914	8,945
Provision for bad debts	208	56
Interest and amortization of debt costs	1,726	1,954
Depreciation and amortization	819	914
Total Expenses	42,169	39,682
Income from continuing operations	3,517	5,807
Gain on the sale of assets	7	1
Income from continuing operations before income taxes	3,524	5,808
Provision for income taxes	1,404	2,267
Income from continuing operations	2,120	3,541
Discontinued Operations:		
Loss from operations and abandonment of discontinued facility	(106)	(247)
Income tax benefit	42	96
Loss from discontinued operations	(64)	(151)
Net Income	$ 2,056	$ 3,390

See Notes to Consolidated Financial Statements

YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	QUARTER ENDED MARCH 31, 2011	QUARTER ENDED MARCH 31, 2010
	(Amount in thousand) (Unaudited)	
Cash Flows from Operating Activities		
Net income	$ 2,056	$ 3,390
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	269	259
Depreciation and amortization	819	951
Gain on the sale of fixed assets	(7)	(1)
Amortization of discount on debt and other financing costs	215	183
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,044)	(3,120)
Prepaid expenses and other assets	72	247
Accounts payable and accrued expenses	(1,494)	4,728
Net Cash Provided by Operating Activities	886	6,637
Cash Flows from Investing Activities		
Purchases of property and equipment	(403)	(78)
Proceeds from the sale of fixed assets	8	1
Net Cash Used in Investing Activities	(395)	(77)
Cash Flows from Financing Activities		
Payments on senior term loan	(1,800)	(13,300)
Other long-term borrowings/(payments)—net	11	15
Net Cash Used in Financing Activities	(1,789)	(13,285)
Net Change in Cash and Cash Equivalents	(1,298)	(6,725)
Cash and Cash Equivalents at Beginning of Period	5,307	15,294
Cash and Cash Equivalents at End of Period	$ 4,009	$ 8,569
Interest Paid	$ 585	$ 580
Income Taxes Paid	$ 65	$ 838

See Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Note 1—Basis of Presentation

The Company has prepared the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The accompanying consolidated financial statements and notes thereto are unaudited. In the opinion of the Company's management, these statements include all adjustments, which are of a normal recurring nature, necessary to fairly present our financial position at March 31, 2011 and December 31, 2010, and the results of our operations and cash flows for the three month periods ended March 31, 2011 and March 31, 2010. The Company's fiscal year ends on December 31 and interim results are not necessarily indicative of results for a full year or any other interim period. The information contained in these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report for the fiscal year ended December 31, 2010.

The Company was sold on April 1, 2011(See Note 8).

New Accounting Pronouncements:

In August 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-24, which provides clarification to companies in the healthcare industry on the accounting for malpractice claims or similar contingent liabilities. This ASU states that an entity that is indemnified for these liabilities shall recognize an insurance receivable at the same time that it recognizes the liability, measured on the same basis as the liability, subject to the need for a valuation allowance for uncollectible amounts. This ASU also discusses the accounting for insurance claims costs, including estimates of costs relating to incurred-but-not-reported claims and the accounting for loss contingencies. Receivables related to insurance recoveries should not be netted against the related claim liability and such claim liabilities should be determined without considering insurance recoveries. This ASU is effective for fiscal years beginning after December 15, 2010 and was adopted by the Company in the first quarter of 2011. The adoption of this ASU did not have a significant impact on the Company's consolidated financial statements.

Note 2—Acquisitions and Dispositions

Closed Operations:

In a previous year, the Company determined that a psychiatric hospital in New Mexico and a residential treatment center in Ohio no longer provided a benefit to the Company and terminated the operations. The continuing operating expenses for these facilities were not significant and did not have a material impact on the Company's consolidated financial statements, for the periods ended March 31, 2010 and 2011.

In June 2009, the Company temporarily suspended the operations at one of its Arizona facilities in response to the economic crisis and related funding issues within the state, as well as, certain environmental problems at the facility. The Company has eliminated the environmental problem and believes the state will take appropriate action to resolve its financial issues. With the new directions the Company has identified in areas of outpatient treatment care services and targeting programs that will meet community needs and the state's push for new care alternatives, our intent is to re-open the facility, within the next six to twelve months, at a time when the state's economic situation has improved and a strong referral base could once again be established. The continuing operating expenses for this facility are not significant and will not have a material impact on the Company's consolidated financial statements.

Discontinued Operations:

There were no discontinued operations for the years ended December 31, 2008 and 2009.

In October 2010, the Company was notified by the Agency for Health Care Administration that it was discontinuing the Statewide Inpatient Psychiatric Program (SIPP) contract at its Tampa Bay facility. Subsequent appeals with the Florida Medicaid Bureau were, eventually, denied. The notice of termination which was to be effective, on December 15, 2010, was subsequently withdrawn as the Company voluntarily terminated the contract. The loss of this contract generated a severe financial impact on the facility to the extent the Company decided to terminate operations effective December 31, 2010.

In connection with closing the facility, we recorded a charge for impaired assets, which were, principally, two group homes, leasehold improvements and furniture and equipment, in the amount of, approximately, $1,100,000 and exit costs of, approximately, $2,500,000 for the year ended December 31, 2010.

Note 3—Property and Equipment

The components of property and equipment are as follows *(amounts in thousands)*:

	MARCH 31, 2011 (Unaudited)	DECEMBER 31, 2010
Land and improvements	$ 5,423	$ 5,423
Buildings and improvements	28,693	28,521
Furniture, fixtures and equipment	9,197	8,990
Total property and equipment	43,313	42,934
Less: accumulated depreciation	(16,934)	(16,477)
Property and equipment, net	$ 26,379	$ 26,457

Note 4—Intangible Assets

Other intangible assets are comprised of the following: *(amounts in thousands)*

	MARCH 31, 2011		DECEMBER 31, 2010	
	GROSS AMOUNT	ACCUMULATED AMORTIZATION	GROSS AMOUNT	ACCUMULATED AMORTIZATION
	(Unaudited)			
Amortizable intangible assets:				
Customer Relationships	$11,900	$ 6,470	$11,900	$ 6,142
Covenants not to compete	70	68	770	767
Unamortizable intangible assets:				
Trade names	13,620	—	13,620	—
Certificates of need	9,700	—	9,700	—
Total	$35,290	$ 6,538	$35,990	$ 6,909

Note 5—Senior and Subordinated Debt

The Company has a credit agreement with a syndication of lenders who provided the Company with up to $170.0 million. The Credit Agreement provided for a term loan for up to $120.0 million, expiring in July 2013 and a revolving credit facility for up to $25.0 million, expiring in July 2012.

The Term Loan and the Revolving Loan are guaranteed by the Company's subsidiaries and the Company has granted a first priority security interest in the capital stock and related assets of those subsidiaries.

Our Senior Secured Credit Agreement requires the Company to make additional principal payments, subject to step-down based on total leverage levels, of the Company's defined excess cash flow. The Company made excess cash flow payments in the amount of approximately $1.8 million in 2011, and $13 million in 2010, in order to remain in compliance with its debt covenants.

The agreement provides that the Company, at its option, may elect that all or part of the term loan and the revolving loan bear interest at a rate per annum equal to the banks applicable Alternate Base Rate or LIBOR Rate, as these terms are defined in the credit agreement. The applicable Alternate Base Rate or LIBOR Rate will be increased by an applicable margin related to each type of loan.

The interest rates applicable to the Senior Term Loan ranged, primarily, from 4.01% to 4.02% and 3.99% to 5.75% for the periods ended March 31, 2011 and 2010, respectively.

Additionally, the Company pays a commitment fee, at the rate of 0.50% per year, on the unused portion of the revolving credit facility and, at March 31, 2011 and December 31, 2010, had no borrowings outstanding.

Senior Unsecured Subordinated Notes:

The Company has outstanding Senior Subordinated Notes in the amount of $31.0 million bearing interest at the rate of 12.0% per year, payable quarterly, with the principal balance due and payable on January 19, 2014. Additionally, the Company issued warrants to purchase 4,041,689 shares of the Company's common stock at an exercise price of $0.01 per share having an estimated value of approximately $768,000 based upon the fair value of the underlying common shares. The amount allocated to the warrants has been recorded in the accompanying consolidated financial statements as a discount on the Senior Subordinated Notes and the amortization is included in interest expense. The warrants shall be exercisable at any time, in whole or part, into Common Stock of the Company prior to May 28, 2014 (the "Warrant Expiration Date"). The Senior Subordinated Notes are held by funds indirectly managed by principal shareholders of the Company.

The Senior Secured Credit Agreement and Senior Unsecured Subordinated Notes contain certain restrictive covenants. These covenants include restrictions on additional borrowings, investments, sale of assets, capital expenditures, dividends, sale and leaseback transactions, contingent obligations, transactions with affiliates and fundamental changes in business activities. The covenants also require the maintenance of certain financial ratios regarding senior indebtedness, senior interest and capital expenditures. At March 31, 2011 and December 31, 2010, the Company was in compliance with all required covenants.

On April 1, 2011, in connection with the sale of the Company, all outstanding loans were paid in full (See Note 8).

Other Financial Assets and Liabilities

Other financial assets and liabilities with carrying amounts approximating fair value include cash and cash equivalents, accounts receivable, other current assets, current debt, accounts payable and other current liabilities.

Note 6—Commitments and Contingencies

Professional Liability:

The Company's business entails an inherent risk of claims relating to professional liability. The Company maintains professional liability insurance, on a "claims made basis", with an option to extend the claims reporting period and general liability insurance, on an "occurrence basis". The Company also maintains additional coverage for claims in excess of the coverage provided by the professional and general liability policies. The Company accrues for unknown incidents based upon the anticipated future costs related to those potential obligations. The Company believes that its insurance coverage is sufficient based upon claims experience and the nature and risks of its business. There can be no assurance that a pending or future claim or claims will not be successful against the Company, and, if successful, will not exceed the limits of available insurance coverage or that such coverage will continue to be available at acceptable costs and on favorable terms. In February 2011, the Company entered into an agreement with its professional liability carrier to convert the professional liability policies for the 2005, 2006, 2007 and 2008 policy years from Loss Sensitive/Retrospectively Rated premium policies to Guaranteed Cost policies. This conversion effectively "buys out" the retro programs and eliminates future premium adjustments, regardless of loss development or claims experience. The premium for this conversion was, approximately, $2,500,000.

Legal Proceedings:

In the ordinary course of business the Company is exposed to various legal proceedings, claims and incidents that may lead to claims. In management's current opinion, the outcome with respect to these actions will not have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows. However, there can be no assurances that, over time, certain of these proceedings will not develop into a material event and that charges related to these matters could be significant to our results or cash flows in any one accounting period.

Reimbursement and Regulatory Matters:

Laws and regulations governing the various Medicaid and state reimbursement programs are complex and subject to interpretation. The Company believes it is in substantial compliance with all applicable laws and regulations.

However, the Company has ongoing regulatory matters, including those described below. Currently, management does not believe the outcome of the compliance matters or regulatory investigations will have a significant impact on the financial position or operating results of the Company.

In April 2006, the Company and one of its facilities were the recipients of a federal subpoena. The Company fully cooperated with the U.S. Attorney's Office's investigation and the parties worked on components of a model residential treatment program as a resolution of the investigation. In December 2008, the Assistant U.S. Attorney contacted the Company's outside counsel, and informed him that the investigation was the product of a qui tam action filed under the Federal False Claims Act. Such cases are filed "under seal" and the defendants are not notified until the government officially intervenes in the case. In this instance, the Court directed the government to either settle this matter promptly, or intervene or decline to intervene, in which case the plaintiff could still proceed on his/her own; and the Court partially unsealed the case, so as to let the Company know it was the subject of a lawsuit. A settlement agreement with the U.S. Attorney's Office was reached on April 22, 2009, which includes facets of a model residential treatment program; a partial re-payment of funding in three installments of $50,000 each, with the final installment paid in April of 2011; and various corporate integrity provisions commonly required by the U.S. Department of Health and Human Services Office of the Inspector General. As part of the integrity provisions, an independent review organization shall monitor the Company for three years. The Company was notified by the U.S. Attorney's Office on March 9, 2010 and by the independent review organization on March 10, 2010 that they had received complaints alleging compliance concerns which they intended to investigate. The matters were fully investigated internally and externally and resolved with no material financial effects. As of January 31, 2011, the independent review organization reported no issues of non-compliance. In late February of 2011, outside counsel for the Company contacted the U.S. Attorney's Office to verbally inform the government of the impending sale of the Company. During the call, the Assistant U.S. Attorney mentioned that he would be sending a letter or other communication on various matters, but he declined to indicate the anticipated substance of the correspondence or if there were specific concerns. The correspondence has not been received at this time.

On August 20, 2010, the Florida Agency for Health Care Administration (AHCA) issued an Emergency Immediate Moratorium on Admissions to halt all residential treatment admissions due to regulatory deficiencies. Subsequently over a period of four months, AHCA issued a moratorium on admissions for two of the group homes; filed five administrative complaints seeking fines totaling $134,500 and revocation of licenses; and sent a notice of termination of the Medicaid Statewide Inpatient Psychiatric Program (SIPP) contract with Tampa Bay Academy, effective December 15, 2010, which was subsequently withdrawn to allow the Company to voluntarily terminate that contract. This facility was closed on December 31, 2010, and the case was settled for approximately $30,000 in June 2011.

Note 7—Shareholders' Equity

Preferred and Common Stock:

The authorized capital stock of the Company consists of 375,000,000 shares of capital stock designated as follows: (i) 270,000,000 shares of preferred stock, par value $.0001, of which 90,000,000 shares have been designated as Series "A" Convertible Preferred Stock, 90,000,000 shares have been designated as Series "B" Convertible Preferred Stock and 90,000,000 shares have been designated as Redeemable Preferred Stock, and (ii) 105,000,000 shares of common stock, par value $.0001.

83,609,009 shares of Series "A" Convertible Preferred Stock and 85,398 shares of Common Stock were issued and outstanding for the periods ended March 31, 2011 and December 31, 2010, respectively.

All of the Company's outstanding shares of Preferred and Common stock are held by Company sponsors and certain of its current and former employees.

Note 8—Income Taxes

The Company's anticipated annual effective income tax rate is, approximately, 39.0%. The provision for income taxes differs from the statutory rate primarily due to state taxes, permanent differences and the effect of the valuation allowance.

Note 9—Subsequent Events

Material Definitive Agreements:

On April 1, 2011, prior to the consummation of sale referred to below, the Company declared a dividend of and distributed 100% of the outstanding shares of the capital stock of Oak Ridge to the holders of Series A Preferred Stock of the Company. Upon consummation of the dividend, the Company wrote off approximately $1.4 million relating to an Oak Ridge accrued regulatory matter.

On February 17, 2011, Youth and Family Centered Services, Inc., entered into an Agreement and Plan of Merger (the “Merger Agreement”), with Acadia Healthcare Company, LLC, a Delaware corporation (the “Parent”), and Acadia—YFCS Acquisition Company, Inc., a Georgia corporation (the “Merger Co”).

The Companies closed the transaction on April 1, 2011.

On April 1, 2011, upon consummation of the sale, approximately, $84.3 million of our Senior and Subordinated Debt was paid off and the Company expensed all remaining deferred charges, including, deferred financing costs, subordinated debt warrants, rating agency and lender administrative fees in the amount of, approximately, $1,593,000.

Furthermore, on April 1, 2011, upon consummation of the sale, the Company wrote off dividends accrued on preferred shares in the amount of, approximately, $15,300,000 and returned invested capital to both preferred and common shareholders in the amount of, approximately, $4,000,000.

Executive Employment Agreements:

In 2004, the Company entered into employments agreement with our Chief Executive Officer (the “CEO”) and Chief Financial Officer (the “CFO”). Such employment agreements have been amended in connection with the Merger (the “Amendments”), with the Amendments becoming effective upon the consummation thereof.

In accordance with the appropriate guidance which establishes general standard of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or available to be issued, the Company evaluated subsequent events through July 7, 2011, the date the financial statements were available to be issued. There were no other material subsequent events that required recognition or additional disclosure in these financial statements.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors of
Youth and Family Centered Services, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Youth and Family Centered Services, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Youth and Family Centered Services, Inc. and Subsidiaries at December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young, LLP

Austin, Texas
March 31, 2011

YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	DECEMBER 31, 2009	DECEMBER 31, 2010
	(Amounts in thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 15,294	$ 5,307
Patient accounts receivable, net of allowances for doubtful accounts of $735 and $1,215, respectively.	15,365	16,693
Deferred tax assets	461	1,499
Prepaid expenses and other current assets	2,839	2,093
Total Current Assets	33,959	25,592
Property and equipment, net	28,333	26,457
Goodwill	157,502	133,974
Other intangibles, net of accumulated amortization of $5,475 and $6,909, respectively.	30,515	29,081
Debt issuance costs, net of accumulated amortization of $2,744 and $3,423, respectively.	2,179	1,500
Other noncurrent assets	2,132	926
Total Assets	$254,620	$217,530
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 1,548	$ 3,666
Accrued salaries and wages	6,066	6,417
Other accrued expenses	4,349	4,439
Current maturities of long-term debt	13,273	1,247
Total Current Liabilities	25,236	15,769
Senior secured notes	68,178	54,071
Senior subordinated notes	30,676	30,755
Deferred tax liability	13,893	12,261
Other noncurrent liabilities	2,716	2,548
Total Liabilities	140,699	115,404
Stockholders' Equity		
Series A Convertible Preferred Stock, $.0001 par value, 90,000,000 shares authorized, 83,609,009, issued and outstanding at December 31, 2009 and 2010.	8	8
Series B Convertible Preferred Stock, $.0001 par value, 90,000,000 shares authorized, none issued and outstanding at December 31, 2009 and 2010.	—	—
Redeemable Preferred Stock, $.0001 par value, 90,000,000 shares authorized, none issued and outstanding at December 31, 2009 and 2010.	—	—
Common stock, $.0001 par value, 105,000,000 shares authorized, 85,398 issued and outstanding at December 31, 2009 and 2010, respectively.	—	—
Additional paid-in capital	97,119	99,577
Retained earnings	16,794	2,541
Total Stockholders' Equity	113,921	102,126
Total Liabilities and Stockholders' Equity	$254,620	$217,530

See Notes to Consolidated Financial Statements

YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

	FOR THE YEARS ENDED DECEMBER 31,		
	2008	2009	2010
	(Amounts in thousands)		
Net Operating Revenues	$180,646	$186,586	$184,386
Expenses:			
Salaries and benefits	110,966	113,870	113,931
Other operating expenses	37,648	37,592	38,155
Provision for (recoveries of) bad debts	1,902	(309)	525
Interest and amortization of debt costs	12,488	9,572	7,514
Depreciation and amortization	9,419	7,052	3,456
Impairment of goodwill	—	—	23,528
Total Expenses	172,423	167,777	187,109
Income/(Loss) from continuing operations	8,223	18,809	(2,723)
Gain/(Loss) on the sale of assets	(56)	(15)	9
Income/(Loss) from continuing operations before income taxes	8,167	18,794	(2,714)
Provision for income taxes	3,132	7,133	5,032
Income/(Loss) from continuing operations	5,035	11,661	(7,746)
Discontinued Operations:			
Income (loss) from operations and abandonment of discontinued facility	1,654	(2,356)	(6,068)
Income tax benefit (expense)	(690)	913	2,008
Income (loss) from discontinued operations	964	(1,443)	(4,060)
Net Income/(Loss)	$ 5,999	$ 10,218	$ (11,806)

See Notes to Consolidated Financial Statements

YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT	SHARES	AMOUNT			
				(Amounts in thousands)			
Balance at December 31, 2007	81,802	$ 8	31	$ —	$ 91,483	$ 5,156	$ 96,647
Preferred Stock Undeclared Dividends	—	—	—	—	2,264	(2,264)	—
Stock Options Exercised	—	—	54	—	11	—	11
Stock Based Compensation	—	—	—	—	8	—	8
Excess Tax Benefit Resulting from Stock Options Exercised	—	—	—	—	31	—	31
Net Income	—	—	—	—	—	5,999	5,999
Balance at December 31, 2008	81,802	$ 8	85	$ —	93,797	$ 8,891	$ 102,696
Preferred Stock Undeclared Dividends	—	—	—	—	2,315	(2,315)	—
Stock Options Exercised	1,807	—	—	—	308	—	308
Stock Based Compensation	—	—	—	—	9	—	9
Excess Tax Benefit Resulting from Stock Options Exercised	—	—	—	—	690	—	690
Net Income	—	—	—	—	—	10,218	10,218
Balance at December 31, 2009	83,609	8	85	—	97,119	16,794	113,921
Preferred Stock Undeclared Dividends	—	—	—	—	2,447	(2,447)	—
Stock Based Compensation	—	—	—	—	11	—	11
Net Loss	—	—	—	—	—	(11,806)	(11,806)
Balance at December 31, 2010	83,609	$ 8	85	$ —	$ 99,577	$ 2,541	$ 102,126

See Notes to Consolidated Financial Statements

YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	FOR THE YEARS ENDED DECEMBER 31, 2008	2009	2010
	(Amounts in thousands)		
Cash Flows from Operating Activities			
Net income (loss)	$ 5,999	$ 10,218	$ (11,806)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Deferred income taxes	(960)	1,076	(2,670)
Stock based compensation	8	9	11
Depreciation and amortization	9,627	7,210	3,587
Impairment of tangible assets and goodwill	—	—	24,583
Loss on the sale of fixed assets	56	15	(9)
Amortization of discount on debt and deferred financing costs	910	773	827
Changes in operating assets and liabilities:			
Patient accounts receivable	1,401	2,926	(1,327)
Prepaid expenses and other assets	920	1,129	1,826
Accounts payable and accrued expenses	(1,096)	(2,379)	2,390
Net Cash Provided by Operating Activities	16,865	20,977	17,412
Cash Flows from Investing Activities			
Purchases of property and equipment	(2,367)	(1,492)	(1,316)
Proceeds from the sale of fixed assets	13	18	19
Acquisition costs	1,000		
Net Cash Used in Investing Activities	(1,354)	(1,474)	(1,297)
Cash Flows from Financing Activities			
Proceeds from issuance of preferred stock	—	308	—
Proceeds from issuance of common stock	11		
Excess tax benefits related to stock option exercise	31	690	—
Payments on senior term loan	(1,200)	(25,700)	(26,100)
Payments on capital leases	(308)	(359)	—
Other long-term borrowings/(payments)—net	(46)	(22)	(2)
Net Cash Used in Financing Activities	(1,512)	(25,083)	(26,102)
Net Change in Cash and Cash Equivalents	13,999	(5,580)	(9,987)
Cash and Cash Equivalents at Beginning of Period	6,875	20,874	15,294
Cash and Cash Equivalents at End of Period	$ 20,874	$ 15,294	$ 5,307
Interest Paid	$ 11,931	$ 9,505	$ 7,274
Income Taxes Paid	$ 4,014	$ 4,969	$ 6,032

See Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business:

Youth and Family Centered Services, Inc. (the "Company") was incorporated in 1997 and is headquartered in Austin, Texas. The Company is a leading provider of behavioral healthcare, education, and long-term support needs for abused and neglected children and adolescents. The Company operates thirteen facilities in eight states and its services include inpatient acute care programs, residential treatment programs, programs for the developmentally disabled, foster care, group homes, home and community based services, outpatient and accredited private schools.

Principles of Consolidation:

The consolidated financial statements include the accounts of Youth and Family Centered Services, Inc. and its subsidiaries in accordance with accounting principles generally accepted in the United States. All significant intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents:

The Company classifies as cash and cash equivalents all highly liquid investments with a maturity date of three months or less from the date of purchase. The carrying values of cash and cash equivalents approximated fair value due to the short-term nature of these instruments.

Revenues and Allowance for Contractual Discounts:

Revenues consist primarily of net patient service revenues that are recorded based upon established billing rates less allowances for contractual adjustments. Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from the patients and third-party payors. Third party payors include Medicaid, various state agencies, managed care health plans and commercial insurance companies.

The following table presents patient service revenue by payor type and as a percent of total patient service revenue for the years ended December 31, 2009 and 2010 *(amounts in thousands):*

	DECEMBER 31,			
	2009		2010	
	AMOUNT	%	AMOUNT	%
Private Pay	1,324	0.7%	1,001	0.6%
Commercial	4,937	2.7%	4,656	2.5%
Medicaid	180,325	96.6%	178,729	96.9%
Total	186,586		184,386	

The following tables present the aging of accounts receivable, net of allowance for doubtful accounts, by payor type as of December 31, 2009 and 2010 *(amounts in thousands):*

Accounts Receivable Aging as of December 31, 2009

	CURRENT	30-60	60-90	90-120	120-150	>150	TOTAL
Private Pay	$ 100	$ 70	$ 7	$ 2	$ 4	$ —	$ 183
Commercial	457	174	34	20	34	17	736
Medicaid	10,289	1,858	678	1,276	310	35	14,446
Total	$ 10,846	$ 2,102	$ 719	$ 1,298	$ 348	$ 52	$ 15,365

Accounts Receivable Aging as of December 31, 2010

	CURRENT	30-60	60-90	90-120	120-150	>150	TOTAL
Private Pay	$ 139	$ 14	$ 6	$ 6	$ 3	$ —	$ 168
Commercial	591	179	88	26	7	50	941
Medicaid	10,749	2,681	633	1,215	204	102	15,584
Total	$11,479	$2,874	$727	$1,247	$ 214	$152	$16,693

Accounts Receivable and Allowance for Doubtful Accounts:

The Company records accounts receivable in the period in which the services were rendered and represent claims against third-party payors such as Medicaid, state agencies, managed care health plans, commercial insurance companies and/or patients, that will be settled in cash. The carrying value of the Company's accounts receivable, net of allowance for doubtful accounts, represents their estimated net realizable value. If events or circumstances indicate specific receivable balances may be impaired, further consideration is given to the Company's ability to collect those balances and the allowance is adjusted accordingly. The Company continually monitors its accounts receivable balances and utilizes cash collection data to support its estimates of allowance for doubtful accounts. Past-due receivable balances are cancelled when internal collection efforts have been exhausted.

Concentration of Credit Risk:

Medicaid revenues, for healthcare services in two states, represented approximately 36.7%, 38.3% and 39.5%, of the Company's net patient net revenues during each of 2008, 2009, and 2010. Accounts receivable are unsecured and due, primarily, from Medicaid, state agencies and educational programs. The Company maintains an allowance for estimated losses resulting from the non-collection of customer receivables. The Company's management recognizes that revenues and receivables from government agencies are significant to its operations, but does not believe that there are significant credit risks associated with these government programs. Because of the large number of payors, types of payors and the diversity of the geographic locations, in which the Company operates, management does not believe there are any other significant concentrations of revenues from any particular payor that would subject the Company to any significant credit risks in the collection of its accounts receivable.

As a result of the current economic environment, many states have significant budget deficits. State Medicaid programs are experiencing increased demand, and with lower revenues than projected, they have fewer resources to support their Medicaid programs. Federal health reform legislation was enacted to significantly expand state Medicaid programs. In certain states the Company has experienced rate and utilization decreases resulting from these budget constraints. The Company cannot predict the amount, if any, of future rate and utilization decreases or their effect on the Company.

The 2009 Federal economic stimulus legislation enacted to counter the impact of the economic crisis on state budgets will expire on June 30, 2011. This legislation provided additional federal matching funds to help states maintain their Medicaid programs through June 30, 2011. There are currently no legislative initiatives proposing to extend this program. It is difficult to predict what impact this will have on the Company.

Property and Equipment:

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the depreciable assets, generally seven to twenty years for equipment and ten to forty years for buildings. Betterments, renewals and repairs that extend the useful life of the asset are capitalized; other repairs and maintenance charges are expensed as incurred.

Valuation of Long-Lived and Definite-Lived Intangible Assets:

The Company accounts for the impairment of long-lived tangible and definite-lived intangible assets in accordance with the relevant guidance and reviews the carrying value of long-lived assets, property and equipment, including amortizable intangible assets whenever events or changes in circumstances indicate that the related carrying values may not be recoverable. Impairment is generally determined by comparing projected undiscounted cash flows to be generated by the asset, or appropriate group of assets, to its carrying value. If impairment is identified, a loss is recorded equal to the excess of the asset's net book value over its fair value, and the cost basis is adjusted.

Determining the extent of impairment, if any, typically requires various estimates and assumptions including using management's judgment, cash flows directly attributable to the asset, the useful life of the asset and residual value, if any. When necessary, the Company uses appraisals, as appropriate, to determine fair value. Any required impairment is recorded as a reduction in the carrying value of the related asset and a charge to operating results. In connection with the closing of its Tampa, Florida facility, in December 2010, the Company recorded an impairment charge of, approximately, $1,100,000 (See Note 2).

Goodwill and Intangible Assets:

The Company accounts for goodwill and other intangible assets in accordance with the relevant guidance. Goodwill represents the excess cost over the fair value of net assets acquired. Goodwill is not amortized. The Company's business comprises a single operating reporting unit for impairment test purposes. For the purpose of these analyses, the Company's estimates of fair value are based on its future discounted cash flows. Key assumptions used in the discounted cash flow analysis include estimated future revenue growth, gross margins and a risk free interest rate. If the carrying value of the Company's goodwill and/or indefinite-lived intangible assets exceeds their fair value, we compare the implied fair value of these assets with their carrying amount to measure the potential impairment loss. Goodwill is required to be evaluated for impairment at the same time each year and when an event occurs or circumstances change, such that, it is reasonably possible that an impairment may exist. The Company has selected September 30th as its annual testing date. There was no resulting impairment in 2009. In connection with the execution of a Sale Agreement and Plan of Merger, the Company recorded an impairment charge in the amount of, approximately, $24,000,000 for the year ended December 31, 2010 (See Note 11).

The following table presents the changes in the carrying amount of Goodwill for the year ended December 31, 2009 and 2010 *(amounts in thousands):*

Balance at December 31, 2009	$157,502
Impairment losses	(23,528)
Balance at December 31, 2010	$133,974

Intangible assets consist of customer relationships, covenants not to compete, trade names and certificates of need. Customer relationships are amortized on an expected cash flow method from five to ten years and covenants not to compete are amortized on a straight-line basis from three to five years. Trademarks, trade names and certificates of need are not amortized because they have indefinite useful lives.

Deferred Costs:

Deferred costs consist principally of deferred financing costs and are being amortized on a straight-line basis to interest expense over the term of the related debt.

Income Taxes:

The Company accounts for income taxes in accordance with the asset and liability method set forth in the relevant guidance, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax laws and related rates that will be in effect when the differences are expected to reverse. These differences result in deferred tax assets and liabilities, which are included in the Company's Consolidated Balance Sheet. The Company then assesses the likelihood that the deferred tax assets will be recovered from future taxable income. A valuation allowance is established against deferred tax assets to the extent the Company believes that recovery is not likely based on the level of historical taxable income and projections for future taxable income over the periods in which the temporary differences are deductible. Uncertain tax positions must meet a more-likely-than-not threshold to be recognized in the financial statements and the tax benefits recognized are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon final settlement (See Note 9).

Stock-Based Compensation:

Stock-based compensation awards are granted under the Youth and Family Centered Services, Inc. 2004 Stock Option and Grant Plan. The Company accounts for stock-based employee compensation under the fair value recognition and measurement provisions, as required by the applicable guidance, that requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the fair value at the date of the grant.

The fair value of the stock options issued in 2008, 2009 and 2010 was estimated using the Black Scholes Merton option pricing model. Use of this model requires management to make estimates and assumptions regarding expected option life (estimated at five years), volatility (estimated upon the volatility of comparable public entities within the Company's industry), risk free interest rate (estimated upon United States Treasury rates at the date of the grant), and dividend yields (estimated at zero). Option forfeitures are based upon actual forfeitures for the period. We recognized expense on all share-based awards on a straight-line basis over the vesting period of the award.

The following table summarizes the weighted average grant-date value of options and the assumptions used to develop their fair value for the years ended December 31, 2008, 2009 and 2010, respectively.

	DECEMBER 31,		
	2008	2009	2010
Weighted average grant-date fair value of options	$0.08	$0.08	$0.09
Risk-free interest rate	3.8%	2.7%	3.7%
Expected Volatility	42.2%	41.0%	45.0%
Expected life in years	5.0	5.0	5.0
Dividend yield	—	—	—

Our estimate of expected annual implied volatility for stock options granted in 2008, 2009 and 2010 is based upon an analysis of the historical stock price volatility of publicly-traded comparable companies.

The fair value of the underlying common stock was determined by management based, in part, on a third party valuation report obtained in 2004. The value of the common stock subsequent to 2004 was materially consistent with such fair value determined in 2004 and the indications of enterprise value from its efforts to sell the Company, including the ultimate sale of the Company described Note 11.

Derivative Instruments:

The Company previously entered into an interest rate cap, which expired in August 2009, to convert a portion of its floating debt to a fixed rate, thus reducing the impact of rising interest rates on interest payments. The Company had not designated its derivative instrument as a hedge and therefore the cost of this agreement was being amortized to interest expense in current earnings. The agreement capped the base interest rate in relation to $48.0 million of variable long-term debt at 6.40%. At December 31, 2008, 2009 and 2010, the Company's base rate was approximately 3.12%, 0.29% and 0.27%, respectively. At December 31, 2009 and 2010 the Company was not a party to any interest rate protection agreements.

Fair Value of the Financial Instruments:

The fair value of the Company's financial instruments has been estimated using available market information and commonly accepted valuation methodologies, in accordance with the appropriate guidance.

Fair value financial instruments are recorded at fair value in accordance with the fair value hierarchy that prioritized observable and unobservable inputs used to measure fair value in their broad levels. These levels from highest to lowest priority are as follows:

- *Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;
- *Level 2:* Quoted prices in active markets for similar assets or liabilities or observable prices that are based on inputs not quoted on active markets, but corroborated by market data; and
- *Level 3:* Unobservable inputs or valuation techniques that are used when little or no market data is available.

The Company's financial instruments include cash, accounts receivable, accounts payable and debt obligations, and the Company typically values these financial assets and liabilities at their carrying values, which approximates fair value due to their generally short-term duration.

The aggregate carrying value of the Company's senior long-term debt is considered to be representative of the fair value principally due to the variable interest rate attached to the debt instrument and based on the current market rates for debt with similar risks, terms and maturities, we estimate the value of the Company's senior subordinated debt approximates fair value at December 31, 2010.

The determination of fair value and the assessment of a measurement's placement within the hierarchy require judgment.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In New Accounting Pronouncements:

In August 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-24, which provides clarification to companies in the healthcare industry on the accounting for malpractice claims or similar contingent liabilities. This ASU states that an entity that is indemnified for these liabilities shall recognize an insurance receivable at the same time that it recognizes the liability, measured on the same basis as the liability, subject to the need for a valuation allowance for uncollectible amounts. This ASU also discusses the accounting for insurance claims costs, including estimates of costs relating to incurred-but-not-reported claims and the accounting for loss contingencies. Receivables related to insurance recoveries should not be netted against the related claim liability and such claim liabilities should be determined without considering insurance recoveries. This ASU is effective for fiscal years beginning after December 15, 2010 and will be adopted by the Company in the first quarter of 2011. The adoption of this ASU will not have an impact on the Company's consolidated financial statements.

2. ACQUISITIONS/DISPOSITIONS

Closed Operations:

In a previous year, the Company determined that a psychiatric hospital in New Mexico and a residential treatment center in Ohio no longer provided a benefit to the Company and terminated the operations. The continuing operating expenses for these facilities were not significant and did not have a material impact on the Company's consolidated financial statements, for the years ended December 31, 2008, 2009 and 2010.

In June 2009, the Company temporarily suspended the operations at one of its Arizona facilities in response to the economic crisis and related funding issues within the state, as well as, certain environmental problems at the facility. The Company has eliminated the environmental problem and believes the state will take appropriate action to resolve its financial issues. With the new directions the Company has identified in areas of outpatient treatment care services and targeting programs that will meet community needs and the state's push for new care alternatives, our intent is to re-open the facility, within the next six to twelve months, at a time when the state's economic situation has improved and a strong referral base could once again be established. The continuing operating expenses for this facility are not significant and will not have a material impact on the Company's consolidated financial statements.

Discontinued Operations:

There were no discontinued operations for the years ended December 31, 2008 and 2009.

In October 2010, the Company was notified by the Agency for Health Care Administration that it was discontinuing the Statewide Inpatient Psychiatric Program (SIPP) contract at its Tampa Bay facility. Subsequent appeals with the Florida Medicaid Bureau were, eventually, denied. The notice of termination which was to be effective, on December 15, 2010, was subsequently withdrawn as the Company voluntarily terminated the contract. The loss of this contract generated a severe financial impact on the facility to the extent the Company decided to terminate operations effective December 31, 2010.

In connection with closing the facility, we recorded a charge for impaired assets, which were, principally, two group homes, leasehold improvements and furniture and equipment, in the amount of, approximately, $1,100,000 and exit costs of, approximately, $2,500,000 for the year ended December 31, 2010.

3. PROPERTY AND EQUIPMENT

The components of property and equipment are as follows *(amounts in thousands)*:

	DECEMBER 31, 2009	DECEMBER 31, 2010
Land and improvements	$ 5,392	$ 5,423
Buildings and improvements	30,247	28,521
Furniture, fixtures and equipment	8,290	8,990
Total property and equipment	43,929	42,934
Less: accumulated depreciation	(15,596)	(16,477)
Property and equipment, net	$ 28,333	$ 26,457

Depreciation expense was approximately $3,301,000, $3,236,000 and $2,105,000 for the years ended December 31, 2008, 2009 and 2010, respectively. Depreciation expense also includes the amortization of assets recorded under a capital lease.

4. INTANGIBLE ASSETS

Other intangible assets are comprised of the following: *(amounts in thousands)*

	DECEMBER 31, 2009		DECEMBER 31, 2010	
	GROSS AMOUNT	ACCUMULATED AMORTIZATION	GROSS AMOUNT	ACCUMULATED AMORTIZATION
Amortizable intangible assets:				
Customer Relationships	$11,900	$ 4,720	$11,900	$ 6,142
Covenants not to compete	770	755	770	767
Unamortizable intangible assets:				
Trade names	13,620	—	13,620	—
Certificates of need	9,700	—	9,700	—
Total	$35,990	$ 5,475	$35,990	$ 6,909

Amortization expense related to identifiable intangible assets was approximately $6,287,000, $3,907,000 and $1,434,000 for the years ended December 31, 2008, 2009 and 2010, respectively.

The estimated future amortization expenses for other intangible assets are: *(amounts in thousands)*

YEAR	FUTURE AMORTIZATION
2011	$ 1,312
2012	1,175
2013	1,051
2014	942
2015	844
Thereafter	437
Total	$ 5,761

5. LONG TERM DEBT

Long term debt as of years ended December 31, 2009 and 2010 consist of the following (*amounts in thousands):*

	DECEMBER 31, 2009	DECEMBER 31, 2010
Revolving Loan	$ —	$ —
Senior Secured Term Loan	81,300	55,200
Senior Unsecured Subordinated Loans	31,000	31,000
Unamortized Discount on Warrants	(324)	(245)
Capital Lease Obligation (See Note 7)	55	—
Other Notes	96	118
Total Long-Term Debt	112,127	86,073
Less: Current Portion of Long-Term Debt	(13,273)	(1,247)
Total Non-Current Portion of Long-Term Debt	$ 98,854	$84,826

The Company has a credit agreement (the "Credit Agreement") with a syndication of lenders who provided the Company with up to $170.0 million. The Credit Agreement provided for a term loan (the "Term Loan") for up to $120.0 million, expiring in July 2013 and a revolving credit facility (the "Revolving Loan") for up to $25.0 million, expiring in July 2012.

The Term Loan and the Revolving Loan are guaranteed by the Company's subsidiaries and the Company has granted a first priority security interest in the capital stock and related assets of those subsidiaries.

The Term Loan is to be repaid in scheduled consecutive quarterly installments with aggregate annual principal payments as follows *(amounts in thousands):*

YEAR	TERM LOAN
2011	$ 1,200
2012	1,200
2013	52,800
Total	$ 55,200

Our Senior Secured Credit Agreement requires the Company to make additional principal payments, subject to step-down based on total leverage levels, of the Company's defined excess cash flow. The Company was required to make an excess cash flow payment in the amount of approximately $10,500,000 for the year ended December 31, 2008 and no payment was due for the years ended December 31, 2009 and 2010, respectively; however, the Company did make a $13 million payment in 2010 and expects to make a payment of $1.8 million in 2011 in order to remain in compliance with its debt covenants.

The agreement provides that the Company, at its option, may elect that all or part of the term loan and the revolving loan bear interest at a rate per annum equal to the banks applicable Alternate Base Rate or LIBOR Rate, as these terms are defined in the credit agreement. The applicable Alternate Base Rate or LIBOR Rate will be increased by an applicable margin related to each type of loan.

The interest rates applicable to the Senior Term Loan ranged, primarily, from 6.45% to 8.08%, 6.87% to 4.01% and 3.99% to 6.00% for the years ended December 31, 2008, 2009 and 2010, respectively.

Additionally, the Company pays a commitment fee, at the rate of 0.50% per year, on the unused portion of the revolving credit facility and, at December 31, 2010, had no borrowings outstanding.

Senior Unsecured Subordinated Notes:

The Company has outstanding Senior Subordinated Notes in the amount of $31.0 million bearing interest at the rate of 12.0% per year, payable quarterly, with the principal balance due and payable on January 19, 2014. Additionally, the Company issued warrants to purchase 4,041,689 shares of the Company's common stock at an exercise price of $0.01 per share having an estimated value of approximately $768,000 based upon the fair value of the underlying common shares. The amount allocated to the warrants has been recorded in the accompanying consolidated financial statements as a discount on the Senior Subordinated Notes and the amortization is included in interest expense. The warrants shall be exercisable at any time, in whole or part, into Common Stock of the Company prior to May 28, 2014 (the "Warrant Expiration Date"). The Senior Subordinated Notes are held by funds indirectly managed by principal shareholders of the Company.

At December 31, 2010, the maturity of long-term debt obligations were as follows *(amounts in thousands)*:

YEAR	AMOUNT
2011	$ 1,247
2012	1,230
2013	52,825
2014	30,765
2015	5
Total	$86,072

Interest paid on outstanding debt was approximately $11,931,000, $9,505,000 and $7,274,000 for the years ended December 31, 2008, 2009 and 2010, respectively.

The Senior Secured Credit Agreement and Senior Unsecured Subordinated Notes contain certain restrictive covenants. These covenants include restrictions on additional borrowings, investments, sale of assets, capital expenditures, dividends, sale and leaseback transactions, contingent obligations, transactions with affiliates and fundamental changes in business activities. The covenants also require the maintenance of certain financial ratios regarding senior indebtedness, senior interest and capital expenditures. At December 31, 2010, the Company was in compliance with all required covenants.

6. STOCK—BASED COMPENSATION

In May 2004, the Company's Board of Directors authorized the 2004 Stock Option and Grant Plan for Youth and Family Centered Services, Inc. (the "Plan") which provides that options may be granted to certain key people to purchase up to approximately 9,739,000 shares of common stock of the Company at a price not less than the fair market value of the shares on the date of grant. The stock options generally become exercisable on a pro rata basis over a five year period from the date of the grant and must be exercised within ten years from the date of the grant.

For the year ended December 31, 2010, pertinent information regarding the stock option plan is as follows *(amounts in thousands, except price per share):*

	NUMBER OF SHARES	OPTION PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL TERM (IN YEARS)
Outstanding at December 31, 2007	9,044	$ 0.20	$ 0.20	7.14
Granted	150	$ 0.20	$ 0.20	n/a
Exercised	(54)	$ 0.20	$ 0.20	n/a
Forfeited	(139)	$ 0.20	$ 0.20	n/a
Outstanding at December 31, 2008	9,001	$ 0.20	$ 0.20	6.16
Granted	242	$ 0.20	$ 0.20	n/a
Exercised	—	$ 0.20	$ 0.20	n/a
Forfeited	(1,578)	$ 0.20	$ 0.20	n/a
Outstanding at December 31, 2009	7,665	$ 0.20	$ 0.20	5.27
Granted	287	$ 0.20	$ 0.20	n/a
Exercised	—	$ 0.20	$ 0.20	n/a
Forfeited	(295)	$ 0.20	$ 0.20	n/a
Outstanding at December 31, 2010	7,657	$ 0.20	$ 0.20	4.50

A summary of options outstanding at December 31, 2010 including related price and remaining contractual term information follows.

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL TERM (IN YEARS)	EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$ 0.20	7,657	$0.20	4.5	7,133	$0.20

Certain senior management employees held options to purchase a total of 1,807,156 shares of Series “A” Convertible Preferred Stock at an exercise price of $0.17 per share. In May 2009, the employees exercised all the Series “A” Preferred Stock Options.

7. COMMITMENTS AND CONTINGENCIES

Lease Commitments:

The Company was obligated under a capital lease agreement for a building having an original term of 15 years that expired in January 2010. The new lease was renewed under terms and conditions that qualified it as an operating lease.

Included in buildings and improvements in the accompanying Consolidated Balance Sheets at December 31, 2009 and 2010 are the following assets held under capital lease *(amounts in thousands):*

Building and Land	$ 1,885
Less: accumulated depreciation	(1,885)
Total assets held under capital leases	$ —

The Company leases other certain property and equipment under non-cancelable long-term operating leases that expire at various dates. Certain of the leases require additional payments for taxes, insurance, common area maintenance, and in most cases provide for renewal options. Generally, the terms are from one to ten years.

Future minimum lease commitments for all non-cancelable leases as of December 31, 2010 are as follows *(amounts in thousands):*

YEAR	OPERATING LEASES
2011	$ 5,341
2012	4,230
2013	2,136
2014	1,049
2015	214
Thereafter	6
Total minimum lease payments	$ 12,976

Rent expense under operating leases, including month-to-month contracts, was approximately $5,606,000, $5,728,000 and $7,362,000 for the years ended December 31, 2008, 2009 and 2010, respectively

Legal Proceedings:

In the ordinary course of business the Company is exposed to various legal proceedings, claims and incidents that may lead to claims. In management's current opinion, the outcome with respect to these actions will not have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows. However, there can be no assurances that, over time, certain of these proceedings will not develop into a material event.

Professional Liability:

The Company's business entails an inherent risk of claims relating to professional liability. The Company maintains professional liability insurance, on a "claims made basis", with an option to extend the claims reporting period and general liability insurance, on an "occurrence basis". The Company also maintains additional coverage for claims in excess of the coverage provided by the professional and general liability policies. The Company accrues for unknown incidents based upon the anticipated future costs related to those potential obligations. The Company believes that its insurance coverage is sufficient based upon claims experience and the nature and risks of its business. There can be no assurance that a pending or future claim or claims will not be successful against the Company, and, if successful, will not exceed the limits of available insurance coverage or that such coverage will continue to be available at acceptable costs and on favorable terms.

Reimbursement and Regulatory Matters:

Laws and regulations governing the various Medicaid and state reimbursement programs are complex and subject to interpretation. The Company believes it is in substantial compliance with all applicable laws and regulations. However, the Company has ongoing regulatory matters, including those described below. Currently, management does not believe the outcome of the compliance matters or regulatory investigations will have a significant impact on the financial position or operating results of the Company.

During the year ended December 31, 2004, a local county referral agency conducted a routine audit which revealed possible billing problems. The Company conducted a detailed internal compliance review that confirmed certain billing problems existed. The Company immediately changed its procedures and increased the in-house training of its personnel. The Company offered to reimburse the Ohio Department of Job and Family Services (the "State Medicaid agency"), for all questionable billings and subsequent to the offer, the State Medicaid agency conducted its audit covering the period August 2003 through January 2005. The result of this audit was a request for the payback of approximately $1.4 million from the facility, which has been accrued by the Company. An administrative hearing was conducted in September 2007; and in January 2008, the State Medicaid agency submitted the hearing officer's report and recommendations to the Company. Subsequent to this, an Adjudication Order was issued. The

Company appealed the administrative order to the Court of Common Pleas; the State Medicaid agency prevailed; and the Company filed a notice of appeal to the Court of Appeals. The Court's mediator extended an invitation to the parties to mediate, which the Company accepted; however, the State Medicaid agency declined, and at that point, the Company withdrew the appeal. The State Medicaid agency then sent an invoice for the amount assessed in the audit, including interest. In December of 2009, the Company received a demand letter from Special Counsel retained by the Ohio Attorney General for principal plus penalties and interest. Outside counsel for the Company responded by contacting the Special Counsel's office to convey that the facility had been closed for years and did not have any assets. The Special Counsel's Office replied that they would have to review their file and get back to the Company's outside counsel. In May of 2010, Oak Ridge's counsel followed up with the Special Counsel's Office, which informed Oak Ridge's counsel that the claim had been returned to the Attorney General's Office. The Attorney General's Office has the option to pursue litigation to reduce the claim to a judgment; however, there are no assets of the subsidiary to satisfy any judgment that may be rendered.

In April 2006, the Company and one of its facilities were the recipients of a federal subpoena. The Company fully cooperated with the U.S. Attorney's Office's investigation and the parties worked on components of a model residential treatment program as a resolution of the investigation. In December 2008, the Assistant U.S. Attorney contacted the Company's outside counsel, and informed him that the investigation was the product of a *qui tam* action filed under the Federal False Claims Act. Such cases are filed "under seal" and the defendants are not notified until the government officially intervenes in the case. In this instance, the Court directed the government to either settle this matter promptly, or intervene or decline to intervene, in which case the plaintiff could still proceed on his/her own; and the Court partially unsealed the case, so as to let the Company know it was the subject of a lawsuit. A settlement agreement with the U.S. Attorney's Office was reached on April 22, 2009, which includes facets of a model residential treatment program; a partial re-payment of funding in three installments of $50,000 each, with the final installment to be paid in April of 2011; and various corporate integrity provisions commonly required by the U.S. Department of Health and Human Services Office of the Inspector General. As part of the integrity provisions, an independent review organization shall monitor the Company for three years. The Company was notified by the U.S. Attorney's Office on March 9, 2010 and by the independent review organization on March 10, 2010 that they had received complaints alleging compliance concerns which they intended to investigate. The matters were fully investigated internally and externally and resolved with no material financial effects. As of January 31, 2011, the independent review organization reported no issues of non-compliance. In late February of 2011, outside counsel for the Company contacted the U.S. Attorney's Office to verbally inform the government of the impending sale of the Company. During the call, the Assistant U.S. Attorney mentioned that he would be sending a letter or other communication on various matters, but he declined to indicate the anticipated substance of the correspondence or if there were specific concerns. The correspondence has not been received at this time.

On August 20, 2010, the Florida Agency for Health Care Administration (AHCA) issued an Emergency Immediate Moratorium on Admissions to halt all residential treatment admissions due to regulatory deficiencies. Subsequently over a period of four months, AHCA issued a moratorium on admissions for two of the group homes; filed five administrative complaints seeking fines totaling $134,500 and revocation of licenses; and sent a notice of termination of the Medicaid Statewide Inpatient Psychiatric Program (SIPP) contract with Tampa Bay Academy, effective December 15, 2010, which was subsequently withdrawn to allow the Company to voluntarily terminate that contract. Outside counsel for Tampa Bay is in discussions with AHCA counsel on a potential settlement pertaining to the pending fines and license revocation actions. This facility has been closed (See Note 2).

8. EMPLOYEE BENEFIT PLAN

The Company has a qualified contributory savings plan (the "Plan") as allowed under Section 401(k) of the Internal Revenue Code. The Plan is available to all full-time and part-time employees meeting certain eligibility requirements and participants may defer up to 20% of their annual compensation, subject to limits, by contributing amounts to the Plan. At its election, the Company may make additional discretionary contributions to the plan on the employee's behalf. The Company elected to make an additional discretionary contribution into the Plan in the amount of approximately $100,000 for the year ended December 31, 2008. For the years ended December 31, 2009 and 2010 the Company elected to suspend its employer contribution.

9. INCOME TAXES

The provision for federal and state income taxes from continuing operations consist of the following *(amounts in thousands):*

	2008	2009	2010
Current:			
Federal	$3,487	$5,286	$ 6,018
State	494	677	713
Deferred:			
Federal	(700)	1,003	(1,518)
State	(149)	167	(181)
Provision for income taxes from continuing operations	$3,132	$7,133	$ 5,032

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2009 and 2010 are as follows *(amounts in thousands):*

	DECEMBER 31,	
	2009	2010
Deferred Tax Assets:		
Accrued Vacation	288	452
Accrued Bonus	170	158
Health Claims Reserve	—	720
Bad Debt Allowance	291	447
Depreciation	1,060	897
Noncompete Agreement	250	228
Professional Liability Reserve	661	587
Capital Lease Adjustment	557	—
Post Acq State NOLs	338	339
Other	69	50
Total Gross Deferred Tax Assets	3,684	3,878
Deferred Tax Liabilities:		
Prepaid Expense	(299)	(292)
Goodwill	(7,791)	(6,269)
Purchase Accounting: Capital Lease	(557)	—
Acquired Intangibles	(7,692)	(7,485)
Transaction Costs	(516)	(331)
Other	(20)	(15)
Total Gross Deferred Tax Liabilities	(16,875)	(14,392)
Valuation Allowance	(241)	(248)
Net Deferred Tax Liability	(13,432)	(10,762)

A valuation allowance has been provided against the deferred tax assets due to uncertainties regarding the future realization of state net operating loss carryforwards.

Approximately $46,000 of the valuation allowance relates to tax benefits for stock option deductions included in the net operating loss carryforwards. The valuation allowance increased by approximately $7,000 for the year ended December 31, 2010.

The Company's provision (benefit) for income taxes attributable to continuing operations differs from the expected tax expense (benefit) amount computed by applying the statutory federal income tax rate of 34% to income from continuing operations before income taxes in 2008, 2009 and 2010, primarily as a result of the following:

	DECEMBER 31,		
	2008	2009	2010
Federal statutory rate	34.0%	34.0%	34.0%
State taxes, net of federal benefit	4.4	4.6	(21.2)
Goodwill impairment	—	—	(196.0)
Other permanent items	(0.10)	(0.7)	(2.2)
	38.3%	37.9%	(185.4)%

The Company adopted current guidance which prescribes the accounting for uncertainty in income taxes recognized in the Company's financial statements and proposes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also provides direction on derecognizing and measurement of a tax position taken or expected to be taken in a tax return.

The Company and its subsidiaries file income tax returns in the United States federal and various state jurisdictions. The Company is subject to U.S. federal income tax examinations for the tax years 2007 and later by the Internal Revenue Service, and is subject to various state income tax examinations, with the exception of one state, for the tax years 2006 and later. The state income tax returns for the tax years 2007 and later remain subject to examination in the one state where audits have occurred.

The Company did not have unrecognized tax benefits as of December 31, 2010 and does not expect this to change over the next twelve (12) months. In connection with the adoption of the guidance the Company will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2010, the Company has not accrued interest or penalties related to uncertain tax positions.

10. CAPITAL STOCK

Preferred and Common Stock:

The authorized capital stock of the Company consists of 375,000,000 shares of capital stock designated as follows: (i) 270,000,000 shares of preferred stock, par value $.0001, of which 90,000,000 shares have been designated as Series "A" Convertible Preferred Stock, 90,000,000 shares have been designated as Series "B" Convertible Preferred Stock and 90,000,000 shares have been designated as Redeemable Preferred Stock, and (ii) 105,000,000 shares of common stock, par value $.0001.

At December 31, 2008 81,801,853 shares of Series A Convertible Preferred Stock and 85,398 shares of Common Stock were issued and outstanding. 83,609,009 shares of Series "A" Convertible Preferred Stock and 85,398 shares of Common Stock were issued and outstanding for the years ended December 31, 2009 and 2010, respectively.

Series "A" Convertible Preferred Stock:

The holders of Series "A" Convertible Preferred Stock are entitled to receive cumulative dividends, compounded quarterly, at the rate of 2.5% of the original issue price of such stock. The Company recorded undeclared dividends, within equity, in the amount of approximately $2,264,000, $2,315,000 and $2,447,000 for the years ended December 31, 2008, 2009 and 2010, respectively and at December 31, 2010, accrued undeclared dividends amounted to approximately $14,699,000.

Upon the election of the holders of two-thirds of the Series "A" Convertible Preferred Stock, each share of Series "A" Convertible Preferred Stock is convertible into one (1) share of Series "B" Convertible Preferred Stock and one (1) share of Redeemable Preferred Stock. Such conversion amounts are adjustable upon certain dilutive issuances. In addition, upon the completion of a qualified public offering by the Company, each share of Series "A" Convertible

Preferred Stock is automatically converted as described above and all shares of outstanding Redeemable Preferred Stock are redeemed for cash. Upon any liquidation, dissolution or winding up of the Company, each holder of Series “A” Convertible Preferred Stock has a liquidation preference that is pari passu with the other preferred stock of the Company and senior to the Common Stock. Each holder of Series “A” Convertible Preferred Stock is entitled to a number of votes equal to the number of shares of Common Stock each holder would receive on an “as if converted basis.”

Series “B” Convertible Preferred Stock:

Subject to the payment in full of all preferential dividends to the holders of Series “A” Convertible Preferred Stock and Redeemable Preferred Stock, the holders of Series “B” Convertible Preferred Stock are entitled to receive (on an as-converted and equal basis with the holders of Series “A” Convertible Preferred Stock and Common Stock) dividends in such amounts and at such times as the Board of Directors of the Company may determine in its sole discretion. Such dividends are not cumulative. Upon the election of the holders of two-thirds of the Series “B” Convertible Preferred Stock, each share of Series “B” Convertible Preferred Stock is convertible into one (1) share of Common Stock of the Company. Such conversion amount is adjustable upon certain dilutive issuances.

Upon the completion of a qualified public offering by the Company, all shares of outstanding Redeemable Preferred Stock (including shares issued upon the automatic conversion of Series “A” Convertible Preferred Stock as described above) are redeemed for cash. Upon any liquidation, dissolution or winding up of the Company, each holder of Series “B” Convertible Preferred Stock has a liquidation preference that is pari passu with the other preferred stock of the Company and senior to the Common Stock. Each holder of Series “B” Convertible Preferred Stock is entitled to a number of votes equal to the number of shares of Common Stock each holder would receive on an “as if converted basis.”

Redeemable Preferred Stock:

The holders of Redeemable Preferred Stock are entitled to receive cumulative dividends, compounded quarterly, at the per share rate of 5% of the Redeemable Preferred Stock liquidation preference amount from the date of original issuance of such shares. The Redeemable Preferred Stock does not have a conversion feature. Upon the occurrence of certain change of control transactions (each, an “Extraordinary Transaction”), the holders of two-thirds of the Redeemable Preferred Stock may elect to have all of the shares of Redeemable Preferred Stock redeemed by the Company or to otherwise participate in such Extraordinary Transaction. Upon any liquidation, dissolution or winding up of the Company, each holder of Redeemable Preferred Stock has a liquidation preference that is pari passu with the other preferred stock of the Company and senior to the Common Stock. The holders of each outstanding share of Redeemable Preferred Stock, voting as a separate class, are entitled to vote and elect one Director and to remove such Director, with or without cause. The holders of Redeemable Preferred Stock are not entitled to vote on any other matters except as required by law.

No dividends may be declared or paid, and no shares of preferred stock may be redeemed until the Senior Secured and Senior Unsecured obligations of the Company have been paid in full.

11. SUBSEQUENT EVENTS

Material Definitive Agreement:

On February 17, 2011, Youth and Family Centered Services, Inc., entered into an Agreement and Plan of Merger (the “Merger Agreement”), with Acadia Healthcare Company, LLC, a Delaware corporation (the “Parent”), and Acadia—YFCS Acquisition Company, Inc., a Georgia corporation (the “Merger Co”).

At the effective time of the Merger, each outstanding share of preferred and common stock outstanding shall be cancelled and converted to the right to receive certain consideration as set forth in the Merger Agreement. At the effective time, each option and/or warrant to purchase shares of common stock of the Company, whether vested or unvested, that is outstanding and unexercised as of immediately prior to the effective time, shall become fully vested and exercisable and shall be cancelled and converted into the right to receive certain merger consideration as set forth in the Merger Agreement.

The Company has made certain representations, warranties and covenants in the Merger agreement, which generally expire on June 1, 2012, with certain fundamental representations surviving until thirty (30) days after the expiration of the statute of limitations applicable to such representations.

The Parent and Merger Co have obtained equity and debt financing commitments for the transaction contemplated by the Merger Agreement, which proceeds will be sufficient to pay the aggregate merger consideration and all related fees and expenses. Additionally, upon consummation of the sale, approximately, $86.1 million of our Senior and Subordinated Debt is required to be paid off. Subsequent to year-end the Company made a principal payment of $1.8 million against its Term Loan. The receipt of financing on substantially the terms and subject to the conditions set forth in such commitments is a condition to the consummation of the Merger.

The companies expect to close the transaction at the end of the first quarter or early in the second quarter of 2011.

Executive Employment Agreements:

In 2004, the Company entered into employments agreement with our Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"). Such employment agreements have been amended in connection with the Merger (the "Amendments"), with the Amendments becoming effective upon the consummation thereof.

In accordance with the appropriate guidance which establishes general standard of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or available to be issued, the Company evaluated subsequent events through March 31, 2011, the date the financial statements were available to be issued. There were no other material subsequent events that required recognition or additional disclosure in these financial statements.

Exhibit 99.6

PHC, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
(unaudited)

	SEPTEMBER 30, 2011	JUNE 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,260,766	$ 3,668,521
Accounts receivable, net of allowance for doubtful accounts of $7,569,270 at September 30, 2011 and $5,049,892 at June 30, 2011	12,465,615	11,078,840
Prepaid expenses	1,077,138	561,044
Prepaid income taxes	827,297	—
Other receivables and advances	2,956,556	2,135,435
Deferred income tax asset – current	1,919,435	1,919,435
Total current assets	22,506,807	19,363,275
Accounts receivable, non-current	80,019	27,168
Other receivables	27,539	43,152
Property and equipment, net	14,012,528	4,713,132
Deferred income tax asset – non-current	647,743	647,743
Deferred financing costs, net of amortization of $163,133 and $729,502 at September 30, 2011 and June 30, 2011	1,324,329	549,760
Goodwill	10,446,569	969,098
Other assets	2,779,593	1,968,662
Total assets	$ 51,825,127	$ 28,281,990
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,522,104	$ 2,890,362
Current maturities of long-term debt	235,000	348,081
Revolving credit note, current	—	1,814,877
Current portion of obligations under capital leases	47,549	19,558
Accrued payroll, payroll taxes and benefits	2,571,634	2,026,911
Accrued expenses and other liabilities	1,665,285	2,237,982
Income taxes payable	—	129,160
Total current liabilities	7,041,572	9,466,931
Long-term debt, net of current maturities	26,206,250	56,702
Obligations under capital leases, net of current portion	46,267	—
Long-term accrued liabilities	853,545	843,296
Total liabilities	34,147,634	10,366,929
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, 19,985,772 and 19,978,211 shares issued at September 30, 2011 and June 30, 2011, respectively	199,858	199,782
Class B common stock, $.01 par value, 2,000,000 shares authorized, 773,717 issued and outstanding at September 30, 2011 and June 30, 2011, each convertible into one share of Class A common stock	7,737	7,737
Additional paid-in capital	28,266,988	28,220,835
Treasury stock, 1,214,093 shares of Class A common stock at September 30, 2011 and June 30, 2011, respectively, at cost	(1,808,734)	(1,808,734)
Accumulated deficit	(8,988,356)	(8,704,559)
Total stockholders' equity	17,677,493	17,915,061
Total liabilities and stockholders' equity	$ 51,825,127	$ 28,281,990

See Notes to Condensed Consolidated Financial Statements

PHC, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations
(Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30, 2011	2010
Revenues:		
Patient care, net	$ 19,337,364	$ 14,233,822
Contract support services	1,346,937	837,598
Total revenues	20,684,301	15,071,420
Operating expenses:		
Patient care expenses	10,466,148	7,023,722
Cost of contract support services	1,069,527	707,775
Provision for doubtful accounts	1,263,017	1,003,462
Administrative expenses	7,360,632	5,100,069
Total operating expenses	20,159,324	13,835,028
Income from operations	524,977	1,236,392
Other income (expense):		
Interest income	82,676	40,594
Other income	33,822	38,988
Interest expense	(1,065,542)	(80,332)
Total other income (expense), net	(949,044)	(750)
(Loss) income before provision for income taxes	(424,067)	1,235,642
Income tax benefit	(140,270)	557,027
Net (loss) income	$ (283,797)	$ 678,615
Basic net (loss) income per common share	$ (0.01)	$ 0.03
Basic weighted average number of shares outstanding	19,540,218	19,532,095
Diluted net (loss) income per common share	$ (0.01)	$ 0.03
Diluted weighted average number of shares outstanding	19,540,218	19,603,138

See Notes to Condensed Consolidated Financial Statements.

PHC, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011	2010
Cash flows from operating activities:		
Net income (loss)	$ (283,797)	$ 678,615
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	358,816	268,397
Non-cash interest expense	163,133	36,633
Earnings from investments in unconsolidated subsidiaries	(6,630)	(13,411)
Non-cash stock based compensation	30,149	49,023
Provision for doubtful accounts	1,263,017	1,003,462
Changes in:		
Accounts receivable and other receivable	(1,801,382)	(2,104,446)
Prepaid expenses, prepaid income taxes and other current assets	(1,246,257)	(194,982)
Other assets	70,015	8,735
Accounts payable	(525,742)	(54,070)
Accrued expenses and other liabilities	(298,425)	(459,305)
Net cash used in operating activities	(2,277,103)	(781,349)
Cash flows from investing activities:		
Acquisition of property and equipment	(109,607)	(361,002)
Purchase of licenses	(522)	(10,400)
Equity investment in unconsolidated subsidiaries	15,240	—
Principal receipts on note receivable	90,012	—
Cash used in Meadowwood acquisition	(21,500,000)	—
Net cash used in investing activities	(21,504,877)	(371,402)
Cash flows from financing activities:		
Revolving debt proceeds	3,000,000	—
Payments on revolving term debt	(1,814,877)	(103,084)
Proceeds from borrowing on long-term debt	23,500,000	—
Principal payments on long-term debt	(389,275)	(113,764)
Deferred financing cost	(937,702)	—
Proceeds from issuance of common stock, net	16,079	8,754
Purchase of treasury stock	—	(112,997)
Net cash provided by (used in) financing activities	23,374,225	(321,091)
Net decrease in cash and cash equivalents	(407,755)	(1,473,842)
Beginning cash and cash equivalents	3,668,521	4,540,278
Ending cash and cash equivalents	$ 3,260,766	$ 3,066,436
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 880,257	$ 43,699
Income taxes	797,100	676,825

See Notes to Condensed Consolidated Financial Statements

Notes to Condensed Consolidated Financial Statements
September 30, 2011
(unaudited)

Note A—The Company

PHC, Inc. (the “Company”) is incorporated in the Commonwealth of Massachusetts. The Company is a national health care company, which operates subsidiaries specializing in behavioral health services including the treatment of substance abuse, which includes alcohol and drug dependency and related disorders and the provision of psychiatric services. The Company also operates help lines for employee assistance programs, call centers for state and local programs and provides management, administrative and online behavioral health services. The Company primarily operates under three business segments:

Behavioral health treatment services, including two substance abuse treatment facilities: Highland Ridge Hospital, located in Salt Lake City, Utah, which also treats psychiatric patients, and Mount Regis Center, located in Salem, Virginia, and twelve psychiatric treatment locations which include Harbor Oaks Hospital, a 71-bed psychiatric hospital located in New Baltimore, Michigan, Detroit Behavioral Institute, a 66-bed residential facility located in Detroit, Michigan, Seven Hills Hospital, a 55-bed psychiatric hospital in Las Vegas, Nevada, MeadowWood Behavioral Health, a 58-bed psychiatric hospital in New Castle, Delaware and eight outpatient behavioral health locations (one in New Baltimore, Michigan operating in conjunction with Harbor Oaks Hospital, one in Monroeville, Pennsylvania operating as Wellplace, three in Las Vegas, Nevada operating as Harmony Healthcare and three locations operating as Pioneer Counseling Center in the Detroit, Michigan metropolitan area);

Call center and help line services (contract services), including two call centers: one operating in Midvale, Utah and one in Detroit, Michigan. The Company provides help line services through contracts with major railroads and a call center contract with the State of Michigan. The call centers both operate under the brand name, Wellplace; and

Behavioral health administrative services, including delivery of management and administrative and online services. The parent company provides management and administrative services for all of its subsidiaries and online services for its behavioral health treatment subsidiaries and its call center subsidiaries. It also provides behavioral health information through its website Wellplace.com.

Note B—Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“USGAAP”) for interim financial information and in accordance with Regulation S-X. Accordingly, they do not include all of the information and notes required by USGAAP for complete financial statements. The balance sheet at June 30, 2011 has been derived from the audited consolidated balance sheet at that date. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending June 30, 2012. The accompanying financial statements should be read in conjunction with the June 30, 2011 consolidated financial statements and notes thereto included in this Registration Statement.

Estimates and assumptions

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Such estimates include patient care billing rates, realizability of receivables from third-party payors, rates for Medicare and Medicaid and the realization of deferred tax benefits and the valuation of goodwill, which represents a significant portion of the estimates made by management.

Revenue Recognition

The Company bills for its inpatient behavioral healthcare services upon discharge and for its outpatient facilities daily. In all cases, the charges are contractually adjusted at the time of billing using adjustment factors based on agreements or contracts with the insurance carriers and the specific plans held by the individuals. This method may still require additional adjustment based on ancillary services provided and deductibles and copays due from the individuals which are estimated at the time of admission based on information received from the individual. Adjustments to these estimates are recognized as adjustments to revenue during the period identified, usually when payment is received.

The Company's policy is to collect estimated co-payments and deductibles at the time of admission. Payments are made by way of cash, check or credit card. If the patient does not have sufficient resources to pay the estimated co-payment in advance, the Company's policy is to allow payment to be made in three installments—one third due upon admission, one third due upon discharge and the balance due 30 days after discharge. At times, the patient is not physically or mentally stable enough to comprehend or agree to any financial arrangement. In this case, the Company will make arrangements with the patient once his or her condition is stabilized. At times, this situation will require the Company to extend payment arrangements beyond the three payment method previously outlined. Whenever extended payment arrangements are made, the patient, or the individual who is financially responsible for the patient, is required to sign a promissory note to the Company, which includes interest on the balance due.

Contract support service revenue is a result of fixed fee contracts to provide telephone support. Revenue for these services is recognized ratably over the service period. All revenues and receivables from our contract services division are based on a prorated monthly allocation of the total contract amount and usually paid within 30 days of the end of the month.

Note C—Stock-Based Compensation

The Company has three active stock plans: a stock option plan, an employee stock purchase plan and a non-employee directors' stock option plan.

The stock option plan provides for the issuance of a maximum of 1,900,000 shares of Class A common stock of the Company pursuant to the grant of incentive stock options to employees or nonqualified stock options to employees, directors, consultants and others whose efforts are important to the success of the Company. Subject to the provisions of this plan, the compensation committee of the Board of Directors (the "Board") has the authority to select the optionees and determine the terms of the options including: (i) the number of shares, (ii) option exercise terms, (iii) the exercise or purchase price (which in the case of an incentive stock option will not be less than the market price of the Class A common stock as of the date of grant), (iv) type and duration of transfer or other restrictions and (v) the time and form of payment for restricted stock upon exercise of options.

The employee stock purchase plan provides for the purchase of Class A common stock at 85 percent of the fair market value at specific dates, to encourage stock ownership by all eligible employees. A maximum of 500,000 shares may be issued under this plan.

The non-employee director's stock option plan provides for the grant of non-statutory stock options automatically at the time of each annual meeting of the Board. Under the plan, a maximum of 350,000 shares may be issued. Each outside director is granted an option to purchase 20,000 shares of Class A common stock, annually, at fair market value on the date of grant, vesting 25% immediately and 25% on each of the first three anniversaries of the grant and expiring ten years from the grant date.

The Company follows the provisions of Financial Accounting Standards Board ("FASB") Auditing Standards Codification ("ASC")—"Compensation—Stock Compensation" ("ASC 718"). Under the provisions of ASC 718, the Company recognizes the fair value of stock compensation as expense, over the requisite service period of the individual grantees, which generally equals the vesting period. All of the Company's stock compensation is accounted for as equity instruments and there have been no liability awards granted. Any income tax benefit related to stock compensation will be shown under the financing section of the statement of cash flows. Based on the Company's historical voluntary turnover rates for individuals in the positions who received options in the period, there was no forfeiture rate assumed. It is assumed these options will remain outstanding for the full term of issue. Under the true-up provisions of ASC 718, a recovery of prior expense will be recorded if the actual forfeiture is higher than estimated.

Under the provisions of ASC 718, the Company recorded $30,149 and $37,397 of stock-based compensation on its consolidated condensed statement of operations for the three months ended September 30, 2011 and 2010.

The Company had the following activity in its stock option plans for the three months ended September 30, 2011:

	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE PER SHARE	INTRINSIC VALUE AT SEPTEMBER 30, 2011
Balance—June 30, 2011	1,287,250	$ 1.83	
Granted	—	—	
Exercised	—	—	
Expired	31,250	1.26	
Balance—September 30, 2011	1,256,000	$ 1.85	$ 861,788
Exercisable	1,021,686	$ 1.97	$ 620,483

There were no options exercised during the three months ended September 30, 2011.

The following summarizes the activity of the Company's stock options that have not vested for the three months ended September 30, 2011.

	NUMBER OF SHARES	WEIGHTED- AVERAGE FAIR VALUE
Non-vested at July 1, 2011	253,064	$ .83
Granted	—	—
Expired	18,750	.69
Vested	—	—
Non-vested at September 30, 2011	234,314	$ .84

The compensation cost related to the fair value of the options outstanding at September 30, 2011 of approximately $138,977 will be recognized as these options vest over the next three years.

The Company utilizes the Black-Scholes valuation model for estimating the fair value of the stock compensation granted. There were no options granted under the stock option plans for the three months ended September 30, 2011 or September 30, 2010.

Note D—Fair Value Measurements:

ASC 820-10-65, "Fair Value Measurements and Disclosures", defines fair value, provides guidance for measuring fair value and requires certain disclosures. This statement applies under other accounting pronouncements that require or permit fair value measurements. The statement indicates, among other things, that a fair value measurement assumes that a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. ASC 820-10-65 defines fair value based upon an exit price model. ASC 820-10-65 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost).

The statement utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The Company had money market funds stated at fair market value of $585,250 and $516,573 at September 30, 2011 and June 30, 2011, respectively, that were measured using Level 1 inputs.

Note E—Business Segment Information

The Company's behavioral health treatment services have similar economic characteristics, services, patients and clients. Accordingly, all behavioral health treatment services are reported on an aggregate basis under one segment. The Company's segments are more fully described in Note A above. Residual income and expenses from closed facilities are included in the administrative services segment. The following summarizes the Company's segment data:

	TREATMENT SERVICES	CONTRACT SERVICES	ADMINISTRATIVE SERVICES	ELIMINATIONS	TOTAL
For the three months ended September 30, 2011					
Revenue–external customers	$19,337,364	$1,346,937	$ —	$ —	$20,684,301
Revenues—intersegment	1,171,618	—	1,452,735	(2,624,353)	—
Segment net income (loss)	2,663,826	285,588	(3,233,211)	—	(283,797)
Capital expenditures	100,141	1,870	7,596	—	109,607
Depreciation & amortization	292,521	20,736	45,559	—	358,816
Interest expense	7,153	—	1,058,389	—	1,065,542
Income tax benefit	—	—	(140,270)	—	(140,270)

	TREATMENT SERVICES	CONTRACT SERVICES	ADMINISTRATIVE SERVICES	ELIMINATIONS	TOTAL
For the three months ended September 30, 2011 (continued)					
Identifiable assets	43,108,519	1,145,687	7,570,921	—	51,825,127
Goodwill	10,446,569	—	—	—	10,446,569

	TREATMENT SERVICES	CONTRACT SERVICES	ADMINISTRATIVE SERVICES	ELIMINATIONS	TOTAL
For the three months ended September 30, 2010					
Revenue–external customers	$14,233,822	$ 837,598	$ —	$ —	$15,071,420
Revenues—intersegment	1,053,789	—	1,293,105	(2,346,894)	—
Segment net income (loss)	2,140,233	129,823	(1,591,441)	—	678,615
Capital expenditures	353,099	5,303	2,600	—	361,002
Depreciation & amortization	208,756	19,851	39,790	—	268,397
Interest expense	40,599	—	39,733	—	80,332
Income tax expense	—	—	557,027	—	557,027
At June 30, 2011					
Identifiable assets	19,523,739	1,250,903	7,507,348	—	28,281,990
Goodwill	969,098	—	—	—	969,098

Note F—Income Taxes

FASB ASC 740, "Income Taxes" ("ASC 740"), prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. ASC 740 required that a change in judgment related to prior years' tax positions be recognized in the quarter of the change. The Company recognized no material adjustment in the liability for unrecognized tax benefits.

We recognize interest and penalties related to uncertain tax positions in general and administrative expense. As of September 30, 2011, we have not recorded any provisions for accrued interest and penalties related to uncertain tax positions.

Tax years 2006-2010 remain open to examination by the major taxing authorities to which we are subject.

Note G—Basic and Diluted Income Per Share:

Income per share is computed by dividing the income applicable to common shareholders by the weighted average number of shares of both classes of common stock outstanding for each fiscal year. Class B common stock has additional voting rights. All dilutive common stock equivalents are included in the calculation of diluted earnings per share; however, since the Company experienced a net loss for the three months ended September 30, 2011, no additional common stock equivalents related to options or warrants were included since they would have been anti-dilutive. For the three months ended September 30, 2010, all dilutive common stock equivalents were included in the calculation of diluted earnings per share using the treasury stock method.

The weighted average number of common shares outstanding used in the computation of earnings per share is summarized as follows:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2011	2010
Weighted average shares outstanding—basic	19,540,218	19,532,095
Employee stock options	—	71,043
Warrants	—	—
Weighted average shares outstanding—fully diluted	19,540,218	19,603,138

The following table summarizes securities outstanding as of September 30, 2011 and 2010, but not included in the calculation of diluted net earnings per share because such shares are antidilutive:

	THREE MONTHS ENDED SEPTEMBER 30,	
	2011	2010
Employee stock options	1,256,000	1,059,000
Warrants	363,000	363,000
Total	1,619,000	1,422,000

Note H—Note Receivable

On November 13, 2010, the Company, through its subsidiary Detroit Behavioral Institute, Inc., d/b/a Capstone Academy, a wholly owned subsidiary of the Company ("Capstone Academy"), purchased the rights under certain identified notes (the "Notes") held by Bank of America and secured by the property leased by Capstone Academy for $1,250,000. The Notes were in default at the time of the purchase and the Company has initiated foreclosure proceedings in the courts. The Notes were purchased using cash flow from operations. The Company has recorded the value of the Notes in other receivables, current, in the accompanying condensed consolidated financial statements. The Company believes the value of the Notes are fully recoverable based on the current value of the property securing the Notes. A Sheriff's Sale of the property is scheduled for the second quarter of fiscal 2012.

Note I—Acquisition of MeadowWood

On July 1, 2011, the Company completed the acquisition of MeadowWood Behavioral Health, a behavioral health facility located in New Castle, Delaware ("MeadowWood") from Universal Health Services, Inc. (the "Seller") pursuant to the terms of an Asset Purchase Agreement, dated as of March 15, 2011, between the Company and the Seller (the "Purchase Agreement"). In accordance with the Purchase Agreement, PHC MeadowWood, Inc., a Delaware corporation and subsidiary of the Company ("PHC MeadowWood") acquired substantially all of the operating assets (other than cash) and assumed certain liabilities associated with MeadowWood. The purchase price was $21,500,000, and is subject to a working capital adjustment. At closing, PHC MeadowWood hired Seller's employees currently employed at MeadowWood and assumed certain obligations with respect to those transferred employees. Also at closing, PHC MeadowWood and the Seller entered into a transition services agreement to facilitate the transition of the business. Transaction costs of approximately $684,000 were recorded as administrative expense during the three months ended September 30, 2011.

The consideration was allocated to assets and liabilities based on their relative fair values as of the closing date of the MeadowWood acquisition. The purchase price consideration and allocation of purchase price was as follows:

Cash purchase price (subject to adjustment)	$ 21,500,000
Accounts Receivables (net)	$ 1,796,781
Prepaid expenses and other current assets	97,134
Land	1,420,000
Building and Improvements	7,700,300
Furniture and Equipment	553,763
Licenses	700,000
Goodwill	9,541,046
Accounts Payable	(157,484)
Accrued expenses and other current liabilities	(151,540)
	$ 21,500,000

The allocation of consideration paid for the acquired assets and liabilities of MeadowWood is based on management's best preliminary estimates. The actual allocation of the amount of the consideration may differ from that reflected after a third party valuation and these procedures have been finalized.

The results of operations of MeadowWood are included in the Company's operating results beginning July 1, 2011. The following presents the pro forma revenues, net income and net income per common share for three months ended September 30, 2010 of the Company's acquisition of MeadowWood assuming the acquisition occurred as of July 1, 2009.

	THREE MONTHS ENDED SEPTEMBER 30, (UNAUDITED) 2010
Revenues	$ 18,795,290
Net income	$ 1,049,306
Net income per common share	$ 0.05
Fully diluted weighted average shares outstanding	19,603,138

This unaudited pro forma condensed combined financial information is not necessarily indicative of the results of operations that would have been achieved had the acquisition actually taken place at the dates indicated and do not purport to be indicative of future position or operating results.

Note J—Financing Agreements

Also on July 1, 2011 (the "Closing Date"), and concurrently with the closing under the MeadowWood Purchase and Sale Agreement, the Company and its subsidiaries entered into a Credit Agreement with the lenders party thereto (the "Lenders"), Jefferies Finance LLC, as administrative agent, arranger, book manager, collateral agent, and documentation agent for the Lenders, and as syndication agent and swingline lender, and Jefferies Group, Inc., as issuing bank (the "Credit Agreement"). The terms of the Credit Agreement provide for (i) a $23,500,000 senior secured term loan facility (the "Term Loan Facility") and (ii) up to $3,000,000 senior secured revolving credit facility (the "Revolving Credit Facility"), both of which were fully borrowed on the Closing Date in order to finance the MeadowWood purchase, to pay off the Company's existing loan facility with CapitalSource Finance LLC, for miscellaneous costs, fees and expenses related to the Credit Agreement and the MeadowWood purchase, and for general working capital purposes. As of September 30, 2011, approximately $23,441,250 and $3,000,000 remain outstanding under the Term Loan Facility and the Revolving Credit Facility. The Term Loan Facility and Revolving Credit Facility mature on July 1, 2014 and require repayment of 0.25% of the principal amount of the Term Loan each quarter during the term. Interest on these loans for the quarter ended September 30, 2011 was 7.75%. Under the agreement, the Company must maintain compliance with certain financial covenants. As of September 30, 2011, the Company was in compliance with the required covenants.

Note K—Merger with Acadia Healthcare Company, Inc.

On May 23, 2011, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Acadia Healthcare Company, Inc., a Delaware corporation ("Acadia"), and Acadia Merger Sub, LLC, a Delaware limited liability company and wholly-owned subsidiary of Acadia ("Merger Sub"), pursuant to which, subject to the satisfaction or waiver of the conditions therein, the Company will merge with and into Merger Sub, with Merger Sub continuing as the surviving company (the "Merger").

On October 26, 2011, the shareholders of PHC, Inc. voted to approve the merger agreement. On November 1, 2011 the Merger agreement was finalized. Upon completion of the Merger, Acadia stockholders own approximately 77.5% of the combined company and PHC's former stockholders own approximately 22.5% of the combined company.

NOTE L—Subsequent Events-

The Company evaluated subsequent events through the date of this report and did not find any unrecorded reportable subsequent events, except as discussed in Note K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of
PHC, Inc.:

We have audited the accompanying consolidated balance sheets of PHC, Inc. and subsidiaries as of June 30, 2011 and 2010 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PHC, Inc. and subsidiaries at June 30, 2011 and 2010 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Boston, Massachusetts
August 18, 2011

PHC, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	JUNE 30, 2011	JUNE 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,668,521	$ 4,540,278
Accounts receivable, net of allowance for doubtful accounts of $5,049,892 and $3,002,323 at June 30, 2011 and 2010, respectively	11,078,840	8,776,283
Prepaid expenses	561,044	490,662
Other receivables and advances	2,135,435	743,454
Deferred tax assets	1,919,435	1,145,742
Total current assets	19,363,275	15,696,419
Restricted cash	—	512,197
Accounts receivable, non-current	27,168	17,548
Other receivables	43,152	58,169
Property and equipment, net	4,713,132	4,527,376
Deferred financing costs, net of amortization of $729,502 and $582,971 at June 30, 2011 and 2010, respectively	549,760	189,270
Goodwill	969,098	969,098
Deferred tax assets-long term	647,743	1,495,144
Other assets	1,968,662	2,184,749
Total assets	$28,281,990	$25,649,970
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	$ 348,081	$ 796,244
Revolving credit note	1,814,877	1,336,025
Current portion of obligations under capital leases	19,558	112,909
Accounts payable	2,890,362	2,036,803
Accrued payroll, payroll taxes and benefits	2,026,911	2,152,724
Accrued expenses and other liabilities	2,237,982	1,040,487
Income taxes payable	129,160	23,991
Total current liabilities	9,466,931	7,499,183
Long-term debt, less current maturities	56,702	292,282
Obligations under capital leases	—	19,558
Long-term accrued liabilities	843,296	582,953
Total liabilities	10,366,929	8,393,976
Commitments and contingent liabilities (Note I)		
STOCKHOLDERS' EQUITY		
Preferred stock, 1,000,000 shares authorized, none issued	—	—
Class A Common Stock, $.01 par value; 30,000,000 shares authorized, 19,978,211 and 19,867,826 shares issued at June 30, 2011 and 2010, respectively	199,782	198,679
Class B Common Stock, $.01 par value; 2,000,000 shares authorized, 773,717 and 775,021 issued and outstanding at June 30, 2011 and 2010, respectively, each convertible into one share of Class A Common Stock	7,737	7,750
Additional paid-in capital	28,220,835	27,927,536
Treasury stock, 1,214,093 and 1,040,598 Class A common shares at cost at June 30, 2011 and 2010, respectively	(1,808,734)	(1,593,407)
Accumulated deficit	(8,704,559)	(9,284,564)
Total stockholders' equity	17,915,061	17,255,994
Total liabilities and stockholders' equity	$28,281,990	$25,649,970

See accompanying notes to consolidated financial statements.

PHC, INC. AND SUBSIDIARIES

Consolidated Statements of Income

	FOR THE YEARS ENDED JUNE 30, 2011	2010
Revenues:		
Patient care, net	$ 57,495,735	$ 49,647,395
Contract support services	4,512,144	3,429,831
Total revenues	62,007,879	53,077,226
Operating expenses:		
Patient care expenses	30,234,829	26,306,828
Cost of contract support services	3,617,509	2,964,621
Provision for doubtful accounts	3,406,443	2,131,392
Administrative expenses	22,206,455	19,110,638
Legal settlement	446,320	—
Total operating expenses	59,911,556	50,513,479
Income from operations	2,096,323	2,563,747
Other income (expense):		
Interest income	263,523	142,060
Interest expense	(310,673)	(326,582)
Other income, net	(61,232)	146,537
Total other expense, net	(108,382)	(37,985)
Income before income taxes	1,987,941	2,525,762
Provision for income taxes	1,407,936	1,106,100
Net income applicable to common shareholders	$ 580,005	$ 1,419,662
Basic net income per common share	$ 0.03	$ 0.07
Basic weighted average number of shares outstanding	19,504,943	19,813,783
Fully diluted net income per common share	$ 0.03	$ 0.07
Fully diluted weighted average number of shares outstanding	19,787,461	19,914,954

See accompanying notes to consolidated financial statements.

PHC, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

	CLASS A COMMON STOCK		CLASS B COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	CLASS A TREASURY STOCK		ACCUMULATED DEFICIT	TOTAL
	SHARES	AMOUNT	SHARES	AMOUNT		SHARES	AMOUNT		
Balance—June 30, 2009	19,840,793	$ 198,408	775,080	$ 7,751	$ 27,667,597	626,541	$ (1,125,707)	$ (10,704,226)	$ 16,043,823
Stock-based compensation expense					221,404				221,404
Issuance of shares for options exercised	2,000	20			1,600				1,620
Issuance of employee stock purchase plan shares	24,974	250			36,935				37,185
Purchase of treasury shares									
Conversion from Class B to Class A	59	1	(59)	(1)		414,057	(467,700)		(467,700)
Net income								1,419,662	1,419,662
Balance—June 30, 2010	19,867,826	198,679	775,021	7,750	27,927,536	1,040,598	(1,593,407)	(9,284,564)	17,255,994
Stock-based compensation expense					164,916				164,916
Issuance of shares for options exercised	95,000	950			102,790				103,740
Fair value of warrants issued					11,626				11,626
Issuance of employee stock purchase plan shares	14,081	140			13,967				14,107
Purchase of treasury shares						173,495	(215,327)		(215,327)
Conversion from Class B to Class A	1,304	13	(1,304)	(13)					
Net income								580,005	580,005
Balance—June 30, 2011	19,978,211	$ 199,782	773,717	$ 7,737	$ 28,220,835	1,214,093	$ (1,808,734)	$ (8,704,559)	$ 17,915,061

See accompanying notes to consolidated financial statements.

PHC, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	FOR THE YEARS ENDED JUNE 30, 2011	2010
Cash flows from operating activities:		
Net income	$ 580,005	$ 1,419,662
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash (gain)/loss on equity method investments	(25,864)	(17,562)
Loss on disposal of property and equipment	—	3,831
Depreciation and amortization	1,105,249	1,156,569
Non-cash interest expense	146,531	146,531
Deferred income taxes	73,708	185,093
Fair value of warrants	11,626	—
Stock-based compensation	164,916	221,404
Provision for doubtful accounts	3,406,443	2,131,392
Changes in operating assets and liabilities:		
Accounts and other receivables	(6,256,335)	(4,475,536)
Prepaid expenses and other current assets	(70,382)	(15,136)
Other assets	524,438	12,910
Accounts payable	670,548	656,755
Accrued expenses and other liabilities	1,408,237	768,017
Net cash provided by operations	1,739,120	2,193,930
Cash flows from investing activities:		
Acquisition of property and equipment	(1,081,810)	(751,843)
Purchase of licenses	(52,466)	(22,208)
Equity investment in unconsolidated subsidiary	72,980	33,528
Investment in note receivable	(1,001,934)	—
Principal receipts on note receivable	162,685	—
Net cash used in investing activities	(1,900,545)	(740,523)
Cash flows from financing activities:		
Repayment on revolving debt, net	478,852	472,621
Principal payments on long-term debt and capital lease obligations	(796,652)	(156,199)
Cash paid for deferred financing costs	(295,052)	—
Purchase of treasury stock	(215,327)	(467,700)
Proceeds from issuance of common stock, net	117,847	38,805
Net cash used in financing activities	(710,332)	(112,473)
Net (decrease) increase in cash and cash equivalents	(871,757)	1,340,934
Beginning cash and cash equivalents	4,540,278	3,199,344
Cash and cash equivalents, end of year	$ 3,668,521	$ 4,540,278
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$ 164,141	$ 180,048
Income taxes	1,248,147	864,525
Supplemental disclosure of non-cash financing and investing transactions:		
Conversion of Class B to Class A common stock	$ 13	$ 59
Accrued and unpaid deferred financing costs	211,922	—

See accompanying notes to consolidated financial statements.

NOTE A—THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations and business segments:

PHC, Inc. and subsidiaries, ("PHC" or the "Company") is incorporated in the Commonwealth of Massachusetts. The Company is a national healthcare company which operates subsidiaries specializing in behavioral health services including the treatment of substance abuse, which includes alcohol and drug dependency and related disorders and the provision of psychiatric services. The Company also operates help lines for employee assistance programs, call centers for state and local programs and provides management, administrative and online behavioral health services. The Company primarily operates under three business segments:

(1) Behavioral health treatment services, including two substance abuse treatment facilities: Highland Ridge Hospital, located in Salt Lake City, Utah, which also treats psychiatric patients, Mount Regis Center, located in Salem, Virginia and Renaissance Recovery and eleven psychiatric treatment locations which include Harbor Oaks Hospital, a 71-bed psychiatric hospital located in New Baltimore, Michigan, Detroit Behavioral Institute, a 66-bed residential facility in Detroit, Michigan, a 55-bed psychiatric hospital in Las Vegas, Nevada and eight outpatient behavioral health locations (one in New Baltimore, Michigan operating in conjunction with Harbor Oaks Hospital, three in Las Vegas, Nevada as Harmony Healthcare, three locations operating as Pioneer Counseling Center in the Detroit, Michigan metropolitan area) and one location in Pennsylvania operating as Wellplace;

(2) Call center and help line services (contract services), including two call centers, one operating in Midvale, Utah and one in Detroit, Michigan. The Company provides help line services through contracts with major railroads and a call center contract with Wayne County, Michigan. The call centers both operate under the brand name Wellplace; and

(3) Behavioral health administrative services, including delivery of management and administrative and online services. The parent company provides management and administrative services for all of its subsidiaries and online services for its behavioral health treatment subsidiaries and its call center subsidiaries. It also provides behavioral health information through its website, Wellplace.com.

Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. In January 2007, the Company purchased a 15.24% membership interest in the Seven Hills Psych Center, LLC, the entity that is the landlord of the Seven Hills Hospital subsidiary. In March 2008, the Company, through its subsidiary PHC of Nevada, Inc., purchased a 25% membership interest in Behavioral Health Partners, LLC, the entity that is the landlord of a new outpatient location for Harmony Healthcare. These investments are accounted for under the equity method of accounting and are included in other assets on the accompanying consolidated balance sheets. (Note F)

Revenues and accounts receivable:

Patient care revenues and accounts receivable are recorded at established billing rates or at the amount realizable under agreements with third-party payors, including Medicaid and Medicare. Revenues under third-party payor agreements are subject to examination and contractual adjustment, and amounts realizable may change due to periodic changes in the regulatory environment. Provisions for estimated third party payor settlements are provided in the period the related services are rendered. Differences between the amounts provided and subsequent settlements are recorded in operations in the period of settlement. Amounts due as a result of cost report settlements are recorded and listed separately on the consolidated balance sheets as "Other receivables". The provision for contractual allowances is deducted directly from revenue and the net revenue amount is recorded as accounts receivable. The allowance for doubtful accounts does not include the contractual allowances.

Medicare reimbursements are based on established rates depending on the level of care provided and are adjusted prospectively. Effective for fiscal years beginning after January 1, 2005, the prospective payment system ("PPS") was brought into effect for all psychiatric services paid through the Medicare program. The new system changed the

TEFRA-based (Tax Equity and Fiscal Responsibility Act of 1982) system to the new variable per diem-based system. The new rates are based on a statistical model that relates per diem resource use for beneficiaries to patient and facility characteristics available from “Center for Medicare and Medicaid Services” (“CMS’s”), administrative data base (cost reports and claims data). Patient-specific characteristics include, but are not limited to, principal diagnoses, comorbid conditions, and age. Facility specific variables include an area wage index, rural setting, and the extent of teaching activity. This change was phased in over three fiscal years with a percentage of payments being made at the old rates and a percentage at the new rates. The Company has been operating fully under PPS since fiscal 2009.

Although Medicare reimbursement rates are based 100% on PPS, the Company will continue to file cost reports annually as required by Medicare to determine ongoing rates and recoup any adjustments for Medicare bad debt. These cost reports are routinely audited on an annual basis. The Company believes that adequate provision has been made in the financial statements for any adjustments that might result from the outcome of Medicare audits. Approximately 27% of the Company’s total revenue is derived from Medicare and Medicaid payors for each of the years ended June 30, 2011 and 2010. Differences between the amounts provided and subsequent settlements are recorded in operations in the year of the settlement. To date, settlement adjustments have not been material.

Patient care revenue is recognized as services are rendered, provided there exists persuasive evidence of an arrangement, the fee is fixed or determinable and collectability of the related receivable is reasonably assured. Pre—admission screening of financial responsibility of the patient, insurance carrier or other contractually obligated payor, provides the Company the net expected collectable patient revenue to be recorded based on contractual arrangements with the payor or pre-admission agreements with the patient. Revenue is not recognized for emergency provision of services for indigent patients until authorization for the services can be obtained.

Contract support service revenue is a result of fixed fee contracts to provide telephone support. Revenue for these services is recognized ratably over the service period.

Long-term assets include non-current accounts receivable, other receivables and other assets (see below for description of other assets). Non-current accounts receivable consist of amounts due from former patients for service. This amount represents estimated amounts collectable under supplemental payment agreements, arranged by the Company or its collection agencies, entered into because of the patients’ inability to pay under normal payment terms. All of these receivables have been extended beyond their original due date. Reserves are provided for accounts of former patients that do not comply with these supplemental payment agreements and accounts are written off when deemed unrecoverable. Other receivables included as long-term assets include the non-current portion of loans provided to employees and amounts due on a contractual agreement.

Charity care amounted to approximately $231,000 and $305,000 for the years ended June 30, 2011 and 2010, respectively. Patient care revenue is presented net of charity care in the accompanying consolidated statements of income.

The Company had accounts receivable from Medicaid and Medicare of approximately $3,447,240 at June 30, 2011 and $2,333,300 at June 30, 2010. Included in accounts receivable is approximately $1,212,460 and $1,255,000 in unbilled receivables at June 30, 2011 and 2010, respectively.

Allowance for doubtful accounts:

The Company records an allowance for uncollectible accounts which reduces the stated value of receivables on the balance sheet. This allowance is calculated based on a percentage of each aged accounts receivable category beginning at 0-5% on current accounts and increasing incrementally for each additional 30 days the account remains outstanding until the account is over 300 days outstanding, at which time the provision is 100% of the outstanding balance. These percentages vary by facility based on each facility’s experience in and expectations for collecting older receivables. The Company compares this required reserve amount to the current “Allowance for doubtful accounts” to determine the required bad debt expense for the period. This method of determining the required “Allowance for doubtful accounts” has historically resulted in an allowance for doubtful accounts of 20% or greater of the total outstanding receivables balance, which the Company believes to be a reasonable valuation of its accounts receivable.

Estimates and assumptions:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Such estimates include patient care billing rates, realizability of receivables from third-party payors, rates for Medicare and Medicaid, the realization of deferred tax benefits and the valuation of goodwill, which represents a significant portion of the estimates made by management.

Reliance on key clients:

The Company relies on contracts with more than ten clients to maintain patient census at its inpatient facilities and patients for our outpatient operations and our employee assistance programs. The loss of any of such contracts would impact the Company's ability to meet its fixed costs. The Company has entered into relationships with large employers, health care institutions, insurance companies and labor unions to provide treatment for psychiatric disorders, chemical dependency and substance abuse in conjunction with employer sponsored employee assistance programs. The employees of such institutions may be referred to the Company for treatment, the cost of which is reimbursed on a per diem or per capita basis. Approximately 20% of the Company's total revenue is derived from these clients for all periods presented. No one of these large employers, health care institutions or labor unions individually accounts for 10% or more of the Company's consolidated revenues, but the loss of any of these clients would require the Company to expend considerable effort to replace patient referrals and would result in revenue and attendant losses.

Cash equivalents:

Cash equivalents include short-term highly liquid investments with original maturities of less than three months.

Property and equipment:

Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

ASSETS	ESTIMATED USEFUL LIFE
Buildings	39 years
Furniture and equipment	3 through 10 years
Motor vehicles	5 years
Leasehold improvements	Lesser of useful life or term of lease (2 to 10 years)

Other assets:

Other assets consists of deposits, deferred expenses advances, investment in Seven Hills LLC, investment in Behavioral Health Partners, LLC, software license fees, and acquired software which is being amortized over three to seven years based on its estimated useful life.

Long-lived assets:

The Company reviews the carrying values of its long-lived assets, other than goodwill, for possible impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less costs to sell. The Company believes that the carrying value of its long-lived assets is fully realizable at June 30, 2011.

Fair Value Measurements:

Accounting Standards Codification ("ASC") 820-10-65, "Fair Value Measurements and Disclosures", defines fair value, provides guidance for measuring fair value and requires certain disclosures. This statement applies under other accounting pronouncements that require or permit fair value measurements. The statement indicates, among other things, that a fair value measurement assumes that a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. ASC 820-10-65 defines fair value based upon an exit price model. ASC 820-10-65 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The statement utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- *Level 1:* Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2:* Inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- *Level 3:* Unobservable inputs that reflect the reporting entity's own assumptions.

The Company had money market funds stated at fair market value, of $516,573 and $2,504,047 at June 30, 2011 and 2010, respectively, that were measured using Level 1 inputs.

Basic and diluted income per share:

Income per share is computed by dividing the income applicable to common shareholders by the weighted average number of shares of both classes of common stock outstanding for each fiscal year. Class B Common Stock has additional voting rights. All dilutive common stock equivalents have been included in the calculation of diluted earnings per share for the fiscal years ended June 30, 2011 and 2010 using the treasury stock method.

The weighted average number of common shares outstanding used in the computation of earnings per share is summarized as follows:

	YEARS ENDED JUNE 30,	
	2011	2010
Weighted average shares outstanding—basic	19,504,943	19,813,783
Employee stock options and warrants	282,518	101,171
Weighted average shares outstanding—fully diluted	19,787,461	19,914,954

The following table summarizes securities outstanding as of June 30, 2011 and 2010, but not included in the calculation of diluted net earnings per share because such shares are antidilutive:

	YEARS ENDED JUNE 30,	
	2011	2010
Employee stock options	502,250	921,500
Warrants	363,000	343,000
Total	865,250	1,264,500

The Company repurchased 173,495 and 414,057 shares of its Class A Common Stock during fiscal 2011 and 2010, respectively.

Income taxes:

ASC 740, "Income Taxes", prescribes an asset and liability approach, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of the assets and liabilities. In accordance with ASC 740, the Company may establish reserves for tax uncertainties that reflect the use of the comprehensive model for the recognition and measurement of uncertain tax positions. Tax authorities periodically challenge certain transactions and deductions reported on our income tax returns. The Company does not expect the outcome of these examinations, either individually or in the aggregate, to have a material adverse effect on our financial position, results of operations, or cash flows.

Comprehensive income:

The Company's comprehensive income is equal to its net income for all periods presented.

Stock-based compensation:

The Company issues stock options to its employees and directors and provides employees the right to purchase stock pursuant to stockholder approved stock option and stock purchase plans. The Company follows the provisions of ASC 718, "Compensation—Stock Compensation".

Under the provisions of ASC 718, the Company recognizes the fair value of stock compensation in net income (loss), over the requisite service period of the individual grantees, which generally equals the vesting period. All of the Company's stock based awards are accounted for as equity instruments.

Under the provisions of ASC 718, the Company recorded $164,916 and $221,404 of stock-based compensation in its consolidated statements of income for the years ended June 30, 2011 and 2010, respectively, which is included in administrative expenses as follows:

	YEAR ENDED JUNE 30, 2011	YEAR ENDED JUNE 30, 2010
Directors fees	$ 75,845	$ 63,870
Employee compensation	89,071	157,534
Total	$ 164,916	$ 221,404

The Company utilizes the Black-Scholes valuation model for estimating the fair value of the stock-based compensation. The weighted-average grant date fair values of the options granted under the stock option plans of $1.15 and $0.63 for the years ended June 30, 2011 and 2010, respectively, were calculated using the following weighted-average assumptions:

	YEAR ENDED JUNE 30,	
	2011	2010
Risk free interest rate	2.50%	2.30% - 3.48%
Expected dividend yield	—	—
Expected lives	5 - 10 years	5 - 10 years
Expected volatility	61.61% - 72.06%	60.66% - 61.63%

The dividend yield of zero is based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends. Expected volatility is based on the historical volatility of the Company's common stock over the period commensurate with the expected life of the options. The risk-free interest rate is the U.S. Treasury rate on the date of grant. The expected life was calculated using the Company's historical experience for the expected term of the option.

Based on the Company's historical voluntary turnover rates for individuals in the positions who received options, there was no forfeiture rate assessed. It is assumed these options will remain outstanding for the full term of issue. Under the true-up provisions of ASC 718, a recovery of prior expense will be recorded if the actual forfeiture rate is higher than estimated or additional expense if the forfeiture rate is lower than estimated. To date, any required true-ups have not been material.

In August 2010, 7,679 shares of common stock were issued under the employee stock purchase plan. The Company recorded stock-based compensation expense of $1,304. In March 2011, 6,402 shares of common stock were issued under the employee stock purchase plan. The Company recorded stock-based compensation expense of $1,216.

As of June 30, 2011, there was $168,117 in unrecognized compensation cost related to nonvested stock-based compensation arrangements granted under existing stock option plans. This cost is expected to be recognized over the next three years.

Advertising Expenses:

Advertising costs are expensed when incurred. Advertising expenses for the years ended June 30, 2011 and 2010 were $167,549 and $136,183, respectively.

Subsequent Events:

The Company has evaluated material subsequent events through the date of issuance of this report and we have included all such disclosures in the accompanying footnotes. (See Note P).

Reclassifications:

Certain June 30, 2010 balance sheet amounts have been reclassified to be consistent with the June 30, 2011 presentation, which affect certain balance sheet classifications only.

Recent accounting pronouncements:

Recently Adopted Standards

In April 2010, the FASB issued ASU No. 2010-13, *Compensation—Stock Compensation* (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades, or ASU 2010-13. ASU 2010-13 clarifies that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, such an award should not be classified as a liability if it otherwise qualifies as equity. ASU 2010-13 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010, with early adoption permitted. The adoption of this standard did not have any impact on the Company's consolidated financial statements.

In April 2010, the FASB issued ASU No. 2010-17, *Revenue Recognition—Milestone Method* (Topic 605): Milestone Method of Revenue Recognition, or ASU 2010-17. ASU 2010-17 allows the milestone method as an acceptable revenue recognition methodology when an arrangement includes substantive milestones. ASU 2010-17 provides a definition of substantive milestone, and should be applied regardless of whether the arrangement includes single or multiple deliverables or units of accounting. ASU 2010-17 is limited to transactions involving milestones relating to research and development deliverables. ASU 2010-17 also includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, information about substantive milestones, and factors considered in the determination. ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010, with early adoption permitted. The adoption of this standard did not have any impact on the Company's consolidated financial statements.

In March 2010, the FASB issued ASU No. 2010-11, *Derivatives and Hedging* (ASC Topic 815): Scope Exception Related to Credit Derivatives, or ASU 2010-11. ASU 2010-11 clarifies that embedded credit-derivative features related only to the transfer of credit risk in the form of subordination of one financial instrument to another are not subject to potential bifurcation and separate accounting. ASU 2010-11 also provides guidance on whether embedded credit-derivative features in financial instruments issued by structures such as collateralized debt obligations are subject to bifurcations and separate accounting. ASU 2010-11 is effective at the beginning of a company's first fiscal quarter beginning after June 15, 2010, with early adoption permitted. The adoption of this guidance did not have any impact on the Company's consolidated financial statements.

Recently Issued Accounting Standards

In June 2011, the Financial Accounting Standards Board ("FASB") issued ASU No. 2011-05, *Comprehensive Income* (Topic 220): Presentation of Comprehensive Income, or ASU 2011-05. The amendments in this ASU require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2011, with early adoption permitted. The Company does not expect the adoption of ASU 2011-05 to have a material impact on its consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, *Business Combinations* (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. This ASU reflects the decision reached in EITF Issue No. 10-G. The amendments in this ASU affect any public entity, as defined by Topic 805 Business Combinations, that enters into business combinations that are material on an individual or aggregate basis. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company does not expect the adoption of this ASU will have a material effect on its consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28, *Intangibles—Goodwill and Other* (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. This ASU reflects the decision reached in EITF Issue No. 10-A. The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company does not expect the adoption of this ASU will have a material effect on its consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07, *Healthcare Entities (Topic 954),* which requires healthcare organizations that perform services for patients for which the ultimate collection of all or a portion of the amounts billed or billable cannot be determined at the time services are rendered to present all bad debt expense associated with patient service revenue as an offset to the patient service revenue line item in the statement of operations. The ASU also requires qualitative disclosures about the Company's policy for recognizing revenue and bad debt expense for patient service transactions and quantitative information about the effects of changes in the assessment of collectibility of patient service revenue. This ASU is effective for fiscal years beginning after December 15, 2011, and will be adopted by the Company in the first quarter of 2013. The Company is currently assessing the potential impact the adoption of this ASU will have on its consolidated results of operations and consolidated financial position.

NOTE B—NOTE RECEIVABLE

On November 13, 2010, the Company, through its subsidiary, Detroit Behavioral Institute, Inc., d/b/a Capstone Academy, a wholly owned subsidiary of the Company ("Capstone Academy"), purchased the rights under certain identified notes (the "Notes") held by Bank of America and secured by the property leased by Capstone Academy for $1,250,000. The Notes were in default at the time of the purchase and the Company has initiated foreclosure proceedings in the courts. The Notes were purchased using cash flow from operations. The Company has recorded the value of the Notes in other receivables, current of $1,124,240, in the accompanying consolidated financial statements. The Company believes the value of the Notes are fully recoverable based on the current value of the property securing the Notes.

NOTE C—OTHER EXPENSE

During the current fiscal year, the Company identified a failure with respect to prior year Average Deferral Percentage ("ADP") and Actual Contribution Percentage ("ACP") testing in the 401(k) plan. The Company does not consider this to be a material operational failure and is correcting by filing under the IRS' Employee Plans Compliance Resolution Program (Rev Proc 2008-50), with the assistance of counsel. During the fiscal year 2011, the Company determined that approximately $185,000 will be the non-voluntary contribution to the 401(k) plan required by the IRS in connection with this compliance failure and recorded this expense as other expense in the accompanying consolidated statements of income.

NOTE D—PROPERTY AND EQUIPMENT

Property and equipment is composed of the following:

	AS OF JUNE 30,	
	2011	2010
Land	$ 69,259	$ 69,259
Buildings	1,136,963	1,136,963
Furniture and equipment	4,285,785	3,913,670
Motor vehicles	173,492	152,964
Leasehold improvements	5,020,183	4,332,770
	10,685,682	9,605,626
Less accumulated depreciation and amortization	5,972,550	5,078,250
Property and equipment, net	$ 4,713,132	$4,527,376

Total depreciation and amortization expenses related to property and equipment were $895,650 and $907,746 for the fiscal years ended June 30, 2011 and 2010, respectively.

NOTE E—GOODWILL AND OTHER INTANGIBLE ASSETS:

Goodwill and other intangible assets are initially created as a result of business combinations or acquisitions. Critical estimates and assumptions used in the initial valuation of goodwill and other intangible assets include, but are not limited to: (i) future expected cash flows from services to be provided, customer contracts and relationships, and (ii) the acquired market position. These estimates and assumptions may be incomplete or inaccurate because unanticipated events and circumstances may occur. If estimates and assumptions used to initially value goodwill and intangible assets prove to be inaccurate, ongoing reviews of the carrying values of such goodwill and intangible assets may indicate impairment which will require the Company to record an impairment charge in the period in which the Company identifies the impairment.

ASC 350, “Goodwill and Other Intangible Assets” requires, among other things, that companies not amortize goodwill, but instead test goodwill for impairment at least annually. In addition, ASC 350 requires that the Company identify reporting units for the purpose of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life.

The Company’s goodwill of $969,098 relating to the treatment services reporting unit of the Company was evaluated under ASC 350 as of June 30, 2011. As a result of the evaluation, the Company determined that no impairment exists related to the goodwill associated with the treatment services reporting unit. The Company will continue to test goodwill for impairment, at least annually, in accordance with the guidelines of ASC 350. There were no changes to the goodwill balance during fiscal 2011 or 2010.

NOTE F—OTHER ASSETS

Included in other assets are investments in unconsolidated subsidiaries. As of June 30, 2011, this includes the Company’s investment in Seven Hills Psych Center, LLC of $302,244 (this LLC holds the assets of the Seven Hills Hospital which is being leased by a subsidiary of the Company) and the Company’s investment in Behavioral Health Partners, LLC, of $687,972 (this LLC holds the assets of an out-patient clinic which is being leased by PHC of Nevada, Inc, the Company’s outpatient operations in Las Vegas, Nevada).

The following table lists amounts included in other assets, net of any accumulated amortization:

DESCRIPTION	AS OF JUNE 30, 2011	2010
Software development & license fees	$ 790,225	$ 947,358
Investment in unconsolidated subsidiary	990,216	1,037,331
Deposits and other assets	188,221	200,060
Total	$ 1,968,662	$ 2,184,749

Total accumulated amortization of software license fees was $1,016,291 and $806,962 as of June 30, 2011 and 2010, respectively. Total amortization expense related to software license fees was $209,599 and $248,823 for the fiscal years ended June 30, 2011 and 2010, respectively.

The following is a summary of expected amortization expense of software licensure fees for the succeeding fiscal years and thereafter as of June 30, 2011:

YEAR ENDING JUNE 30,	AMOUNT
2012	$183,943
2013	172,389
2014	169,327
2015	48,274
2016	2,322
Thereafter	213,970
	$790,225

NOTE G—NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt is summarized as follows:

	AS OF JUNE 30, 2011	2010
Term mortgage note payable with monthly principal installments of $50,000 beginning July 1, 2007 increasing to $62,500 July 1, 2009 until the loan terminates. The note bears interest at prime (3.25% at June 30, 2011) plus 0.75% but not less than 6.25% and is collateralized by all of the assets of the Company and its material subsidiaries	$297,500	$ 935,000
Mortgage note due in monthly installments of $4,850 including interest at 9% through July 1, 2012, when the remaining principal balance is payable, collateralized by a first mortgage on the PHC of Virginia, Inc, Mount Regis Center facility	107,283	153,526
Total	404,783	1,088,526
Less current maturities	348,081	796,244
Long-term portion	$ 56,702	$ 292,282

Maturities of notes payable and long-term debt are as follows as of June 30, 2011:

YEAR ENDING JUNE 30,	AMOUNT
2012	$348,081
2013	56,702
	$404,783

The Company's amended revolving credit note allows the Company to borrow a maximum of $3,500,000. The outstanding balance on this note was $1,814,877 and $1,336,025 at June 30, 2011 and 2010, respectively. This agreement was amended on June 13, 2007 to modify the terms of the agreement. Advances are available based on a percentage of accounts receivable and the payment of principal is payable upon receipt of proceeds of the accounts receivable. Interest is payable monthly at prime (3.25% at June 30, 2011) plus 0.25%, but not less than 4.75%. The average interest rate paid during the fiscal year ended June 30, 2011 was 7.56%, which includes the amortization of deferred financing costs related to the initial financing. The amended term of the agreement is for two years, renewable for two additional one year terms. The Agreement was automatically renewed June 13, 2010 to effect the term through June 13, 2011. This agreement was not renewed. On July 1, 2011, in connection with the Company's purchase of MeadowWood Behavioral Health (See Note P), all of the Company's outstanding long-term debt and revolving credit facility were repaid. The revolving credit note is collateralized by substantially all of the assets of the Company's subsidiaries and guaranteed by PHC.

As of June 30, 2011, the Company was in compliance with all of its financial covenants under the revolving line of credit note. These covenants include only a debt coverage ratio and a minimum EBITDA.

NOTE H—CAPITAL LEASE OBLIGATION

At June 30, 2011, the Company was obligated under various capital leases for equipment providing for aggregate monthly payments of approximately $7,157 and terms expiring through June 2014.

The carrying value of assets under capital leases included in property and equipment and other assets are as follows:

	JUNE 30, 2011	JUNE 30, 2010
Equipment and software	$ 321,348	$ 338,936
Less accumulated amortization and depreciation	(183,627)	(153,774)
	$ 137,721	$ 185,162

Amortization and depreciation expense related to these assets for the years ended June 30, 2011 and 2010 was $45,906 and $48,977 respectively.

The remaining balance of the Company's obligations under capital lease of $19,558 is due in fiscal 2012.

NOTE I—ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other long-term liabilities consist of the following:

	JUNE 30, 2011	JUNE 30, 2010
Accrued contract expenses	$ 702,054	$ 503,636
Accrued legal and accounting	1,127,623	313,313
Accrued operating expenses	1,251,601	806,491
Total	3,081,278	1,623,440
Less long-term accrued expenses	843,296	582,953
Accrued expenses current	$ 2,237,982	$ 1,040,487

Other long-term liabilities includes the long-term portion of rent obligations associated with the Company's leases at certain locations.

NOTE J—INCOME TAXES

The Company has the following deferred tax assets included in the accompanying balance sheets:

	YEARS ENDED JUNE 30, 2011	YEARS ENDED JUNE 30, 2010
Deferred tax asset:		
Stock based compensation	$ 37,800	$ 33,382
Allowance for doubtful accounts	1,918,939	1,140,871
Transaction costs	193,791	—
Depreciation	24,827	446,825
Difference between book and tax bases of intangible assets	391,325	855,786
Credits	—	210,186
Operating loss carryforward	—	99,068
Other	496	4,871
Gross deferred tax asset	$ 2,567,178	$ 2,790,989
Less valuation allowance	—	(150,103)
Net deferred tax asset	$ 2,567,178	$ 2,640,886

These amounts are shown on the accompanying consolidated balance sheets as follows:

	YEARS ENDED JUNE 30, 2011	YEARS ENDED JUNE 30, 2010
Net deferred tax asset:		
Current portion	$ 1,919,435	$ 1,145,742
Long-term portion	647,743	1,495,144
	$ 2,567,178	$ 2,640,886

As of June 30, 2011, the Company believes that all deferred tax assets are more likely than not to be realized.

The components of the income tax provision (benefit) for the years ended June 30, 2011 and 2010 are as follows:

	2011	2010
Current		
Federal	$ 772,611	$ 313,232
State	561,617	607,775
	1,334,228	921,007
Deferred		
Federal	(62,768)	330,222
State	136,476	(145,129)
	73,708	185,093
Income tax provision	$ 1,407,936	$ 1,106,100

A reconciliation of the federal statutory rate to the Company's effective tax rate for the years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Income tax provision at federal statutory rate	34.0%	34.0%
Increase (decrease) in tax resulting from:		
State tax provision, net of federal benefit	23.16	11.77
Non-deductible expenses	1.93	3.65
Transaction costs	18.77	0.00
Change in valuation allowance	(7.55)	0.35
Prior year refunds	(0.62)	(8.49)
Other, net	1.11	2.49
Effective income tax rate	70.80%	43.77%

During fiscal 2011, the Company incurred approximately $1,607,700 of transaction costs associated with the MeadowWood acquisition and the Acadia merger (See Note P). The Company has disallowed these costs for tax purposes.

The Company adopted certain provisions of ASC 740 "Income Taxes" on July 1, 2007 as it relates to uncertain tax positions. As a result of the implementation of ASC 740, the Company recognized no material adjustment in the liability for unrecognized tax benefits.

The Company recognizes interest and penalties related to uncertain tax positions in general and administrative expense. As of June 30, 2011, the Company has not recorded any provisions for uncertain tax positions or for accrued interest and penalties related to uncertain tax positions.

Tax years 2006-2010 remain open to examination by the major taxing authorities to which the Company is subject.

NOTE K—COMMITMENTS AND CONTINGENT LIABILITIES

Operating leases:

The Company leases office and treatment facilities, furniture and equipment under operating leases expiring on various dates through June 2019. Rent expense for the years ended June 30, 2011 and 2010 was $3,449,016 and $3,650,278, respectively. Rent expense includes certain short-term rentals. Minimum future rental payments under non-cancelable operating leases, having remaining terms in excess of one year as of June 30, 2011 are as follows:

YEAR ENDING JUNE 30,	AMOUNT
2012	$ 3,480,838
2013	3,066,926
2014	2,831,549
2015	2,533,014
2016	2,379,368
Thereafter	5,279,168
	$ 19,570,863

Litigation:

During the current fiscal year, the Michigan Court of Appeals upheld an appeal involving the company and a terminated employee requiring the Company to pay $446,320, which included accrued interest, to the terminated employee to satisfy this judgment. This amount is shown as a legal settlement expense in the accompanying statements of income for the year ended June 30, 2011.

On June 2, 2011, a putative stockholder class action lawsuit was filed in Massachusetts state court, MAZ Partners LP v. Bruce A. Shear, et al., C.A. No. 11-1041, against the Company, the members of the Company’s board of directors, and Acadia Healthcare Company, Inc. The MAZ Partners complaint asserts that the members of the Company’s board of directors breached their fiduciary duties by causing the Company to enter into the merger agreement and further asserts that Acadia aided and abetted those alleged breaches of fiduciary duty. Specifically, the MAZ Partners complaint alleged that the process by which the merger agreement was entered into was unfair and that the agreement itself is unfair in that, according to the plaintiff, the compensation to be paid to the Company’s Class A shareholders is inadequate, particularly in light of the proposed cash payment to be paid to Class B shareholders and the anticipated pre-closing payment of a dividend to Arcadia shareholders and the anticipated level of debt to be held by the merged entity. The complaint sought, among other relief, an order enjoining the consummation of the merger and rescinding the merger agreement.

On June 13, 2011, a second lawsuit was filed in federal district court in Massachusetts, Blakeslee v. PHC, Inc., et al., No. 11-cv-11049, making essentially the same allegations against the same defendants. On June 21, 2011, the Company removed the MAZ Partners case to federal court (11-cv-11099). On July 7, 2011, the parties to the MAZ Partners case moved to consolidate that action with the Blakeslee case and asked the court to approve a schedule for discovery and a potential hearing on plaintiff’s motion for a preliminary injunction.

On August 11, 2011, the plaintiffs in the MAZ Partners case filed an amended class action complaint. Like the original complaint, the amended complaint asserts claims of breach of fiduciary duty against the Company, members of the Company’s board of directors, and claims of aiding and abetting those alleged breaches of fiduciary duty against Acadia. The amended complaint alleges that both the merger process and the provisions of the merger are unfair, that the directors and executive officers of the Company have conflicts of interests with regard to the merger, that the dividend to be paid to Acadia shareholders is inappropriate, that a special committee or independent director should have been appointed to represent the interest of the Class A shareholders, that the merger consideration is grossly inadequate and the exchange ratio is unfair, and that the preliminary proxy filed by the Company contains material misstatements and omissions. The amended complaint also seeks, among other things, an order enjoining the consummation of the merger and rescinding the merger agreement.

PHC and Acadia believe the claims are without merit and intend to defend against them vigorously. PHC and Acadia have recently filed motions to dismiss in each case. Regardless of the disposition of the motions to dismiss, PHC and Acadia do not anticipate the outcome to have a material impact on the progress of the merger.

Additionally, the Company is subject to various claims and legal action that arise in the ordinary course of business. In the opinion of management, the Company is not currently a party to any proceeding that would have a material adverse effect on its financial condition or results of operations.

NOTE L—STOCKHOLDERS' EQUITY AND STOCK PLANS

Preferred Stock

The Board of Directors is authorized, without further action of the shareholders, to issue up to 1,000,000 shares in one or more classes or series and to determine, with respect to any series so established, the preferences, voting powers, qualifications and special or relative rights of the established class or series, which rights may be in preference to the rights of common stock. No shares of the Company's preferred stock are currently issued.

Common Stock

The Company has authorized two classes of common stock, the Class A Common Stock and the Class B Common Stock. Subject to preferential rights in favor of the holders of the Preferred Stock, the holders of the common stock are entitled to dividends when, as and if declared by the Company's Board of Directors. Holders of the Class A Common Stock and the Class B Common Stock are entitled to share equally in such dividends, except that stock dividends (which shall be at the same rate) shall be payable only in Class A Common Stock to holders of Class A Common Stock and only in Class B Common Stock to holders of Class B Common Stock.

Class A Common Stock

The Class A Common Stock is entitled to one vote per share with respect to all matters on which shareholders are entitled to vote, except as otherwise required by law and except that the holders of the Class A Common Stock are entitled to elect two members to the Company's Board of Directors.

The Class A Common Stock is non-redeemable and non-convertible and has no pre-emptive rights.

All of the outstanding shares of Class A Common Stock are fully paid and nonassessable.

Class B Common Stock

The Class B Common Stock is entitled to five votes per share with respect to all matters on which shareholders are entitled to vote, except as otherwise required by law and except that the holders of the Class A Common Stock are entitled to elect two members to the Company's Board of Directors. The holders of the Class B Common Stock are entitled to elect all of the remaining members of the Board of Directors.

The Class B Common Stock is non-redeemable and has no pre-emptive rights.

Each share of Class B Common Stock is convertible, at the option of its holder, into a share of Class A Common Stock. In addition, each share of Class B Common Stock is automatically convertible into one fully-paid and non-assessable share of Class A Common Stock (i) upon its sale, gift or transfer to a person who is not an affiliate of the initial holder thereof or (ii) if transferred to such an affiliate, upon its subsequent sale, gift or other transfer to a person who is not an affiliate of the initial holder. Shares of Class B Common Stock that are converted into Class A Common Stock will be retired and cancelled and shall not be reissued.

All of the outstanding shares of Class B Common Stock are fully paid and nonassessable.

Stock Plans

The Company has three active stock plans: a stock option plan, an employee stock purchase plan and a non-employee directors' stock option plan, and three expired plans, the 1993 Employee and Directors Stock Option plan, the 1995 Non-employee Directors' stock option plan and the 1995 Employee Stock Purchase Plan.

The stock option plan, dated December 2003 and expiring in December 2013, as amended in October 2007, provides for the issuance of a maximum of 1,900,000 shares of Class A Common Stock of the Company pursuant to the grant of incentive stock options to employees or nonqualified stock options to employees, directors, consultants and others whose efforts are important to the success of the Company. Subject to the provisions of this plan, the compensation committee of the Board of Directors has the authority to select the optionees and determine the terms of the options including: (i) the number of shares, (ii) option exercise terms, (iii) the exercise or purchase price (which in the case of an incentive stock option will not be less than the market price of the Class A Common Stock as of the date of grant), (iv) type and duration of transfer or other restrictions and (v) the time and form of payment for restricted stock upon exercise of options. As of June 30, 2011, 1,714,500 options were granted under this plan, of which 754,563 expired leaving 940,063 options available for grant under this plan.

On October 18, 1995, the Board of Directors voted to provide employees who work in excess of 20 hours per week and more than five months per year rights to elect to participate in an Employee Stock Purchase Plan (the “Plan”), which became effective February 1, 1996. The price per share shall be the lesser of 85% of the average of the bid and ask price on the first day of the plan period or the last day of the plan period to encourage stock ownership by all eligible employees. The plan was amended on December 19, 2001 and December 19, 2002 to allow for a total of 500,000 shares of Class A Common Stock to be issued under the plan. Before its expiration on October 18, 2005, 157,034 shares were issued under the plan. On January 31, 2006 the stockholders approved a replacement Employee Stock Purchase Plan to replace the 1995 plan. A maximum of 500,000 shares may be issued under the January 2006 plan (the “2006 Plan”). The new plan is identical to the old plan and expires on January 31, 2016. As of June 30, 2011, 71,936 shares have been issued under this plan. During fiscal 2008, the Board of Directors authorized a new offering for a six month contribution term instead of the former one year term. At June 30, 2011, there were 428,064 shares available for issue under the 2006 Plan.

The non-employee directors’ stock option plan provides for the grant of non-statutory stock options automatically at the time of each annual meeting of the Board. Under this plan, a maximum of 950,000 shares may be issued. Each outside director is granted an option to purchase 20,000 shares of Class A Common Stock annually at fair market value on the date of grant, vesting 25% immediately and 25% on each of the first three anniversaries of the grant and expiring ten years from the grant date. As of June 30, 2011, a total of 420,000 options were issued under the plan and there were 530,000 options available for grant under this plan.

The Company had the following activity in its stock option plans for fiscal 2011 and 2010:

		WEIGHTED-AVERAGE		
	NUMBER OF SHARES	EXERCISE PRICE	REMAINING CONTRACTUAL TERM	AGGREGATE INTRINSIC VALUE
Outstanding balance—June 30, 2009	1,544,250	$ 1.98		
Granted	235,000	1.09		
Exercised	(2,000)	0.81		$ 680
Expired	(218,750)	1.70		
Outstanding balance—June 30, 2010	1,558,500	1.89		
Granted	112,000	1.65		
Exercised	(95,000)	1.09		$ 98,560
Expired	(288,250)	2.32		
Outstanding balance—June 30, 2011	1,287,250	1.83	3.83 years	$ 1,887,125
Exercisable at June 30, 2011	1,034,186	1.96	3.29 years	$ 1,388,225
Exercisable at June 30, 2010	1,189,372	$ 2.01	3.02 years	$ 58,773

In addition to the outstanding options under the Company's stock plans, the Company has the following warrants outstanding at June 30, 2011:

DATE OF ISSUANCE	DESCRIPTION	NUMBER OF SHARES	EXERCISE PRICE PER SHARE		EXPIRATION DATE
06/13/2007	Warrants issued in conjunction with long-term debt transaction, $456,880 recorded as deferred financing costs	250,000	$	3.09	June 2017
09/01/2007	Warrants issued for consulting services $7,400 charged to professional fees	6,000	$	3.50	Sept 2012
10/01/2007	Warrants issued for consulting services $6,268 charged to professional fees	6,000	$	3.50	Oct 2012
11/01/2007	Warrants issued for consulting services $6,013 charged to professional fees	6,000	$	3.50	Nov 2012
12/01/2007	Warrants issued for consulting services $6,216 charged to professional fees	6,000	$	3.50	Dec 2012
01/01/2008	Warrants issued for consulting services $7,048 charged to professional fees	6,000	$	3.50	Jan 2013
02/01/2008	Warrants issued for consulting services $5,222 charged to professional fees	6,000	$	3.50	Feb 2013
03/01/2008	Warrants issued for consulting services $6,216 charged to professional fees	6,000	$	3.50	Mar 2013
04/01/2008	Warrants issued for consulting services $5,931 charged to professional fees	6,000	$	3.50	Apr 2013
05/01/2008	Warrants issued for consulting services $6,420 charged to professional fees	6,000	$	3.50	May 2013
06/01/2008	Warrants issued for consulting services $6,215 charged to professional fees	6,000	$	3.50	June 2013
07/01/2008	Warrants issued for consulting services $5,458 charged to professional fees	6,000	$	3.50	Jul 2013
08/01/2008	Warrants issued for consulting services $4,914 charged to professional fees	6,000	$	3.50	Aug 2013
09/01/2008	Warrants issued for consulting services $5,776 charged to professional fees	6,000	$	3.50	Sep 2013
10/01/2008	Warrants issued for consulting services $2,603 charged to professional fees	3,000	$	3.50	Oct 2013
11/01/2008	Warrants issued for consulting services $1,772 charged to professional fees	3,000	$	3.50	Nov 2013
12/01/2008	Warrants issued for consulting services $780 charged to professional fees	3,000	$	3.50	Dec 2013
01/01/2009	Warrants issued for consulting services $725 charged to professional fees	3,000	$	3.50	Jan 2014
02/01/2009	Warrants issued for consulting services $639 charged to professional fees	3,000	$	3.50	Feb 2014
08/16/2010	Warrants issued for consulting services $11,626 charged to professional fees	20,000	$	1.24	Aug 2013

The Company had the following warrant activity during fiscal 2011 and 2010:

Outstanding balance—June 30, 2009	343,000
Warrants issued	—
Exercised	—
Expired	—
Outstanding balance—June 30, 2010	343,000
Warrants issued	20,000
Exercised	—
Expired	—
Outstanding balance—June 30, 2011	363,000

During fiscal 2011, the Company issued warrants to purchase 20,000 shares of Class A common stock as part of a consulting agreement for marketing services. The fair value of these warrants of $11,626 was recorded as professional fees when each warrant was issued as reflected in the table above. No warrants were issued in fiscal 2010.

During the fiscal year ended June 30, 2011, the Company acquired 173,495 shares of Class A common stock for $215,327 under Board approved plans.

NOTE M—BUSINESS SEGMENT INFORMATION

	BEHAVIORAL HEALTH TREATMENT SERVICES	CONTRACT SERVICES	ADMINISTRATIVE SERVICES	ELIMINATIONS	TOTAL
For the year ended June 30, 2011					
Revenues—external customers	$57,495,735	$4,512,144	$ —	$ —	$62,007,879
Revenues—intersegment	4,175,005	—	5,193,356	(9,368,361)	—
Segment net income (loss)	7,392,658	915,754	(7,728,407)	—	580,005
Total assets	19,523,739	1,250,903	7,507,348	—	28,281,990
Capital expenditures	852,359	215,089	14,362	—	1,081,810
Depreciation & amortization	856,220	92,615	156,413	—	1,105,248
Goodwill	969,098	—	—	—	969,098
Interest expense	155,926	—	154,747	—	310,673
Net income (loss) from equity method investments	7,340	—	18,524	—	25,864
Equity from equity method investments	72,980	—	—	—	72,980
Income tax expense	—	—	1,407,936	—	1,407,936

	BEHAVIORAL HEALTH TREATMENT SERVICES	CONTRACT SERVICES	ADMINISTRATIVE SERVICES	ELIMINATIONS	TOTAL
For the year ended June 30, 2010					
Revenues—external customers	$49,647,395	$3,429,831	$ —	$ —	$53,077,226
Revenues—intersegment	4,002,558	—	4,999,992	(9,002,550)	—
Segment net income (loss)	6,607,215	465,297	(5,652,850)	—	1,419,662
Total assets	16,214,982	630,558	8,804,430	—	25,649,970
Capital expenditures	630,867	19,128	101,848	—	751,843
Depreciation & amortization	827,811	79,835	248,923	—	1,156,569
Goodwill	969,098	—	—	—	969,098
Interest expense	161,065	—	165,517	—	326,582
Net income (loss) from equity method investments	4,484	—	13,078	—	17,562
Equity from equity method investments	33,528	—	—	—	33,528
Income tax expense	—	—	1,106,100	—	1,106,100

All revenues from contract services provided for the treatment services segment and treatment services provided to other facilities included in the treatment services segment are eliminated in the consolidation and shown on the table above under the heading “Revenues intersegment”.

NOTE N—QUARTERLY INFORMATION (Unaudited)

The following presents selected quarterly financial data for each of the quarters in the years ended June 30, 2011 and 2010.

2011	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
Revenue	$15,071,420	$14,631,938	$15,455,635	$16,848,886
Income (loss) from operations	1,236,392	728,522	529,882	(398,473)
Provision for income taxes	557,027	251,270	299,266	300,373
Net income (loss) available to common shareholders	678,615	502,986	64,525	(666,121)*
Basic net income per common share	$ 0.03	$ 0.03	—	$ (0.03)
Basic weighted average number of shares outstanding	19,532,095	19,462,818	19,500,873	19,524,104
Fully diluted net income per common share	$ 0.03	$ 0.03	—	$ (0.03)
Fully diluted weighted average number of shares outstanding	19,603,138	19,593,689	19,872,067	19,524,104

* During the quarter ended June 30, 2011, the Company incurred approximately $1,607,700 of transaction costs associated with the MeadowWood acquisition and Acadia merger (See Note P).

2010	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
Revenue	$ 12,647,428	$ 12,864,563	$ 13,532,174	$ 14,033,061
Income from operations	355,898	513,705	781,440	921,704
Provision for income taxes	133,431	248,619	289,031	435,019
Net income available to common shareholders	223,604	288,239	469,172	438,647
Basic net income per common share	0.01	0.01	0.02	0.02
Basic weighted average number of shares outstanding	19,997,549	19,800,509	19,762,241	19,692,391
Fully diluted net income per common share	0.01	0.01	0.02	0.02
Fully diluted weighted average number of shares outstanding	20,141,989	19,855,419	19,861,449	19,766,855

NOTE O—EMPLOYEE RETIREMENT PLAN

The PHC 401 (k) RETIREMENT SAVINGS PLAN (the “401(k) Plan”) is a qualified defined contribution plan in accordance with Section 401(k) of the Internal Revenue Code (the “code”). All eligible employees over the age of 21 may begin contributing on the first day of the month following their completion of two full months of employment or any time thereafter. Eligible employees can make pretax contributions up to the maximum allowable by Code Section 401(k). The Company may make matching contributions equal to a discretionary percentage of the employee’s salary reductions, to be determined by the Company. During the years ended June 30, 2011 and 2010 the Company made no matching contributions.

NOTE P—SUBSEQUENT EVENTS

MeadowWood Acquisition

On July 1, 2011, the Company completed the acquisition of MeadowWood Behavioral Health, a behavioral health facility located in New Castle, Delaware (“MeadowWood”) from Universal Health Services, Inc. (the “Seller”) pursuant to the terms of an Asset Purchase Agreement, dated as of March 15, 2011, between the Company and the Seller (the “Purchase Agreement”). In accordance with the Purchase Agreement, PHC MeadowWood, Inc., a Delaware corporation and subsidiary of the Company (“PHC MeadowWood”) acquired substantially all of the operating assets (other than cash) and assumed certain liabilities associated with MeadowWood. The purchase price was $21,500,000, and is subject to a working capital adjustment. At closing, PHC MeadowWood hired Seller’s employees currently employed at MeadowWood and assumed certain obligations with respect to those transferred employees. Also at closing, PHC MeadowWood and the Seller entered into a transition services agreement to facilitate the transition of the business.

The assets acquired and liabilities assumed will be recorded based on their relative fair values as of the closing date of the MeadowWood acquisition. The estimated purchase price and fair values of assets acquired and liabilities assumed are as follows:

Calculation of purchase price:

Cash purchase price (subject to adjustment)	$ 21,500,000
Accounts Receivables (net)	$ 1,796,781
Prepaid expenses and other current assets	97,134
Land	1,420,000
Building and Improvements	7,700,300
Furniture and Equipment	553,763
Licenses	700,000
Goodwill	9,541,046
Accounts Payable	(157,484)
Accrued expenses and other current liabilities	(151,540)
	$ 21,500,000

The fair values of assets acquired and liabilities assumed are based on management's best preliminary estimates. The actual fair values of assets acquired and liabilities assumed may differ from those reflected.

The following presents the pro forma net income and net income per common share for the years ended June 30, 2011 and 2010 of the Company's acquisition of MeadowWood assuming the acquisition occurred as of July 1, 2009.

	YEAR ENDED JUNE 30, (UNAUDITED)	
	2011	2010
Revenues	$ 76,621,243	$ 66,820,062
Net income	$ 1,019,112	$ 2,104,228
Net income per common share	$ 0.05	$ 0.11
Fully diluted weighted average shares outstanding	19,787,461	19,914,954

This unaudited pro forma condensed combined financial information is not necessarily indicative of the results of operations that would have been achieved had the acquisition actually taken place at the dates indicated and do not purport to be indicative of future position or operating results.

Also on July 1, 2011 (the "Closing Date"), and concurrently with the closing under the Purchase Agreement, the Company and its subsidiaries entered into a Credit Agreement with the lenders party thereto (the "Lenders"), Jefferies Finance LLC, as administrative agent, arranger, book manager, collateral agent, and documentation agent for the Lenders, and as syndication agent and swingline lender, and Jefferies Group, Inc., as issuing bank (the "Credit Agreement"). The terms of the Credit Agreement provide for (i) a $23,500,000 senior secured term loan facility (the "Term Loan Facility") and (ii) up to $3,000,000 senior secured revolving credit facility (the "Revolving Credit Facility"), both of which were fully borrowed on the Closing Date in order to finance the MeadowWood purchase, to pay off the Company's existing loan facility with CapitalSource Finance LLC, for miscellaneous costs, fees and expenses related to the Credit Agreement and the MeadowWood purchase, and for general working capital purposes.

The Term Loan Facility and Revolving Credit Facility mature on July 1, 2014, and 0.25% of the principal amount of the Term Loan Facility will be required to be repaid each quarter during the term. The Company's current and future subsidiaries are required to jointly and severally guarantee the Company's obligations under the Credit Agreement, and the Company and its subsidiaries' obligations under the Credit Agreement are secured by substantially all of their assets.

Acadia Merger

In addition, on May 23, 2011, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Acadia Healthcare Company, Inc., a Delaware corporation ("Acadia"), and Acadia Merger Sub, LLC, a Delaware limited liability company and wholly-owned subsidiary of Acadia ("Merger Sub"), pursuant to which, subject to the satisfaction or waiver of the conditions therein, the Company will merge with and into Merger Sub, with Merger Sub continuing as the surviving company (the "Merger"). Upon the completion of the Merger, Acadia stockholders will own approximately 77.5% of the combined company and PHC's stockholders will own approximately 22.5% of the combined company. The Merger is intended to qualify for federal income tax purposes as a reorganization under the provisions of Section 368 of the Internal Revenue Code of 1986, as amended. Acadia operates a network of 19 behavioral health facilities with more than 1,700 beds in 13 states. (For additional information regarding this transaction, please see our report on Form 8-K, filed with the Securities and Exchange Commission on May 25, 2011 and our preliminary proxy statement filed with the Securities and Exchange Commission on July 13, 2011).

Subsequent to year end, in connection with the proposed transaction, Acadia filed with the SEC a registration statement that containing the proxy statement concurrently filed by PHC which will constitute an Acadia prospectus.

REPORT OF INDEPENDENT AUDITORS

The Parent of HHC Delaware, Inc.

We have audited the accompanying consolidated balance sheets of HHC Delaware, Inc. and Subsidiary (the Company) as of December 31, 2010 and December 31, 2009 (Predecessor), and the related consolidated statements of operations, invested equity (deficit), and cash flows for the period from November 16, 2010 to December 31, 2010 and for the period from January 1, 2010 to November 15, 2010 and the year ended December 31, 2009 (Predecessor periods). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of HHC Delaware, Inc. and Subsidiary at December 31, 2010 and December 31, 2009 (Predecessor), and the consolidated results of operations and cash flows for the period from November 16, 2010 to December 31, 2010 and for the period from January 1, 2010 to November 15, 2010 and the year ended December 31, 2009 (Predecessor periods) in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Nashville, Tennessee
June 24, 2011, except for Note 8 as to which the date is August 18, 2011

HHC DELAWARE, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2010	PREDECESSOR DECEMBER 31, 2009	JUNE 30, 2011 (Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 197,197	$ 240,642	$ 32,271
Accounts receivable, less allowance for doubtful accounts of $1,137,478 , $1,459,521 and $1,406,143 (unaudited), respectively	1,371,276	1,835,603	1,481,772
Third party settlements	505,988	795,151	315,009
Deferred tax assets	558,057	655,445	642,587
Other current assets	144,579	149,407	97,135
Total current assets	2,777,097	3,676,248	2,568,774
Property and equipment:			
Land	1,240,291	1,110,311	1,240,291
Buildings and improvements	6,899,017	6,253,181	7,104,910
Equipment	635,229	471,149	692,158
Construction in progress	248,507	237,316	147,528
Less accumulated depreciation	(903,869)	(595,965)	(1,077,096)
	8,119,175	7,475,992	8,107,791
Goodwill	18,629,020	11,221,124	18,677,584
Other assets	141,413	297,120	—
Total assets	$ 29,666,705	$ 22,670,484	$ 29,354,149
LIABILITIES AND INVESTED EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable	$ 298,354	$ 286,813	$ 157,484
Salaries and benefits payable	398,571	360,090	634,970
Income taxes payable	193,975	45,357	419,915
Other accrued liabilities	81,050	47,442	36,570
Current portion of long-term debt	140,153	114,614	52,163
Total current liabilities	1,112,103	854,316	1,301,102
Long-term debt, less current portion	6,648,128	6,706,683	53,283
Deferred tax liability	902,248	712,055	953,476
Due to Parent	21,028,879	14,277,002	26,789,900
Total liabilities	29,691,358	22,550,056	29,097,761
Invested equity (deficit):			
Net investment by Parent	(24,653)	120,428	256,388
Total liabilities and invested equity (deficit)	$ 29,666,705	$ 22,670,484	$ 29,354,149

HHC DELAWARE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN INVESTED EQUITY (DEFICIT)

	NOVEMBER 16, 2010 THROUGH DECEMBER 31, 2010	PREDECESSOR JANUARY 1, 2010 THROUGH NOVEMBER 15, 2010	PREDECESSOR YEAR ENDED DECEMBER 31, 2009	SIX MONTHS ENDED JUNE 30, 2011 (UNAUDITED)	PREDECESSOR SIX MONTHS ENDED JUNE 30, 2010 (UNAUDITED)
Revenue	$ 1,585,216	$ 12,715,648	$ 13,831,469	$ 7,540,989	$ 7,228,489
Operating expenses:					
Salaries, wages and employee benefits	1,074,916	7,775,193	8,359,494	4,746,244	4,420,813
Professional fees	121,295	770,315	914,722	454,048	433,722
Supplies	102,673	793,846	800,749	469,425	450,421
Rentals and leases	1,545	19,145	36,439	19,103	10,296
Other operating expenses	96,521	703,815	809,517	410,478	355,393
Provision for doubtful accounts	75,483	436,249	483,388	339,449	234,435
Depreciation and amortization	39,849	268,232	292,689	178,806	152,244
Management fees allocated by the Parent	47,556	382,427	464,429	226,230	221,538
Interest expense	66,579	456,509	533,391	223,546	261,400
Total operating expenses	1,626,417	11,605,731	12,694,818	7,067,309	6,540,262
Income (loss) before income taxes	(41,201)	1,109,917	1,136,651	473,680	688,227
Provision (benefit) for income taxes	(16,548)	452,747	462,058	192,639	280,730
Net income (loss)	(24,653)	657,170	674,593	281,041	407,497
Invested equity (deficit):					
Beginning of period	777,598	120,428	(554,165)	(24,653)	120,428
Elimination of predecessor invested equity	(777,598)	—	—	—	—
End of period	$ (24,653)	$ 777,598	$ 120,428	$ 256,388	$ 527,925

HHC DELAWARE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	NOVEMBER 16, 2010 THROUGH DECEMBER 31, 2010	PREDECESSOR JANUARY 1, 2010 THROUGH NOVEMBER 15, 2010	PREDECESSOR YEAR ENDED DECEMBER 31, 2009	SIX MONTHS ENDED JUNE 30, 2011 (Unaudited)	PREDECESSOR SIX MONTHS ENDED JUNE 30, 2010 (Unaudited)
Operating activities:					
Net income (loss)	$ (24,653)	$ 657,170	$ 674,593	$ 281,041	$ 407,497
Adjustments to reconcile net income (loss) to net cash provided by continuing operating activities:					
Depreciation and amortization	39,849	268,232	292,689	178,806	152,244
Provision for bad debts	75,483	436,249	483,388	339,449	234,435
Deferred income taxes	(131,664)	419,245	416,701	(33,302)	192,763
Changes in operating assets and liabilities, net of effect of acquisitions:					
Accounts receivable	273,343	(320,748)	(460,881)	(449,945)	(263,246)
Third party settlements	(22,650)	311,813	(416,735)	190,979	347,419
Prepaid expenses and other current assets	35,402	(30,574)	(35,513)	47,444	47,950
Other assets	(13,185)	168,892	50,807	141,413	63,617
Accounts payable and accrued expenses	230,408	(218,867)	206,737	(140,870)	(187,760)
Income taxes payable	115,116	33,502	45,357	225,940	87,967
Salaries and benefits payable	(237,420)	275,901	(227,230)	236,399	271,923
Other current liabilities	43,363	(9,755)	(76,627)	(44,480)	(6,905)
Net cash provided by (used in) operating activities	383,392	1,991,060	953,286	972,874	1,347,904
Investing activities:					
Capital purchases of leasehold improvements and equipment	(310,380)	(564,760)	(374,729)	(167,422)	(382,472)
Net cash used in investing activities	(310,380)	(564,760)	(374,729)	(167,422)	(382,472)
Financing activities:					
Principal payments on long-term debt, including capital leases	(10,519)	(98,621)	(84,674)	(59,678)	(53,044)
Advances from (transfers to) Parent, net	6,098	(1,439,715)	(435,589)	(910,700)	(916,336)
Net cash provided by (used in) financing activities	(4,421)	(1,538,336)	(520,263)	(970,378)	(969,380)
Net (decrease) increase in cash	68,591	(112,036)	58,294	(164,926)	(3,948)
Cash and cash equivalents at beginning of period	128,606	240,642	182,348	197,197	240,642
Cash and cash equivalents at end of period	$ 197,197	$ 128,606	$ 240,642	$ 32,271	$ 236,694
Significant non-cash transaction:					
Payoff of mortgage loan by Parent	$ —	$ —	$ —	$ 6,623,158	$ —
Cash paid for interest	$ 47,153	$ 476,407	$ 533,873	$ 210,319	$ 244,840

1. Summary of Significant Accounting Policies

Description of Business

HHC Delaware, Inc. ("MeadowWood") is a wholly owned subsidiary of Universal Health Services, Inc. ("UHS") and operates a behavioral health care facility known as MeadowWood Behavioral Health System located at 575 South DuPont Highway, New Castle, Delaware. HHC Delaware, Inc. is the sole member of Delaware Investment Associates, LLC ("MeadowWood Real Estate"), which owns the real estate located at 575 South DuPont Highway, New Castle, Delaware. Collectively, MeadowWood and MeadowWood Real Estate are hereinafter referred to as the Company. On November 15, 2010, UHS completed the acquisition of Psychiatric Solutions, Inc. ("PSI"), the previous owner of the Company. References herein to the Parent refer to PSI for periods prior to the acquisition by UHS and refer to UHS for all post-acquisition periods.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. All significant intercompany balances and transactions have been eliminated in the consolidation of the Company.

Patient Service Revenue

Patient service revenue is recorded on the accrual basis in the period in which services are provided, at established billing rates less contractual adjustments. Contractual adjustments are recorded to state patient service revenue at the amount expected to be collected for the services provided based on amounts reimbursable by Medicare or Medicaid under provisions of cost or prospective reimbursement formulas or amounts due from other third-party payors at contractually determined rates. Approximately 30%, 27% and 19% of revenue for the period November 16, 2010 through December 31, 2010, and the predecessor periods of January 1, 2010 through November 15, 2010 and the year ended December 31, 2009, respectively, was obtained from providing services to patients participating in the Medicaid program. Approximately 41%, 40% and 44% of revenue for the period November 16, 2010 through December 31, 2010, and the predecessor periods of January 1, 2010 through November 15, 2010 and the year ended December 31, 2009, respectively, was obtained from providing services to patients participating in the Medicare program.

Settlements under cost reimbursement agreements with third-party payors are estimated and recorded in the period in which the related services are rendered and are adjusted in future periods as final settlements are determined. Final determination of amounts earned under the Medicare and Medicaid programs often occur in subsequent years because of audits by such programs, rights of appeal and the application of numerous technical provisions.

The Company provides care without charge to patients who are financially unable to pay for the health care services they receive. Because the Company does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue. Charity care totaled $55,415, $194,121, and $177,570 for the period ended November 16, 2010 through December 31, 2010 and the predecessor periods January 1, 2010 through November 15, 2010 and the year ended December 31, 2009, respectively.

Cash and Cash Equivalents

The Parent established, for the Company, zero balancing depository, payables and payroll bank accounts which are swept or funded by the Parent. The Hospital's consolidated financial statement balance for these bank accounts generally represents deposits not yet swept to the Parent. See Note 2.

Accounts Receivable

Accounts receivable is comprised of patient service revenue and is recorded net of allowances for contractual discounts and estimated doubtful accounts. Such amounts are owed by various governmental agencies, insurance companies and private patients. Medicare comprised approximately 20% and 19% of accounts receivable at December 31, 2010 and 2009 (Predecessor), respectively. Medicaid comprised approximately 19% and 18% of accounts receivable at December 31, 2010 and 2009 (Predecessor), respectively. Concentration of credit risk from other payors is reduced by the large number of patients and payors.

Allowance for Doubtful Accounts

The ability to collect outstanding patient receivables from third party payors is critical to operating performance and cash flows. The primary collection risk with regard to patient receivables relates to uninsured patient accounts or patient accounts for which primary insurance has paid, but the portion owed by the patient remains outstanding. The Company estimates the allowance for doubtful accounts primarily based upon the age of the accounts since the patient discharge date. The Company continually monitors our accounts receivable balances and utilizes cash collection data to support our estimates of the provision for doubtful accounts. Significant changes in payor mix or business office operations could have a significant impact on our results of operations and cash flows.

Allowances for Contractual Discounts

The Medicare and Medicaid regulations are complex and various managed care contracts may include multiple reimbursement mechanisms for different types of services provided and cost settlement provisions requiring complex calculations and assumptions subject to interpretation. The Company estimates the allowance for contractual discounts on a payor-specific basis given our interpretation of the applicable regulations or contract terms. The services authorized and provided and related reimbursement are often subject to interpretation that could result in payments that differ from the Company’s estimates. Additionally, updated regulations and contract renegotiations occur frequently necessitating continual review and assessment of the estimation process by the Company’s management.

Income Taxes

The Company is included in the consolidated return of UHS and, through an agreement with the Parent, account for their share of the consolidated tax obligations using an “as if separate return” methodology. In that regard, the Company accounts for income taxes under the asset and liability method in accordance with FASB authoritative guidance regarding accounting for income taxes and its related uncertainty. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply when the temporary differences are expected to reverse. The Company assesses the likelihood that deferred tax assets will be recovered from future taxable income to determine whether a valuation allowance should be established.

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over the useful lives of the assets, which range from 25 to 40 years for buildings and improvements and 2 to 7 years for equipment. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful lives of the assets. Depreciation expense was $39,849, $268,232 and $292,689 for the period November 16, 2010 through December 31, 2010, the predecessor periods January 1, 2010 through November 15, 2010 and the year ended December 31, 2009, respectively. Depreciation expense includes the amortization of assets recorded under capital leases.

Other Assets

Other assets represent cash placed in escrow for the payment of property taxes as such amounts become due.

Costs in Excess of Net Assets Acquired (Goodwill)

The Company accounts for goodwill in accordance with Accounting Standards Codification (“ASC”) 805, *Business Combinations*, and ASC 350, *Goodwill and Other Intangible Assets*. Goodwill is reviewed at least annually for impairment. Potential impairment exists if the Company's carrying value exceeds its fair value. If the Company identifies a potential impairment of goodwill, the implied fair value of goodwill is determined. If the carrying value of goodwill exceeds its implied fair value, an impairment loss is recorded. The Company noted no goodwill impairment for any periods presented in the accompanying consolidated financial statements.

During 2010, goodwill increased by approximately $7.4 million as a result of the acquisition of PSI (including the Company) by UHS effective November 15, 2010.

2. Due to Parent

Cash Management

Due to Parent balances represent the initial capitalization of the Company as well as the excess of funds transferred to or paid on behalf of the Company over funds transferred to the centralized cash management account of the Parent. Generally, this balance is increased by automatic transfers from the account to reimburse the Company's bank accounts for operating expenses and to pay the Company's debt, completed construction project additions, fees and services provided by the Parent, including information systems services and other operating expenses such as payroll, insurance, and income taxes. Generally, this balance is decreased through daily cash deposits by the Company to the centralized cash management account of the Parent. The following paragraphs more fully describe the methodology of allocating costs to the Company.

Management Fees

The Parent allocates its corporate office expenses (excluding interest, depreciation, taxes, and amortization) to its owned and leased facilities (including the Company) as management fees. These management fees are allocated based upon the proportion of an individual facility's total expenses to the total expenses of all owned and leased facilities in the aggregate. Management fees allocated to the Company for the period from November 16, 2010 to December 31, 2010, the predecessor periods from January 1, 2010 to November 15, 2010, and for the year ended December 31, 2009, were $47,556, $382,427, and $464,429, respectively. Although management considers the allocation method to be reasonable, due to the relationship between the Company and its Parent, the terms of the allocation may not necessarily be indicative of that which would have resulted had the Company been an unrelated entity.

Information Technology Costs

Costs of information technology related to certain standard Parent sponsored information technology platforms are included in the management fee allocation.

General and Professional Liability Risks

The costs of general and professional liability coverage are allocated by the Parent's wholly-owned captive insurance subsidiary to the Company based on a percentage of revenue adjusted by a factor which considers the type of entity as well as historical loss experience. The general and professional liability expense allocated to the Company was $20,380, $136,587, and $146,614 for the period November 16, 2010 through December 31, 2010, and the predecessor periods January 1, 2010 through November 15, 2010 and the year ended December 31, 2009, respectively.

Workers' Compensation Risks

The Parent, on behalf of its affiliates, carries workers' compensation insurance from an unrelated commercial insurance carrier. The Parent's workers' compensation program is fully insured with a $500,000 deductible per accident. The cost of this program is allocated to all covered affiliates based on a percentage of anticipated payroll costs as adjusted for the state in which the affiliate is located. Such costs allocated to the Company totaled $15,378, $108,308 and $105,557 for the period November 16, 2010 through December 31, 2010, and the predecessor periods January 1, 2010 through November 15, 2010 and the year ended December 31, 2009, respectively.

3. Commitments and Contingencies

The Company is subject to various claims and legal actions which arise in the ordinary course of business. The Parent assumes the responsibility for all general and professional liability claims incurred and maintains the related liabilities; accordingly, no liability for general and professional claims is recorded on the accompanying consolidated balance sheet. The Company believes that the ultimate resolution of such matters will be adequately covered by insurance and will not have a material adverse effect on their financial position or results of operations.

The Parent's interest in the Company has been pledged as collateral for the Parent's borrowings under various credit agreements.

Current Operations

Final determination of amounts earned under prospective payment and cost-reimbursement arrangements is subject to review by appropriate governmental authorities or their agents. The Company believes adequate provision has been made for any adjustments that may result from such reviews.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Company believes that it is in substantial compliance with all applicable laws and regulations and is not aware of any material pending or threatened investigations involving allegations of potential wrongdoing. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

4. Long-Term Debt

Long-term debt consists of the following:

	DECEMBER 31, 2010	PREDECESSOR DECEMBER 31, 2009	JUNE 30, 2011 (Unaudited)
Mortgage loan on facility, maturing in 2036 bearing a fixed interest rate of 6.99%	$ 6,662,010	$ 6,750,776	$ —
Capital lease obligations	126,271	70,521	105,446
	6,788,281	6,821,297	105,446
Less current portion	140,153	114,614	52,163
Long-term debt	$ 6,648,128	$ 6,706,683	$ 53,283

Mortgage Loans

At December 31, 2010, the Company had $6,662,010 debt outstanding under a mortgage loan agreement insured by the U.S. Department of Housing and Urban Development ("HUD"). The mortgage loan insured by HUD was secured by real estate located at 575 South DuPont Highway, New Castle, Delaware. Interest accrues on the HUD loan at 6.99% and principal and interest were payable in 420 monthly installments through October 2036. The carrying amount of assets held as collateral approximated $6,101,753 at December 31, 2010.

The HUD mortgage loan was repaid by UHS in June 2011.

Other

The aggregate maturities of long-term debt, including capital lease obligations, were as follows as of December 31, 2010:

2011	$ 140,153
2012	144,624
2013	145,021
2014	120,407
2015	125,774
Thereafter	6,112,302
Total	$ 6,788,281

5. Operating Leases

The Company has assumed or executed various non-cancelable operating leases. At December 31, 2010, future minimum lease payments under operating leases having an initial or remaining non-cancelable lease term in excess of one year are as follows:

2011	$14,461
2012	14,461
2013	14,461
2014	14,461
2015	14,461
Total	$72,305

6. Income Taxes

The provision for income taxes attributable to income from operations consists of the following:

Provision for Income Taxes

		PREDECESSOR			PREDECESSOR
	NOVEMBER 16, 2010 THROUGH DECEMBER 31, 2010	JANUARY 1, 2010 THROUGH NOVEMBER 15, 2010	YEAR ENDED DECEMBER 31, 2009	SIX MONTHS ENDED JUNE 30, 2011	SIX MONTHS ENDED JUNE 30, 2010
				(Unaudited)	
Current:					
Federal	$ 115,116	$ 33,502	$ 45,357	$ 225,940	$ 87,967
State	—	—	—	—	—
	115,116	33,502	45,357	225,940	87,967
Deferred:					
Federal	(128,119)	322,359	317,827	(74,526)	132,688
State	(3,545)	96,886	98,874	41,225	60,075
	(131,664)	419,245	416,701	(33,301)	192,763
Provision (benefit) for income taxes	$ (16,548)	$ 452,747	$ 462,058	$ 192,639	$ 280,730

The reconciliation of income tax computed by applying the U.S. federal statutory rate to the actual income tax expense attributable to income from operations is as follows:

	NOVEMBER 16, 2010 THROUGH DECEMBER 31, 2010	PREDECESSOR JANUARY 1, 2010 THROUGH NOVEMBER 15, 2010	PREDECESSOR YEAR ENDED DECEMBER 31, 2009	SIX MONTHS ENDED JUNE 30, 2011 (Unaudited)	PREDECESSOR SIX MONTHS ENDED JUNE 30, 2010 (Unaudited)
Federal tax	$ (14,420)	$ 388,471	$ 397,828	$ 165,788	$ 240,879
State income taxes (net of federal)	(2,304)	62,976	64,268	26,795	39,049
Other	176	1,300	(38)	56	802
Provision (benefit) for income taxes	$ (16,548)	$ 452,747	$ 462,058	$ 192,639	$ 280,730

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant items comprising temporary differences are as follows:

	DECEMBER 31, 2010	PREDECESSOR DECEMBER 31, 2009	JUNE 30, 2011 (Unaudited)
Deferred Tax Assets:			
Net operating loss carryforwards	$ 83,446	$ 111,300	$ 46,885
Allowance for doubtful accounts	444,814	564,854	563,547
Accrued liabilities	108,044	85,344	109,305
Other	9,144	5,247	10,118
Total deferred tax assets	645,448	766,745	729,825
Deferred tax liabilities:			
Intangible assets	(322,174)	(232,236)	(367,083)
Property and equipment	(667,465)	(586,278)	(673,661)
Other	—	(4,841)	—
Total deferred tax liabilities	(989,639)	(823,355)	(1,040,744)
Total net deferred tax liability	$ (344,191)	$ (56,610)	$ (310,889)

The Company has state net operating loss carryforwards as of December 31, 2010 that total approximately $1.5 million which will expire in years 2026 through 2028.

The Company had state net operating loss carryforwards as of June 30, 2011 that total approximately $0.8 million which will expire in years 2026 through 2028.

7. Employee Benefit Plan

The Company participates in a Parent-sponsored tax-qualified profit sharing plan with a cash or deferred arrangement whereby employees who have completed three months of service and are age 21 or older are eligible to participate. The Plan allows eligible employees to make contributions of 1% to 85% of their annual compensation, subject to annual limitations. The Plan enables the Parent to make discretionary contributions into each participant's account that fully vest over a four year period based upon years of service. No contributions were made by the Parent to the Plan during the period November 16, 2010 through December 31, 2010, the predecessor periods January 1, 2010 through November 15, 2010, and for the year ended December 31, 2009, or the six months ended June 30, 2011 (unaudited).

8. Subsequent Events

In March, 2011, UHS entered into an agreement to sell the Company to a third party for approximately $21.5 million. The transaction closed on July 1, 2011.

The Company has evaluated subsequent events through August 18, 2011, the date these financial statements were available to be issued, and determined that: (1) no subsequent events have occurred that would require recognition in the accompanying consolidated financial statements; and (2) no other subsequent events have occurred that would require disclosure in the notes thereto.