POWER ONE INC
Form 8-K
March 17, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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): **March 17, 2006**

Power-One, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**000-29454**	**77-0420182**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

740 Calle Plano, Camarillo, California	**93012**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **805-987-8741**

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:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01. Regulation FD Disclosure.

On March 17, 2006, the Registrant issued a press release regarding its expected financial results for the first fiscal quarter ended March 31, 2006. A copy of the press release is attached hereto as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

Exhibit Index

99.1	Power-One, Inc. s press release dated March 17, 2006.

SIGNATURES

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

Dated: March 17, 2006

POWER-ONE, INC.

By: /s/ Paul E. Ross
Paul E. Ross
Vice President Finance,Treasurer and Chief Financial Officer

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2011
$ 50,617
2012
23,333
2013
5,000
2014
1,250 $ 80,200

9. Debt

At December 31, 2010 and 2009, notes payable consist of the following:

	2010	2009
Secured Promissory note (secured by the physical assets of Acadia) with interest payments due monthly for the first 12 months and interest and principal payments thereafter with the total outstanding amount due on December 31, 2010 (see below), bearing interest at a variable rate.	$ 6,515,443	$ 6,790,498
Secured Promissory note (secured by the assets of Acadia) with interest payments due on a monthly basis and principal and all remaining interest due December 31, 2010 (see below), bearing interest at a variable rate.	3,468,156	3,468,156
Unsecured Promissory notes from the Majority Holder with all principal and interest payments due on April 6, 2009, bearing interest at a fixed rate of 12%.		
	9,983,599	10,258,654
Less current portion	9,983,599	10,258,654

$ $

The estimated fair value of debt approximates the carrying amount of $9,983,599 and $10,258,654 at December 31, 2010 and 2009 respectively, due to the short term nature of the debt. The Secured Promissory notes that matured on December 31, 2010 were extended for an additional term on January 27, 2011 and were repaid on April 1, 2011.

10. Commitments and Contingencies

Leases

The Company is obligated under certain operating leases to rent space for its IPF and RTC facilities and other office space. The terms of the leases range from five to ten years, with optional renewal periods. The Company s

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Acadia Healthcare Company, LLC and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

building lease for Lafayette contains a fair market value purchase option exercisable under certain conditions during the lease terms.

Aggregate minimum lease payments under noncancelable operating leases with original or remaining lease terms in excess of one year are as follows:

Year ended December 31,	
2011	$ 1,027,274
2012	1,062,025
2013	1,040,907
2014	965,827
2015 Thereafter	925,505
Thereafter	1,758,118
Total minimum rental obligations	$ 6,779,656

For the years ended December 31, 2010, 2009 and 2008, the Company incurred rental expense, in the aggregate, under all of its operating leases of approximately $1,287,668, $884,936 and $851,723, respectively.

Insurance

Prior to July 1, 2009, the Company maintained commercial insurance coverage on an occurrence basis for workers compensation claims with no deductible. Effective July 1, 2009, the Company maintains commercial insurance coverage on an occurrence basis with a $250,000 deductible per claim and $1 million per claim limit. The Company maintains commercial insurance coverage on a claims-made basis for general and professional liability claims with a $50,000 deductible and $1 million per claim limit and an aggregate limit of $3 million with excess umbrella coverage for an additional $7 million.

The accrued insurance liabilities included in the accompanying consolidated balance sheets include estimates of the ultimate costs for both reported claims and claims incurred but not reported through December 31, 2010. In the opinion of management, adequate provision has been made for losses that may occur from the asserted and unasserted claims.

The healthcare industry in general continues to experience an increase in the frequency and severity of litigation and claims. As is typical in the healthcare industry, the Company could be subject to claims that its services have resulted in patient injury or other adverse effects. In addition, resident, visitor and employee injuries could also subject the Company to the risk of litigation. While the Company believes that quality care is provided to patients in its facilities and that it materially complies with all applicable regulatory requirements, an adverse determination in a legal proceeding or government investigation could have a material adverse effect on the Company s financial condition.

11. Employee Benefit Plan

The Company maintains a qualified defined contribution 401(k) plan covering substantially all of its employees. The Company may, at its discretion, make contributions to the plan. For the years ended December 31, 2010, 2009 and 2008, the Company contributed approximately $102,000, 89,000 and 105,000, respectively, to the 401(k) plan.

12. Related-Party Transactions

Under the terms of the Agreement, the Majority Holder is entitled to receive advisory, financing, and transaction fees for services rendered to the Company.

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Notes to Consolidated Financial Statements (Continued)

Advisory fees represent management consulting services rendered to the Company and totaled $550,000, $500,000, and $450,000, for the years ended December 31, 2010, 2009 and 2008, respectively.

Financing fees represent services rendered in assisting the Company with negotiating, arranging and structuring certain financing transactions. The Majority Holder was entitled to Financing Fees of $0, $0 and $10,000 for the years ended December 31, 2010, 2009 and 2008, respectively. The Majority Holder was also entitled to a transaction fee of approximately $1 million upon the date of its initial contribution to the Company and an additional $1 million payment upon the date of the amended and restated LLC Agreement. The Majority Holder was entitled to a restructuring fee of $480,000 upon the date of the amended and restated LLC Agreement. The Majority Holder has irrevocably waived payment of any advisory, financing, transaction and restructuring fees from inception of the Company through December 31, 2010 (the Waived Fees). These Waived Fees are subject to a 10% return until paid. Aggregate cumulative Waived Fees approximated $6,590,000 and $5,433,000 as of December 31, 2010 and 2009, respectively.

Through December 31, 2009, Acadia contracted for certain services (the Purchased Services) from Regency Hospital Company, LLC (Regency), a company in which the Majority Holder previously held a majority of the membership units. Fees incurred for the Purchased Services provided by Regency were based upon time and materials incurred for providing the service. For the years ended December 31, 2009 and 2008, Purchased Services fees approximated $19,000 and $189,000.

13. Income Taxes

Acadia was formed as a limited liability company (LLC) which is taxed as a partnership for Federal income tax purposes. Some of Acadia s subsidiaries are organized as LLC s and others as corporations. The Company and its subsidiary LLCs will be taxed as flow-through entities and as such, the results of operations of the Company related to the flow-through entities are included in the income tax returns of its members.

Accordingly, taxable income of the Company is the direct obligation of the members. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Company s flow-through tax status.

Some of the Company s subsidiaries are taxed as C-corporations and the respective subsidiaries are directly liable for taxes on their separate income. A tax provision has been provided for income taxes that are the responsibility of the Company or its subsidiaries in the accompanying consolidated financial statements relating to the entities that are taxed as C-corporations and for any taxing jurisdictions that do not recognize an LLC as a flow-through entity.

The Company made income tax payments of $700,000 and $30,000 for the years ended December 31, 2010 and 2009, respectively, and no payments for 2008.

	Year Ended December 31		
	2010	**2009**	**2008**
Current expense	$ 621,541	$ 53,390	$ 20,000

Deferred benefit	(144,995)		
Provision for income taxes	$ 476,546	$ 53,390	$ 20,000

The Company s current tax expense of $621,541 for the year ended December 31, 2010 consists of federal tax expense as well as a gross receipts tax assessed by a certain state that is accounted for as income taxes in accordance with Accounting Standards Codification 740 (ASC 740).

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Acadia Healthcare Company, LLC and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

The Company s effective tax rate differs from the statutory United States federal income tax rate for the years ended December 31 as follows:

	Year Ended December 31		
	2010	2009	2008
Federal statutory rate	34.0%	34.0%	34.0%
State taxes, net of federal benefit	1.2	(1.0)	(1.0)
Non-Deductible items	0.1	(1.0)	
Change in Valuation Allowance	(2.7)		
Other	(26.3)	(34.0)	(34.0)
Effective tax rate	6.3%	(2.0)%	(1.0)%

The other line item shown above represents the flow-through of taxable income to the members of the Company.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. Deferred tax assets and liabilities of the Company are as follows:

	December 31	
	2010	2009
Net operating losses and tax credit carry forwards federal and state	$ 690,928	$ 1,279,918
Intangibles	43,861	27,502
Prepaid items	57,135	56,746
Bad debt allowance	5,785	10,069
Accrued compensation	73,776	75,284
Accrued expenses	376,301	397,344
Insurance reserves	314,637	420,297
Other assets	20,713	19,683
Valuation allowance	(446,973)	(1,367,430)
Total deferred tax assets	1,136,163	919,413
Fixed asset basis difference	(946,746)	(874,991)
Total deferred tax liabilities	(946,746)	(874,991)
Net deferred taxes	$ 189,417	$ 44,422

Based on the weight of available evidence, a valuation allowance was provided to offset the entire net deferred tax asset as of December 31, 2009. As of December 31, 2010, the valuation allowance against certain subsidiaries was released, which resulted in the recognition of a deferred tax asset of $144,495. All other net deferred tax assets remain fully reserved as of December 31, 2010.

The Company s net operating loss carry forwards as of December 31, 2010 and 2009 are approximately $2.1 million and $3.8 million, respectively. Of these amounts approximately $1.3 million as of December 31, 2010 and 2009 is attributed to a certain acquisition. The operating losses will expire between 2022 and 2028. Due to changes in ownership control, net operating losses acquired are limited to offset future income pursuant to Internal Revenue Code Section 382.

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Acadia Healthcare Company, LLC and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Acadia adopted the provisions of ASC Topic 740-10 formerly known as FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on January 1, 2009. The Company s policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense.

As a result of the implementation of this guidance, the Company recognized no cumulative effect adjustment. The Company had $1,050,220 and $116,897 of unrecognized income tax benefits as of December 31, 2010 and 2009, respectively, of which $1,005,798 was used to reduce available net operating losses.

None of the uncertain tax positions would affect the Company s effective income tax rate if recognized. The Company has unused U.S. federal and state NOLs for years 2002 through 2007. As such, these years remain subject to examination by the relevant tax authorities.

14. Fair Value of Financial Instruments

Effective January 1, 2008, the Company SFAS No. 157, which has been codified into ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The implementation of this guidance did not change the method of calculating the fair value of assets or liabilities. The primary impact from adoption was additional disclosures. The portion of this guidance that defers the effective date for one year for certain non-financial assets and non-financial liabilities measured at fair value, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, was implemented January 1, 2009, and did not have an impact on the consolidated financial position, cash flows or results of operations.

In October 2008, the FASB issued FSP 157-3 *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active,* which has also been codified into ASC 820. This guidance provides an illustrative example to demonstrate how the fair value of a financial asset is determined when the market for that financial asset is inactive. This guidance was effective upon issuance. The Company does not currently have any investments requiring fair market valuations in inactive markets; therefore, the adoption of this guidance did not have an impact on the consolidated financial position, cash flows or results of operations.

The fair value hierarchy categorizes assets and liabilities at fair value into one of three different levels depending on the observability of the inputs employed in the measurement, as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table summarizes the financial instruments as of December 31, 2010 and 2009, which are valued at fair value:

	Level 1	Level 2	Level 3	Balance as of December 31, 2010
Cash and cash equivalents	$ 8,614,480	$	$	$ 8,614,480

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Acadia Healthcare Company, LLC and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

	Level 1	Level 2	Level 3	Balance as of December 31, 2009
Cash and cash equivalents	$ 4,489,292	$	$	$ 4,489,292

15. Other Information

A summary of activity in the Company s allowance for doubtful accounts is as follows:

	Balances at Beginning of Period	Additions Charged to Costs and Expenses	Accounts Written off, Net of Recoveries	Balances at End of Period
Allowance for doubtful accounts:				
Year ended December 31, 2008	$ 1,239,232	1,803,930	1,934,076	$ 1,109,086
Year ended December 31, 2009	$ 1,109,086	2,424,283	2,159,782	$ 1,373,587
Year ended December 31, 2010	$ 1,373,587	2,238,452	2,468,495	$ 1,143,544

16. Subsequent Events

On May 13, 2011, the Company was converted to a C-corporation registered as Acadia Healthcare Company, Inc. As a result of the conversion to a C-corporation, all of the Company s 100 outstanding membership units were converted to 100 shares of common stock of Acadia Healthcare Company, Inc.

On May 20, 2011, the new C-corporation underwent a stock split by means of a stock dividend of 100,000 shares of common stock for each share of common stock outstanding on May 20, 2011 such that 10,000,000 shares of common stock were issued and outstanding on such date. The accompanying consolidated statements of operations disclose earnings per share for the years ended December 31, 2010, 2009 and 2008 giving effect to the stock split.

On May 23, 2011, the Company entered into a definitive merger agreement with PHC, Inc., d/b/a Pioneer Behavioral Health (PHC), a publicly-held behavioral health services company based in Massachusetts. Upon completion of the merger, the Company s stockholders will own approximately 77.5% of the combined company and PHC s stockholders will own approximately 22.5% of the combined company.

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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	8	8

December 31, 2010, respectively.		
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

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Quarter Ended	
	March 31, 2011	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

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter Ended	
	March 31, 2011	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

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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.

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 (Unaudited)		December 31, 2010	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization

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.

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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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

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2009	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

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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

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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

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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

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

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

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 established based on a third party valuation report obtained in 2004. The value of the common stock subsequent to 2004 was materially consistent with such third party valuation report 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.

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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	**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.

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. INTANGIBLE ASSETS

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

	December 31,			
	2009		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	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

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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YOUTH AND FAMILY CENTERED SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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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

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PHC, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	June 30, 2011	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.

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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.

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PHC, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders Equity

	Class A Common Stock		Class B Common Stock		Additional Paid-in	Class A Treasury Stock		Accumulated	
	Shares	Amount	Shares	Amount	Capital	Shares	Amount	Deficit	T
2009	19,840,793	$ 198,408	775,080	$ 7,751	$ 27,667,597	626,541	$ (1,125,707)	$ (10,704,226)	$ 16,
ed tion									
					221,404				
f									
	2,000	20			1,600				
f									
lan	24,974	250			36,935				
of									
n s B	59	1	(59)	(1)		414,057	(467,700)		(
ne								1,419,662	1,
2010	19,867,826	198,679	775,021	7,750	27,927,536	1,040,598	(1,593,407)	(9,284,564)	17,
ed tion									
					164,916				
of	95,000	950			102,790				

of										
					11,626					
of										
plan										
	14,081	140			13,967					
of										
						173,495	(215,327)			(
n s B	1,304	13	(1,304)	(13)						
ne									580,005	
2011	19,978,211	$ 199,782	773,717	$ 7,737	$ 28,220,835	1,214,093	$ (1,808,734)	$ (8,704,559)	$	17,

See accompanying notes to consolidated financial statements.

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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.

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011

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.

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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.

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

$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

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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.

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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.

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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).

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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.

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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

	June 30, 2011	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	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	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

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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

	Years Ended June 30, 2011	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.

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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,

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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.

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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.

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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

		Number of Shares	Weighted-Average 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

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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		3,000	$ 3.50	Jan 2014

	Warrants issued for consulting services $725 charged to professional fees				
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

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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
	72,980				72,980

Equity from equity method investments		
Income tax expense	1,407,936	1,407,936

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

	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).

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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.

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

The consideration will be 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:

Calculation of allocable 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 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 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.

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PHC, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements June 30, 2011 (Continued)

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.

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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

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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	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	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

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HHC DELAWARE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN INVESTED EQUITY (DEFICIT)

	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)	
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

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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	Year Ended December 31, 2009	Six Months Ended June 30, 2011	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	(10,519)	(98,621)	(84,674)	(59,678)	(53,044)

capital leases					
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

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HHC DELAWARE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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.

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HHC DELAWARE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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HHC DELAWARE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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,

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HHC DELAWARE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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:

		Predecessor	
	December 31, 2010	**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

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HHC DELAWARE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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HHC DELAWARE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	November 16, 2010 through December 31, 2010	Predecessor January 1, 2010 through November 15, 2010	Year Ended December 31, 2009	Six Months Ended June 30, 2011	Predecessor 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	Year Ended December 31, 2009	Six Months Ended June 30, 2011	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

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HHC DELAWARE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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AGREEMENT AND PLAN OF MERGER
among
PHC, INC.,
ACADIA HEALTHCARE COMPANY, INC.
and
ACADIA MERGER SUB, LLC
Dated as of May 23, 2011

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This AGREEMENT AND PLAN OF MERGER (this "Agreement") is made and entered into as of May 23, 2011, by and among PHC, Inc., a Massachusetts corporation ("Pioneer"), Acadia Healthcare Company, Inc., a Delaware corporation ("Acadia"), and Acadia Merger Sub, LLC, a Delaware limited liability company ("Merger Sub").

RECITALS

WHEREAS, upon the terms and subject to the conditions of this Agreement and in accordance with the Delaware Limited Liability Act, as amended (the "Delaware Act" and, collectively with the laws of the State of Delaware, "Delaware Law") and the Massachusetts Business Corporation Act (the "MBCA"), Pioneer, Acadia and Merger Sub have agreed to enter into a business combination transaction pursuant to which Pioneer will merge with and into Merger Sub, with Merger Sub continuing as the surviving company (the "Merger");

WHEREAS, the board of directors of Acadia (the "Acadia Board") has (i) determined that the Merger and the other transactions contemplated by this Agreement, including without limitation all the matters described in Section 6.02(a) (collectively, the "Transactions") are fair to and in the best interests of Acadia and the stockholders of Acadia (the "Acadia Stockholders"), and (ii) approved this Agreement;

WHEREAS, (i) Acadia is the sole member of Merger Sub, (ii) the Acadia Board has approved this Agreement and (iii) immediately following the execution of this Agreement, Acadia, as the sole member of Merger Sub, shall adopt this Agreement;

WHEREAS, the board of directors of Pioneer (the "Pioneer Board") has (i) determined that the Transactions are fair to and in the best interests of Pioneer and the shareholders of Pioneer (the "Pioneer Shareholders"), (ii) adopted this Agreement, (iii) directed that this Agreement be submitted to the Pioneer Shareholders for their approval and (iv) resolved to recommend that the Pioneer Shareholders approve this Agreement and the Merger;

WHEREAS, this Agreement is intended to constitute a "plan of reorganization" with respect to the Merger for United States federal income tax purposes pursuant to which the Merger is to be treated as a "reorganization" under Section 368(a) of the Internal Revenue Code of 1986 (the "Code");

WHEREAS, concurrently with the execution of this Agreement, and as a condition to the willingness of Acadia to enter into this Agreement, each of the persons identified on Schedule A attached hereto have entered into voting agreements with Pioneer and Acadia (the "Pioneer Voting Agreement"), dated as of the date of this Agreement, which agreements are in substantially the form of Exhibit A attached hereto, pursuant to which each such Person has agreed, among other things, to vote all shares of Pioneer Stock held by such Person in favor of the Merger and the other Transactions.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, Pioneer, Merger Sub and Acadia hereby agree as follows:

ARTICLE I

THE MERGER

Section 1.01 *The Merger*. Upon the terms and subject to the conditions set forth in Article VII, and in accordance with Delaware Law and the MBCA, at the Effective Time, Pioneer shall be merged with and into Merger Sub. At the Effective Time, the separate corporate existence of Pioneer shall cease, and Merger Sub shall continue as the surviving company of the Merger (the "Surviving Company"), and shall be a wholly owned, direct subsidiary of Acadia. The Surviving Company will be governed by Delaware Law.

Section 1.02 *Closing*. The closing of the Merger (the "Closing") will take place at 9:00 a.m., Central time, on the second Business Day following the satisfaction or, if permissible, waiver of the conditions to the Merger set forth in Article VII (excluding conditions that, by their nature, cannot be satisfied until the Closing), at the offices of Kirkland & Ellis LLP, 300 North LaSalle Street, Chicago, Illinois 60654, unless another time, date and/or place is agreed to in writing by Acadia and Pioneer (the "Closing Date").

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Section 1.03 *Effective Time*. At the Closing, the parties hereto shall cause the Merger to be consummated by filing with the Secretary of State of the State of Delaware a certificate of merger (the Certificate of Merger) in such form as is required by, and executed and completed in accordance with, the relevant provisions of Delaware Law and by filing with the Secretary of State of the Commonwealth of Massachusetts articles of merger (Articles of Merger), together with any required related certificates, in such form as is required by, and executed and completed in accordance with, the relevant provisions of the MBCA. The Merger shall become effective at such date and time as the Certificate of Merger is duly filed with the Secretary of State of the State of Delaware and the Articles of Merger is duly filed with the Secretary of State of the Commonwealth of Massachusetts or at such subsequent date and time as Acadia and Pioneer shall mutually agree and specify in the Certificate of Merger. The date and time at which the Merger becomes effective is referred to in this Agreement as the Effective Time.

Section 1.04 *Effect of the Merger*. At the Effective Time, the effect of the Merger shall be as provided in this Agreement and in the applicable provisions of Delaware Law and the MBCA.

Section 1.05 *Governing Documents of the Surviving Company*. At the Effective Time:

(a) The certificate of formation of Merger Sub, as in effect immediately prior to the Effective Time, shall be the certificate of formation of the Surviving Company until thereafter amended in accordance with the provisions thereof and as provided by applicable law.

(b) The Limited Liability Company Agreement of Merger Sub, as in effect immediately prior to the Effective Time, shall be the limited liability company agreement of the Surviving Company until thereafter amended as provided by applicable law and such limited liability company agreement.

Section 1.06 *Governing Documents of Acadia*. Prior to the Effective Time:

(a) The Certificate of Incorporation of Acadia shall be amended and restated as set forth in Exhibit B.

(b) The By-laws of Acadia shall be amended and restated as set forth in Exhibit C.

Section 1.07 *Managers and Officers*.

(a) The managers of Merger Sub at the Effective Time shall, from and after the Effective Time, be the managers of the Surviving Company until their successors shall have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the certificate of formation and the limited liability company agreement of the Surviving Company.

(b) The officers of Merger Sub at the Effective Time shall, from and after the Effective Time, be the officers of the Surviving Company until their successors shall have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the certificate of formation and the limited liability company agreement of the Surviving Company.

ARTICLE II

EFFECT OF THE MERGER ON SECURITIES

Section 2.01 *Conversion of Securities*. At the Effective Time, by virtue of the Merger and without any action on the part of Acadia, Merger Sub, Pioneer or the holders of Pioneer Class A Common Stock or Pioneer Class B Common

Stock, the following shall occur:

(a) *Conversion of Pioneer Shares*. Each share of Pioneer Class A Common Stock issued and outstanding immediately prior to the Effective Time (other than (i) any shares of Pioneer Class A Common Stock to be cancelled pursuant to Section 2.01(b), (ii) any shares of Pioneer Class A Common Stock owned by any Pioneer Subsidiary and (iii) any Dissenting Shares pursuant to Section 2.03) shall be converted into and become exchangeable for one-quarter (1/4) of one fully paid and nonassessable share of common stock, par value $0.01 per share, of Acadia (Acadia Common Stock) (the Class A Merger Consideration). Each share of Pioneer Class B Common Stock issued and outstanding immediately prior to the Effective Time (other than (i) any shares of Pioneer Class B Common Stock to be cancelled pursuant to Section 2.01(b), (ii) any share of Pioneer Class B Common Stock owned by any Pioneer Subsidiary and (iii) any Dissenting Shares pursuant to

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Section 2.03) shall be converted into and become exchangeable for (x) one-quarter (1/4) of one fully paid and nonassessable share of Acadia Common Stock and (y) the Pioneer Per Share Class B Cash Consideration (the Class B Merger Consideration, and together with the Class A Merger Consideration, the Merger Consideration). At the Effective Time, all shares of Pioneer Common Stock shall cease to be outstanding and shall automatically be cancelled and retired and shall cease to exist, and shall thereafter represent only the right to receive the Merger Consideration therefor.

(b) *Cancellation of Certain Shares*. Each share of Pioneer Common Stock held in the treasury of Pioneer immediately prior to the Effective Time shall be automatically cancelled and extinguished without any conversion thereof and no payment shall be made with respect thereto.

(c) *Merger Sub Units*. The membership interests in Merger Sub issued and outstanding immediately prior to the Effective Time shall remain the issued and outstanding membership interests in the Surviving Company after the Effective Time.

Section 2.02 *Exchange of Certificates*.

(a) *Exchange Agent and Exchange Fund*. Prior to the Effective Time, Acadia shall appoint an agent (the Exchange Agent) reasonably acceptable to Pioneer for the purpose of exchanging for Merger Consideration (i) certificates (Certificates) representing shares of Pioneer Common Stock (Certificated Shares) and (ii) uncertificated shares of Pioneer Common Stock (Uncertificated Shares). At or prior to the Effective Time, Acadia shall deposit with or otherwise make available to the Exchange Agent, in trust for the benefit of holders of shares of Pioneer Common Stock, (i) certificates representing shares of Acadia Common Stock sufficient to deliver the aggregate Merger Consideration in accordance with Section 2.01(a) and Section 2.02(e)(i) and (ii) $5,000,000 cash for payment of the Pioneer Class B Cash Consideration (such certificates for shares of Acadia Common Stock and cash are collectively referred to as the Exchange Fund). Acadia agrees to make available to the Exchange Agent, from time to time after the Closing as needed, any dividends or distributions to which such holder is entitled pursuant to Section 2.02(h) of this Agreement, it being understood no holder of shares of Acadia Common Stock received as Merger Consideration shall be entitled to participate in any dividend or distribution contemplated by Section 2.06 with respect to such stock.

(b) *Exchange Procedures*. Promptly after the Effective Time (but in no event later than five (5) Business Days following the Effective Time), Acadia shall send, or shall cause the Exchange Agent to send, to each holder of record of shares of Pioneer Common Stock at the Effective Time a letter of transmittal and instructions reasonably acceptable to Pioneer (which shall specify that the delivery shall be effected, and risk of loss and title shall pass, only upon proper surrender of the Certificates to the Exchange Agent and which shall otherwise be in customary form and shall include customary provisions with respect to delivery of an agent s message regarding the transfer of Pioneer Common Stock in book) for use in such exchange. Each holder of Pioneer Common Stock whose Pioneer Common Stock have been converted into the right to receive the Merger Consideration pursuant to Section 2.01(a) shall be entitled to receive, upon (i) surrender to the Exchange Agent of one or more Certificates, together with a properly completed letter of transmittal, or (ii) receipt of an agent s message by the Exchange Agent (or such other evidence, if any, of transfer as the Exchange Agent may reasonably request) in the case of a book-entry transfer of Uncertificated Shares, (w) whole shares of Acadia Common Stock to which such holder of Pioneer Common Stock shall have become entitled pursuant to the provisions of Article II (after taking into account all shares of Pioneer Common Stock then held by such holder), (x) a check representing the amount, if any, of the Pioneer Class B Cash Consideration such holder of Pioneer Common Stock shall have become entitled pursuant to the provisions of Article II, and (y) a check representing the amount of any cash in lieu of fractional shares which such holder has the right to receive pursuant to Section 2.02(e) in respect of the Certificate(s) or Uncertificated Shares surrendered or transferred pursuant to the provisions of this Section 2.02, and (z) a check representing the amount of any dividends or distributions then payable pursuant to Section 2.02(h), and the Certificate or Certificates so surrendered or transferred shall forthwith be cancelled. The

shares of Acadia Common Stock constituting part of such Merger Consideration, at Acadia s option, shall be in uncertificated book-entry form, unless a physical certificate is requested by a holder of Pioneer Common Stock or is otherwise required under Applicable Law. No interest will be paid or accrued on any cash in lieu of fractional shares or on any unpaid dividends and distributions payable to holders of Certificates or Uncertificated Shares. Until so surrendered or transferred, as the case may be,

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each such Certificate or Uncertificated Share shall represent after the Effective Time for all purposes only the right to receive such Merger Consideration and the right to receive any dividends or other distributions pursuant to Section 2.02(h).

(c) *Issuance or Payment to Persons Other Than the Registered Holder*. If any portion of the Merger Consideration is to be paid to a Person other than the Person in whose name the surrendered Certificate or the transferred Uncertificated Share is registered, it shall be a condition to such payment that (i) either such Certificate shall be properly endorsed or shall otherwise be in proper form for transfer or such Uncertificated Share shall be properly transferred and (ii) the Person requesting such payment shall pay to the Exchange Agent any transfer or other taxes required as a result of such payment to a Person other than the registered holder of such Certificate or Uncertificated Share or establish to the satisfaction of the Exchange Agent that such tax has been paid or is not payable.

(d) *No Further Rights in Pioneer Common Stock*. All Merger Consideration paid in accordance with the terms hereof shall be deemed to have been issued in full satisfaction of all rights pertaining to such shares of Pioneer Common Stock. From and after the Effective Time, the holders of Certificates and Uncertificated Shares shall cease to have any rights with respect to such shares of Pioneer Common Stock except as otherwise provided herein.

(e) *Fractional Shares*.

(i) Notwithstanding anything to the contrary contained in this Agreement, no fractional shares of Acadia Common Stock shall be issued upon the surrender of Certificates or transfer of Uncertificated Shares for exchange, no dividend or distribution with respect to Acadia Common Stock shall be payable on or with respect to any fractional share, and such fractional share interests shall not entitle the owner thereof to vote or to any other rights of a stockholder of Acadia.

(ii) As promptly as practicable following the Effective Time, Acadia shall determine the excess of (x) the number of full shares of Acadia Common Stock to be issued by Acadia pursuant to Section 2.01(a) over (y) the aggregate number of full shares of Acadia to be delivered pursuant to Section 2.02(a) (such excess being herein called the Closing Excess Shares). As soon after the Effective Time as practicable, Acadia, as agent for the holders of Pioneer Capital Stock, shall sell the Closing Excess Shares at then prevailing prices on the exchange or electronic market on which such Closing Excess Shares are traded, all in the manner provided in Section 2.02(e)(iii) below.

(iii) The sale of the Closing Excess Shares by Acadia shall be executed on the exchange or electronic market on which such shares are traded through one or more member firms and shall be executed in round lots to the extent practicable. Until the net proceeds of such sale or sales have been distributed to the holders of Pioneer Capital Stock, Acadia will hold such proceeds in trust for the holders of Pioneer Capital Stock (the Common Stock Trust). Acadia shall determine the portion of the Common Stock Trust to which each holder of Pioneer Capital Stock shall be entitled, if any, by multiplying the amount of the aggregate net proceeds comprising the Common Stock Trust by a fraction the numerator of which is the amount of the fractional share interest to which such holder of Pioneer Capital Stock is entitled and the denominator of which is the aggregate amount of fractional share interests to which all holders of Pioneer Capital Stock are entitled.

(f) *Termination of Exchange Fund*. Any portion of the Exchange Fund deposited with or otherwise made available to the Exchange Agent pursuant to Section 2.02(a) that remains unclaimed by the holders of Pioneer Common Stock nine (9) months after the Effective Time shall be returned to Acadia, upon demand, and any such holder who has not exchanged its shares of Acadia Common Stock for the Merger Consideration in accordance with this Section 2.02 prior to that time shall thereafter look only to Acadia for, and Acadia shall remain liable for, payment of the Merger Consideration, and any dividends and distributions with respect thereto pursuant to Section 2.02(h), in respect of such shares without any interest thereon. Notwithstanding the foregoing, Acadia shall not be liable to any holder of Pioneer

Common Stock for any amounts properly paid to a public official pursuant to applicable abandoned property, escheat or similar laws. Any amounts remaining unclaimed by holders of Pioneer Common Stock five (5) years after the Effective Time (or such earlier date, immediately prior to such time when the amounts would otherwise escheat to or become property of any Governmental Entity) shall become, to the extent

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permitted by applicable Law, the property of Acadia, free and clear of any claims or interest of any Person previously entitled thereto.

(g) *Lost Certificates*. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by Acadia, the posting by such Person of a bond, in such reasonable and customary amount as Acadia may direct, as indemnity against any claim that may be made against it with respect to such lost, stolen or destroyed Certificate, the Exchange Agent will cause to be paid, in exchange for such lost, stolen or destroyed Certificate, the Merger Consideration and any dividends or distributions with respect thereto pursuant to Section 2.02(h), in accordance with this Article II.

(h) *Dividends and Distributions*. No dividends or other distributions with respect to securities of Acadia constituting part of the Merger Consideration shall be paid to the holder of any Certificates not surrendered or of any Uncertificated Shares not transferred until such Certificates or Uncertificated Shares are surrendered or transferred, as the case may be, as provided in Section 2.02(b). Following such surrender or transfer, there shall be paid, without interest, to the Person in whose name the securities of Acadia have been registered, the amount of dividends or other distributions with a record date after the Effective Time theretofore paid, without any interest thereon, with respect to the whole shares of Acadia Common Stock represented by such Certificate or Uncertificated Share, and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to surrender and a payment date subsequent to surrender, with respect to shares of Acadia Common Stock represented by such Certificate or Uncertificated Share.

(i) *Withholding*. Notwithstanding any provision contained herein to the contrary, each of the Exchange Agent, the Surviving Company and Acadia shall be entitled to deduct or withhold from the consideration otherwise payable to any Person pursuant to this Article II such amounts as it is required to deduct or withhold with respect to the making of such payment under any provision of federal, state, local or foreign tax law. Pioneer shall, and shall cause its Affiliates to, assist Acadia in making such deductions and withholding as reasonably requested by Acadia. If the Exchange Agent, the Surviving Company or Acadia, as the case may be, so withholds amounts, such amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of Pioneer Common Stock in respect of which the Exchange Agent, the Surviving Company or Acadia, as the case may be, made such deduction and withholding.

Section 2.03 *Dissenters Rights*. Notwithstanding anything in this Agreement to the contrary, shares of Pioneer Class A Common Stock and Pioneer Class B Common Stock that are issued and outstanding immediately prior to the Effective Time and which are held by holders of shares of Pioneer Class A Common Stock or Pioneer Class B Common Stock who have not voted in favor of or consented thereto in writing and who have properly demanded and perfected their rights to be paid the fair value of such shares in accordance with Section 13.02 of the MBCA (such shares, the Dissenting Shares), shall not be converted into or exchangeable for the right to receive the Merger Consideration (except as provided in this Section 2.03) and shall entitle such shareholder (a Dissenting Shareholder) only to payment of the fair value of such Dissenting Shares, in accordance with Section 13.02 of the MBCA, unless and until such Dissenting Shareholder withdraws (in accordance with Part 13 of the MBCA) or effectively loses the right to dissent. Pioneer shall not, except with the prior written consent of Acadia or as otherwise required by applicable Law, voluntarily make (or cause or permit to be made on its behalf) any payment with respect to, or settle or offer to settle, any such demand for payment of fair value of Dissenting Shares prior to the Effective Time. Pioneer shall give Acadia prompt notice of any such demands prior to the Effective Time and Acadia shall have the right to participate in and control all negotiations and proceedings with respect to any such demands. If any Dissenting Shareholder shall have effectively withdrawn (in accordance with Part 13 of the MBCA) or lost the right to dissent, then as of the later of the Effective Time or the occurrence of such event, the Dissenting Shares held by such Dissenting Shareholder shall be cancelled and converted into and represent the right to receive the Merger Consideration pursuant to Section 2.01(a).

Section 2.04 *Stock Transfer Books*. At the Effective Time, the stock transfer books of Pioneer shall be closed (after giving effect to the items contemplated by this Article III) and thereafter, there shall be no further registration of transfers of shares of Pioneer Common Stock theretofore outstanding on the records of Pioneer. From

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and after the Effective Time, the holders of Certificates shall cease to have any rights with respect to such shares of Pioneer Common Stock except as otherwise provided herein or by Law.

Section 2.05 *Pioneer Options and Stock-Based Awards*.

(a) *Equity Award Waivers*. Prior to the Effective Time, Pioneer shall use its reasonable best efforts to obtain all necessary waivers, consents or releases, in form and substance reasonably satisfactory to Acadia, from holders of Pioneer Options and other equity awards under the Pioneer Equity Plans and take all such other action, without incurring any liabilities in connection therewith, as Acadia may deem to be necessary to give effect to the transactions contemplated by this Section 2.05. As promptly as practicable following the date of this Agreement, the Pioneer Board (or, if appropriate, any committee thereof administering the Pioneer Equity Plans) shall adopt such resolutions or take such other actions as are required to give effect to the transactions contemplated by this Section 2.05.

(b) *Pioneer Options*. Effective as of the Effective Time, each then outstanding option to purchase shares of Pioneer Common Stock, whether vested or unvested, (each a Pioneer Stock Option), pursuant to the Pioneer Stock Plans and the award agreements evidencing the grants thereunder, granted to any current or former employee or director of, consultant or other service provider to, Pioneer or any of its Subsidiaries shall be assumed by Acadia and shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into an option to purchase one-quarter (1/4) of one share of Acadia Common Stock (an Assumed Stock Option) for each share of Pioneer Common Stock subject to such Pioneer Stock Option and the per share exercise price for Acadia Common Stock issuable upon the exercise of such Assumed Stock Option shall be equal to (i) the exercise price per share of Pioneer Common Stock at which such Pioneer Stock Option was exercisable immediately prior to the Effective Time multiplied by (ii) four (4) (rounded up to the nearest whole cent), provided, however, that such conversion and assumption of the Assumed Stock Options shall comply with the regulations and other binding guidance under Section 409A of the Code. Except as otherwise provided herein or as set forth on Schedule 2.05(b) (the Assumed Stock Option Schedule), the Assumed Stock Options shall be subject to the same terms and conditions (including expiration date and exercise provisions as contemplated by Pioneer Stock Plans) as were applicable to the corresponding Pioneer Stock Options immediately prior to the Effective Time.

(c) *Pioneer Warrants*. Effective as of the Effective Time, each outstanding warrant to purchase shares of Pioneer Common Stock (each a Pioneer Warrant), pursuant to the award agreements evidencing the grant thereunder, shall be assumed by Acadia and shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into a warrant to purchase one-quarter (1/4) of one share of Acadia Common Stock (an Assumed Warrant) for each share of Pioneer Common Stock subject to such Pioneer Warrant and the per share exercise price for Acadia Common Stock issuable upon the exercise of such Assumed Warrant shall be equal to (i) the exercise price per share of Pioneer Common Stock at which such Pioneer Warrant was exercisable immediately prior to the Effective Time multiplied by (ii) four (4) (rounded up to the nearest whole cent), provided, however, that such conversion and assumption of the Assumed Warrant shall comply with the regulations and other binding guidance under Section 409A of the Code. Except as otherwise provided herein, the Assumed Warrants shall be subject to the same terms and conditions (including expiration date and exercise provisions as contemplated by the applicable award agreement) as were applicable to the corresponding Pioneer Warrant immediately prior to the Effective Time.

(d) *Miscellaneous*. All amounts payable under this Section 2.05 shall be reduced by amounts as are required to be withheld or deducted under the Code or any provision of U.S. state, local or foreign Tax Law with respect to the making of such payment. To the extent that amounts are so withheld or deducted, such withheld or deducted amounts shall be treated for all purposes of this Agreement as having been paid to the Person in respect of whom such withholding or deduction was made.

Section 2.06 *Acadia Common Stock and Related Matter*.

(a) *Existing Acadia Shares*. Prior to the Effective Time, Acadia shall consummate a stock split, reverse stock split or issuance of Acadia Common Stock such that the shares of Acadia Common Stock issued and outstanding immediately prior to the Effective Time (Pre-Merger Acadia Stock) will, immediately following the Effective Time, equal 77.5% of the Fully Diluted Shares.

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(b) *Deficit Note(s)*. At the Effective Time, if the Net Proceeds Condition is not met, Acadia shall issue to the holders of Acadia Common Stock immediately prior to the Effective Time the Deficit Note(s).

(c) *Net Proceeds*. Immediately prior to the Effective Time Acadia shall have the right to declare and, if so declared, at the Effective Time Acadia shall pay a cash dividend to the holders of shares Acadia Common Stock issued and outstanding immediately prior to the Effective Time in an aggregate amount equal to the Net Proceeds minus the PSA Termination Amount. While under no obligation to make a dividend, it is Acadia s intention to declare such dividend.

(d) *Professional Services Agreement*. At the Effective Time, in connection with the Merger, the financing and the termination of the Professional Services Agreement, Acadia shall have the right to pay the PSA Amount to Waud Capital Partners, LLC pursuant to the terms of a termination agreement.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF ACADIA AND MERGER SUB

Except as set forth in the disclosure schedule delivered by Acadia and Merger Sub to Pioneer concurrently with the execution and delivery of this Agreement (the Acadia Disclosure Schedule), Acadia and Merger Sub hereby represent and warrant to Pioneer as follows:

Section 3.01 *Organization, Standing and Power; Subsidiaries*.

(a) Each of Acadia and its Subsidiaries is a limited liability company or corporation, duly organized, validly existing and in good standing under the laws of its jurisdiction of formation or incorporation. Each of Acadia and its Subsidiaries has the requisite power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted and as currently proposed to be conducted, and is duly qualified to do business and is in good standing, in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification, licensing or good standing necessary, except where the failure to be so qualified and in good standing would not, individually or in the aggregate, have an Acadia Material Adverse Effect.

(b) Section 3.01(b) of the Acadia Disclosure Schedule contains a true and complete list of all the Subsidiaries of Acadia, together with the jurisdiction of organization of each such Subsidiary, the percentage of the outstanding capital stock or other equity interests of each such Subsidiary owned by Acadia and each other Subsidiary of Acadia and the ownership interest of any other Person or Persons in each Subsidiary of Acadia. None of Acadia or any of its Subsidiaries directly or indirectly owns any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, any corporation, partnership, joint venture or other business association or entity (other than the Subsidiaries of Acadia).

Section 3.02 *Acadia Organizational Documents*. Acadia has made available to Pioneer a true and correct copy of the limited liability company agreement, certificate of incorporation, bylaws and other governing documents, as applicable, of Acadia and each of its Subsidiaries, each as amended to date (collectively, the Acadia Organizational Documents). The Acadia Organizational Documents are in full force and effect. Neither Acadia nor any of its Subsidiaries is in violation of any of the provisions of its Acadia Organizational Documents, except, in the case of any Subsidiary of Acadia, for violations that would not have an Acadia Material Adverse Effect.

Section 3.03 *Capitalization*.

(a) The authorized capital stock of Acadia consists of (i) 100,000,000 shares of Common Stock (collectively, the "Acadia Stock").

(b) As of the date hereof, (i) 17,676,101 shares of Acadia Stock are issued and outstanding, all of which are validly issued, fully paid and nonassessable, (ii) no shares of Acadia Stock are held in the treasury of Acadia, and (iii) no shares of Acadia Stock are held by the Subsidiaries of Acadia.

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(c) There are no options, warrants or other rights, agreements, arrangements or commitments of any character relating to the issued or unissued Acadia Stock or capital stock of any Subsidiary of Acadia or obligating Acadia or any of its Subsidiaries to issue or sell any Acadia Stock, shares of capital stock of, or other equity interests in, Acadia or any of its Subsidiaries. All Acadia Stock subject to issuance as aforesaid, upon issuance on the terms and conditions specified in the instruments pursuant to which they are issuable, will be duly authorized, validly issued, fully paid and nonassessable. There are no material outstanding contractual obligations of Acadia or any of its Subsidiaries to repurchase, redeem or otherwise acquire any Acadia Stock or shares of capital stock of any Subsidiary of Acadia, or options, warrants or other rights to acquire Acadia Stock or shares of capital stock of any Subsidiary of Acadia, or to provide funds to or make any investment (in the form of a loan, capital contribution or otherwise) in any such Subsidiary or any other Person. There are no bonds, debentures, notes or other indebtedness of Acadia or any of its Subsidiaries having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which holders of Acadia Stock may vote (Voting Acadia Debt). Except for any obligations pursuant to this Agreement, the Acadia Equity Compensation Plans, or as otherwise set forth above, there are no options, warrants, rights, convertible or exchangeable securities, stock-based performance units, Contracts or undertakings of any kind to which Acadia or any of its Subsidiaries is a party or by which any of them is bound (i) obligating Acadia or any such Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional Acadia Stock, shares of capital stock or other equity interests in, or any security convertible or exchangeable for any Acadia Stock, capital stock of or other equity interest in, Acadia or any of its Subsidiaries or any Voting Acadia Debt, (ii) obligating Acadia or any such Subsidiary to issue, grant or enter into any such option, warrant, right, security, unit, Contract or undertaking, or (iii) that give any Person the right to receive any economic interest of a nature accruing to the holders of any Acadia Stock. None of Acadia or any of its Subsidiaries is a party to any shareholders agreement, voting trust agreement or registration rights agreement relating to the Acadia Stock or any equity securities of the Subsidiaries of Acadia or any other Contract relating to disposition, voting, distributions or dividends with respect to any Acadia Stock or equity securities of any of Acadia s Subsidiaries.

(d) Section 3.03(d) of the Acadia Disclosure Schedule sets forth a true and complete list, as of the date of this Agreement, of any agreement, instrument or other obligation pursuant to which any indebtedness for borrowed money of Acadia or any of its Subsidiaries in an aggregate principal amount in excess of $250,000 is outstanding or may be incurred, (ii) the respective principal amounts outstanding thereunder as of the date of this Agreement, and (iii) a list of any agreements that relate to guarantees by the Acadia or any of its Subsidiaries of indebtedness of any other Person in excess of $250,000.

(e) Section 3.03(e) of the Acadia Disclosure Schedule sets forth, as of the date hereof, a true and complete list of each Acadia Member and the number and classes of Acadia Stock beneficially owned by such Person. As of the date hereof, no other Person not disclosed in Section 3.03(e) of the Acadia Disclosure Schedule has a beneficial interest in or a right to acquire any Acadia Stock. The Acadia Stock disclosed in Section 3.03(e) of the Acadia Disclosure Schedule are, and at the Effective Time shall be, free of any Liens, other than Permitted Liens.

(f) Each outstanding limited liability company interest, share of capital stock, and any other equity interest in each Subsidiary of Acadia is duly authorized, validly issued, fully paid and nonassessable and was issued free of preemptive (or similar) rights, and each such share or interest is owned by Acadia or another Subsidiary of Acadia free and clear of all options, rights of first refusal, agreements, limitations on Acadia s or any of its Subsidiaries voting, dividend or transfer rights, charges and other encumbrances or Liens of any nature whatsoever.

Section 3.04 *Authority Relative to This Agreement*. Acadia and Merger Sub have all necessary corporate and limited liability company power and authority to execute and deliver this Agreement and to perform their obligations hereunder and to consummate the Transactions. The execution, delivery and performance of this Agreement by Acadia and Merger Sub and the consummation by Acadia and Merger Sub of the Transactions have been duly and

validly authorized by all necessary corporate and limited liability company action, and no other proceedings on the part of Acadia or Merger Sub are necessary to authorize this Agreement or to consummate the Transactions (other than, with respect to the Merger, the filing and recordation of appropriate merger documents as required by Delaware Law and the MBCA). This Agreement has been duly and validly executed and delivered by Acadia and Merger Sub and, assuming the due authorization, execution and delivery by Pioneer, constitutes a legal, valid and binding obligation of Acadia and Merger Sub, enforceable against Acadia and Merger Sub in accordance

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with its terms, subject to the effect of any applicable bankruptcy, insolvency (including all laws relating to fraudulent transfers), reorganization, moratorium or similar laws affecting creditors rights generally and subject to the effect of general principles of equity (regardless of whether considered in a proceeding at law or in equity).

Section 3.05 *No Conflict; Required Filings and Consents*.

(a) The execution and delivery of this Agreement by Acadia and Merger Sub does not, and the performance of this Agreement by Acadia and Merger Sub and the consummation by Acadia and Merger Sub of the Transactions will not, (i) conflict with or violate the Acadia Organizational Documents, (ii) assuming that all consents, approvals and other authorizations described in Section 3.05(b) have been obtained, that all filings and notifications and other actions described in Section 3.05(b) have been made or taken, conflict with or violate any law, applicable to Acadia or any of its Subsidiaries or by which any property or asset of Acadia or any such Subsidiary is bound or affected, or (iii) require any consent or approval under, result in any breach or violation of or constitute a default (or an event which, with notice or lapse of time or both, would become a default) under, or give to others any right of termination, amendment, acceleration or cancellation of, or result in the creation of a Lien on any property or asset of Acadia or any such Subsidiary pursuant to, any Acadia Material Contract, except, with respect to clauses (ii) and (iii), for any such conflicts, violations, breaches, defaults or other occurrences which would not have an Acadia Material Adverse Effect or prevent, or materially alter or delay, the consummation of the Transactions.

(b) The execution and delivery of this Agreement by Acadia does not, and the performance of this Agreement by Acadia and the consummation by Acadia of the Transactions will not, require any consent, approval, authorization or permit of, or filing with or notification to, any federal, state, local or foreign government, regulatory or administrative authority, accreditation agency, or any court, tribunal, or judicial or arbitral body (a Governmental Authority), except for (i) applicable requirements, if any, of the Securities Exchange Act of 1934, as amended (the Exchange Act), (ii) the filing with the Securities and Exchange Commission (the SEC) of the proxy statement/prospectus, or any amendment or supplement thereto, to be sent to the Pioneer Shareholders in connection with the Transactions (the Proxy Statement/ Prospectus) and of a registration statement on Form S-4 pursuant to which the shares of Acadia Common Stock to be issued in the Merger will be registered under the Securities Act of 1933, as amended (the Securities Act) (together with any amendments or supplements thereto, the Form S-4), and declaration of effectiveness of the Form S-4, and obtaining from the SEC such orders as may be required in connection therewith, (iii) any filings required by the rules of the AMEX, (iv) the filing and recordation of appropriate merger documents as required by Delaware Law, the MBCA and appropriate documents with the relevant authorities of other states in which Acadia or any Subsidiary of Acadia is qualified to do business, (v) the premerger notification and waiting period requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder (the HSR Act), (vi) applicable requirements, if any, of Health Care Laws; and (vii) applicable requirements, if any, of Medicare, Medicaid, Tricare or any other similar state or federal health care program (each, a Government Program) in which Acadia, any Subsidiary of Acadia or any Acadia Health Care Facility participates; and (viii) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not, individually or in the aggregate, reasonably be expected to have an Acadia Material Adverse Effect and would not prevent, or materially alter or delay, the consummation of any of the Transactions.

Section 3.06 *Permits; Compliance*. Acadia, each Subsidiary of Acadia and each of the Acadia Health Care Facilities is in possession of all licenses, interim licenses, qualifications, exemptions, registrations, permits, approvals, accreditations, certificates of occupancy and other certificates, franchises and other authorizations of any Governmental Authority necessary for each such entity to own, lease and operate its properties or to carry on its business as it is now being conducted (the Acadia Permits), except where the failure to have, or the suspension or cancellation of, any of the Acadia Permits would not, individually or in the aggregate, reasonably be expected to have an Acadia Material Adverse Effect. As of the date of this Agreement, no suspension or cancellation of any of the Acadia Permits is pending or, to the knowledge of Acadia, threatened in writing, except where the failure to have, or

the suspension or cancellation of, any of the Acadia Permits would not, individually or in the aggregate, reasonably be expected to have an Acadia Material Adverse Effect. Since January 1, 2008, neither Acadia, any Subsidiary of Acadia or any of the Acadia Health Care Facilities is or has been in conflict with, or in default, breach or violation of, (i) any Healthcare Law or other law applicable to such entity or by which any property or asset of such entity is bound or affected, or (ii) any contract or Acadia Permit to which such entity is a party or by which such

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entity or any property or asset of such entity is bound, except, with respect to clauses (i) and (ii), for any such conflicts, defaults, breaches or violations that would not, individually or in the aggregate, reasonably be expected to have an Acadia Material Adverse Effect. Without limiting the generality of the foregoing, (x) Acadia, each Subsidiary of Acadia and each of the Acadia Health Care Facilities is in compliance with the requirements of and conditions for participating in the Government Programs such entity participates in as of the date of this Agreement and (y) all claims for payment or cost reports filed or required to be filed by Acadia and each Acadia Healthcare Facility under any Government Program or any private payor program have been prepared and filed in accordance with all applicable laws, except, in the case of clauses (x) and (y), for any such noncompliance that would not, individually or in the aggregate, reasonably be expected to have an Acadia Material Adverse Effect.

Section 3.07 *Financial Statements; Undisclosed Liabilities*.

(a) Acadia has delivered to Pioneer its (i) audited consolidated financial statements (including balance sheet, statement of operations and statement of cash flows) as at and for the twelve-month periods ended December 31, 2008, 2009 and 2010, and (ii) unaudited consolidated financial statements for the three-month period ending March 31, 2011 (such audited and unaudited financial statements, collectively, the Acadia Financials).

(b) Acadia has delivered to Pioneer (i) audited consolidated financial statements (including balance sheet, statement of operations and statement of cash flows) as at and for the twelve-month periods ended December 31, 2008, 2009 and 2010, and (ii) unaudited consolidated financial statements for the three-month period ending March 31, 2011, in each case of Youth & Family Centered Services, Inc. (such audited and unaudited financial statements, collectively, the YFCS Financials).

(c) Each of the financial statements (including, in each case, any notes thereto) comprising the Acadia Financials and the YFCS Financials was prepared in accordance with United States generally accepted accounting principles (GAAP) applied on a consistent basis throughout the periods indicated (except as may be indicated in the notes thereto or, in the case of unaudited statements, subject to the absence of notes and normal and recurring year-end adjustments), and each fairly presents, in all material respects, the consolidated financial position, results of operations and cash flows of Acadia and its consolidated Subsidiaries as at the respective dates thereof and for the respective periods indicated therein, except as otherwise noted therein (subject, in the case of unaudited statements, to the absence of notes and normal and recurring year-end adjustments).

(d) The records, systems, controls, data and information of Acadia and its Subsidiaries are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic process, whether computerized or not) that are under the exclusive ownership and direct control of Acadia or its Subsidiaries or their accountants (including all means of access thereto and therefrom), except for any non-exclusive ownership and non-direct control that would not have a material adverse effect on Acadia s system of internal accounting controls.

(e) Neither Acadia nor any Subsidiary of Acadia has any material liability or obligation of a nature required to be reflected on the face of a balance sheet prepared in accordance with GAAP (and not including any notes thereto), except for liabilities and obligations (i) reflected or reserved against on the audited consolidated balance sheet of Acadia or its Subsidiaries as of December 31, 2010 or on the consolidated balance sheet of Acadia or its Subsidiaries as of March 31, 2011, (ii) reflected or reserved against on the audited consolidated balance sheet included in the YFCS Financial Statements as of December 31, 2010 or on the consolidated balance sheet included in the YFCS Financial Statements as of March 31, 2011, (iii) incurred in connection with the Transactions, or (iv) incurred in the ordinary course of business since December 31, 2010 that would not have an Acadia Material Adverse Effect.

(f) Acadia s Net Debt does not exceed $163,000,000. No items set forth on the Acadia Disclosure Schedule shall qualify this Section 3.07(f).

Section 3.08 *Information Supplied*. The information supplied by Acadia for inclusion or incorporation by reference in the Form S-4 shall not at the time the Form S-4 is declared effective by the SEC (or, with respect to any post-effective amendment or supplement, at the time such post-effective amendment or supplement becomes effective) contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The information supplied by Acadia for inclusion in the Proxy Statement/ Prospectus shall

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not, on the date the Proxy Statement/ Prospectus is first mailed to the Pioneer Shareholders, at the time of the Pioneer Shareholder Approval, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The representations and warranties contained in this Section 3.08 will not apply to statements or omissions included or incorporated by reference in the Proxy Statement/ Prospectus based upon information furnished by Pioneer or any of its Representatives.

Section 3.09 *Absence of Certain Changes or Events*. Since the Acadia Balance Sheet Date, except in connection with the execution and delivery of this Agreement and the consummation of the Transactions, the business of Acadia and its Subsidiaries has been conducted in the ordinary course of business consistent with past practices and there has not been or occurred:

(a) any Acadia Material Adverse Effect; or

(b) any event, condition, action or effect that, if taken during the period from the date of this Agreement through the Effective Time, would constitute a breach of the covenants set forth in Section 5.01.

Section 3.10 *Absence of Litigation; Restrictions of Business Activities*. (a) There is no material litigation, suit, claim, investigation, arbitration, mediation, inquiry, action or proceeding of any nature before any Governmental Authority (an Action) pending or, to the knowledge of Acadia, threatened against Acadia or any of its Subsidiaries, or any of their respective officers, directors or limited liability company managers, or any property or asset of Acadia or any of its Subsidiaries and (b) none of Acadia or any Subsidiary of Acadia is subject or bound by any material outstanding order, judgment, writ, stipulation, settlement, award, injunction, decree, arbitration award or finding of any Governmental Authority (an Order).

Section 3.11 *Title to Property*. Acadia and its Subsidiaries have good, valid and marketable title to all of their respective properties, interests in properties and assets, real and personal, reflected in the audited consolidated balance sheet of Acadia and its consolidated Subsidiaries at the Acadia Balance Sheet Date (the Acadia Balance Sheet) or acquired after the Acadia Balance Sheet Date (except properties, interests in properties and assets sold or otherwise disposed of since the Acadia Balance Sheet Date in the ordinary course of business), or with respect to leased properties and assets, valid leasehold interests in, free and clear of all Liens, other than Permitted Liens. The plants, property and equipment of Acadia and its Subsidiaries that are used in the operations of their businesses are in all material respects in good operating condition and repair, subject to normal wear and tear. All material properties used in the operations of Acadia and its Subsidiaries are reflected in the Acadia Balance Sheet or the audited consolidated balance sheet included in the YFCS Financial Statements as of December 31, 2010, to the extent required by GAAP. Section 3.11 of the Acadia Disclosure Schedule identifies the address of each parcel of real property owned or leased by Acadia or any of its Subsidiaries.

Section 3.12 *Intellectual Property*.

(a) Acadia and its Subsidiaries own, license or otherwise legally possess enforceable rights to use all Intellectual Property Rights that are used in the business of Acadia and its Subsidiaries as currently conducted, except as would not, individually or in the aggregate, reasonably be expected to have an Acadia Material Adverse Effect. Acadia and its Subsidiaries have not (i) licensed any of the Software owned by Acadia or any of its Subsidiaries in source code form to any party or (ii) entered into any exclusive agreements relating to the Intellectual Property Rights owned by Acadia or any of its Subsidiaries with any party.

(b) Section 3.12(b) of the Acadia Disclosure Schedule lists (i) all Intellectual Property Rights owned by Acadia or any of its Subsidiaries that is patented, registered or subject to applications for patent or registration, including the

jurisdictions in which each such Intellectual Property Rights have been issued or registered or in which any application for such issuance and registration has been filed, and (ii) all Acadia Third Party Intellectual Property Rights.

(c) To the knowledge of Acadia, there has been no unauthorized use, disclosure, infringement or misappropriation of any Intellectual Property Rights owned by Acadia or any of its Subsidiaries by any third party, including any employee or former employee of Acadia or any of its Subsidiaries. To the knowledge of Acadia, no claim by any

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Person contesting the validity, enforceability, use or ownership of any Intellectual Property Rights owned by Acadia or any of its Subsidiaries has been made or is currently outstanding.

(d) Subject to Section 6.07 hereof, Acadia is not, nor will it be as a result of the execution and delivery of this Agreement or the performance of its obligations under this Agreement, in material breach of any license, sublicense or other agreement relating to the Intellectual Property Rights or Acadia Third Party Intellectual Property Rights.

(e) Acadia has taken commercially reasonable steps to maintain the Intellectual Property Rights that Acadia or any of its Subsidiaries owns. Neither Acadia nor any Subsidiary of Acadia has been sued in any suit, action or proceeding which involves a claim of infringement or misappropriation of any Intellectual Property Rights of any third party. To the knowledge of Acadia, neither Acadia nor any Subsidiary of Acadia has infringed or misappropriated any Intellectual Property Rights of any third party. Neither Acadia nor any Subsidiary of Acadia has received any written threats or notices regarding any of the foregoing (including any demands or offers to license any Intellectual Property Rights from any Person). Neither Acadia nor any Subsidiary of Acadia has brought any action, suit or proceeding for infringement or misappropriation of Intellectual Property Rights or breach of any license or agreement involving Intellectual Property Rights against any third party.

(f) Acadia and all of its Subsidiaries, in connection with businesses of Acadia and such Subsidiaries, have taken commercially reasonable steps to safeguard the internal and external integrity of their respective IT Assets. With respect to such IT Assets, (a) there have been no material unauthorized intrusions or breaches of security within the past thirty-six (36) months, (b) there has not been any material malfunction that has not been remedied or replaced in all material respects, (c) within the past thirty-six (36) months, there has been no material unplanned downtime or material service interruption.

Section 3.13 *Employee Benefit Plans*.

(a) Section 3.13(a) of the Acadia Disclosure Schedule lists all employee benefit plans (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (ERISA)), other deferred compensation, retiree medical or life insurance, supplemental retirement, severance, change in control or retention plans, equity and equity-based compensation plans, and other material benefit plans, programs, policies or arrangements which are currently maintained, contributed to or sponsored by Acadia or any Subsidiary of Acadia for the benefit of any current or former employee, consultant, officer or director of Acadia or any Subsidiary of Acadia (collectively, the Acadia Plans).

(b) With respect to each Acadia Plan, Acadia has made available to Pioneer copies, as applicable, of (A) such Acadia Plan, including any material amendment thereto, (B) the most recent audited financial statements and actuarial or other valuation reports prepared with respect thereto and (C) the two most recent annual reports on Form 5500 required to be filed with respect thereto.

(c) Each Acadia Plan that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter or is in the form of a prototype document that is the subject of a favorable opinion letter from the Internal Revenue Service of the United States (the IRS), or an application for such a letter is currently being processed by the IRS, and, to the knowledge of Acadia, no circumstance exists that would reasonably be expected to adversely affect the qualified status of such Acadia Plan.

(d) Each Acadia Plan has been established, funded and administered in accordance in all material respect with its terms, and in compliance in all material respects with the applicable provisions of ERISA, the Code and other applicable laws. No Acadia Plan provides retiree or post-employment welfare benefits, and neither Acadia nor any Subsidiary of Acadia has any obligation to provide any retiree or post-employment welfare benefits other than as

required by Section 4980B of the Code and for which the covered individual pays the full cost of coverage.

(e) With respect to any Acadia Plan (i) no Actions (other than routine claims for benefits in the ordinary course) are pending or, to the knowledge of Acadia, threatened that would reasonably be expected to result in material liability to Acadia or any Subsidiary of Acadia, (ii) no administrative investigation, audit or other administrative proceeding by the Department of Labor, the IRS or other Governmental Authority is pending, in progress or, to the knowledge of Acadia, threatened that would reasonably be expected to result in material liability to Acadia or any Subsidiary of Acadia, (iii) there have been no non-exempt prohibited transactions (as defined in

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Section 406 of ERISA or Section 4975 of the Code) that would reasonably be expected to result in material liability to Acadia or any Subsidiary of Acadia, and (iv) no fiduciary (as defined in Section 3(21) of ERISA) has any liability for breach of fiduciary duty that would reasonably be expected to result in material liability to Acadia or any Subsidiary of Acadia.

(f) Neither Acadia nor any Subsidiary of Acadia sponsors, maintains or contributes to any plan subject to, or has any liability (including on account of any Person that would be treated as a single employer with Acadia or any Subsidiary of Acadia under Section 414(b) or (c) of the Code) under, Section 302 or Title IV of ERISA or Sections 412, 430, 431 or 432 of the Code, including without limitation any defined benefit plan or multiemployer plan (as defined in Sections 3(35) and 3(37) of ERISA, respectively).

(g) None of the execution and delivery of this Agreement, the performance by any party of its obligations hereunder or the consummation of the Transactions (alone or in conjunction with any termination of employment on or following the Effective Time) will (i) entitle any employee to any material compensation or benefit or (ii) accelerate the time of payment or vesting, or trigger any payment or funding, of any material compensation or benefit or trigger any other material obligation under any Acadia Plan.

(h) No amount or other entitlement that could be received as a result of the Transactions (alone or in conjunction with any other event) by any disqualified individual (as defined in Section 280G(c) of the Code) with respect to Acadia will constitute an excess parachute payment (as defined in Section 280G(b)(1) of the Code). No director, officer, employee or independent contractor of Acadia or any of its Subsidiaries is entitled to receive any gross-up or additional payment by reason of the Tax required by Sections 409A or 4999 of the Code being imposed on such Person.

Section 3.14 *Labor and Employment Matters*.

(a) Neither Acadia nor any Subsidiary is a party or otherwise subject to any collective bargaining agreement or other labor union Contract applicable to persons employed by Acadia or any of its Subsidiaries, nor, to the knowledge of Acadia, are there any activities or proceedings of any labor union to organize any such employees. As of the date of this Agreement, there are no unfair labor practice complaints pending against Acadia or any of its Subsidiaries before the National Labor Relations Board or any other Governmental Authority or any current union representation questions involving employees of Acadia or any of its Subsidiaries. As of the date of this Agreement, there is no strike, work stoppage or lockout pending or, to the knowledge of Acadia, threatened by or with respect to any employees of Acadia or any of its Subsidiaries.

(b) True and complete information as to the name, current job title and compensation for each of the last three years of all current directors and executive officers of Acadia and its Subsidiaries has been provided to Pioneer. Since January 1, 2009, no executive officer s or key employee s employment with Acadia or of its Subsidiaries has been terminated for any reason. As of the date of this Agreement, no executive officer has notified Acadia or any of its Subsidiaries of his or her intention to resign or retire.

(c) Acadia and its Subsidiaries are and have been in material compliance with all applicable laws respecting employment and employment practices, terms and conditions of employment, including but not limited to wages and hours and the classification of employees and independent contractors, and have not been and are not engaged in any unfair labor practice as defined in the National Labor Relations Act or equivalent law. Neither Acadia nor its Subsidiaries have incurred, and to the knowledge of Acadia no circumstances exist under which Acadia or its Subsidiaries would reasonably be expected to incur, any material liability arising from the misclassification of employees as consultants or independent contractors, and/or from the misclassification of employees as exempt from the requirements of the Fair Labor Standards Act or state law equivalents.

(d) Neither Acadia nor its Subsidiaries have, during the four-year period prior to the date hereof, taken any action that would constitute a Mass Layoff or Plant Closing within the meaning of the Worker Adjustment Retraining and Notification Act (the WARN Act) or would otherwise trigger notice requirements or liability under any plant closing notice law without complying in all material respects with the applicable requirements under the WARN Act or such other applicable plant closing notice law. No arbitration, court decision, order by any Governmental Authority, Acadia Material Contract or collective bargaining agreement to which Acadia or its

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Subsidiaries is a party or is subject in any way limits or restricts Acadia or its Subsidiaries from relocating or closing any of the operations of Acadia or its Subsidiaries.

Section 3.15 *Taxes*.

(a) Acadia and its Subsidiaries have timely filed or caused to be filed or will timely file or cause to be timely filed (taking into account any extension of time to file granted or obtained) all material Tax Returns required to be filed by them and all such material Tax Returns are complete and accurate in all material respects. Acadia and its Subsidiaries have timely paid or will timely pay all Taxes due and payable except to the extent that such Taxes are being contested in good faith and for which Acadia or the appropriate Subsidiary has set aside adequate reserves in accordance with GAAP.

(b) Acadia and its Subsidiaries have deducted, withheld and timely paid to the appropriate Governmental Authority all Taxes required to be deducted, withheld or paid in connection with amounts paid or owing to any employee, independent contractor, creditor, member, owner or other third party, and Acadia and its Subsidiaries have complied with all reporting and recordkeeping requirements.

(c) Acadia has made available to Pioneer copies of all Tax Returns filed, and any associated examination reports and statements of deficiencies assessed against or agreed to with respect to such Tax Returns, by Acadia or any of its Subsidiaries for all taxable years beginning on or after January 1, 2007. There are no audits, examinations, investigations or other proceedings in respect of any material Tax of Acadia or any of its Subsidiaries in progress, pending, or, to the knowledge of Acadia, threatened. No deficiency for any material amount of Tax has been asserted or assessed by any taxing authority in writing against Acadia or any of its Subsidiaries, which deficiency has not been satisfied by payment, settled or been withdrawn or contested in good faith.

(d) Neither Acadia nor any Subsidiary of Acadia has waived any statute of limitations in respect of any material Tax or agreed to any extension of time with respect to a Tax assessment or deficiency (other than pursuant to extensions of time to file Tax Returns obtained in the ordinary course of business).

(e) With respect to any period ending on or before the date hereof for which Tax Returns have not yet been filed, or for which Taxes are not yet due and owing, Acadia and each Subsidiary of Acadia has made such accruals as required by GAAP for such Taxes in the books and records of Acadia or its Subsidiaries (as appropriate).

(f) No claim has been made at any time during the past three (3) years by a taxing authority in a jurisdiction where Acadia or any of its Subsidiaries does not file a Tax Return that Acadia or such Subsidiary is or may be subject to Tax by such jurisdiction.

(g) Neither Acadia nor any Subsidiary of Acadia will be required to include any item of income in, or exclude any item of deduction from, taxable income for a taxable period beginning after the Closing as a result of any (1) adjustment pursuant to Section 481 of the Code, the regulations thereunder or any similar provision under state or local law, for a taxable period ending on or before the Closing, (2) closing agreement as described in Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign income Tax Law) executed on or prior to the Closing, (3) intercompany transaction (within the meaning of Section 1.1502-13 of the Treasury Regulations or any corresponding or similar provision of state, local or foreign income Tax law) or excess loss account (within the meaning of Section 1.1502-19 of the Treasury Regulations or any corresponding or similar provision of state, local or foreign income Tax law), (4) installment sale or open transaction disposition made on or prior to the Closing, or (5) cancellation of debt income deferred under Section 108(i) of the Code.

(h) Neither Acadia nor any Subsidiary of Acadia (A) is a party to or is bound by any material Tax sharing, indemnification or allocation agreement with persons other than wholly owned Subsidiaries of Acadia or (B) has any liability for Taxes of any Person pursuant to Treasury Regulation Section 1.1502-6 (or any similar provision of law), as a transferee or successor, by Contract or otherwise (other than agreements among Acadia and its Subsidiaries and other than customary Tax indemnifications contained in credit or other commercial agreements the primary purposes of which agreements do not relate to Taxes).

(i) Neither Acadia nor any Subsidiary of Acadia has participated in any listed transactions within the meaning of Treasury Regulation Section 1.6011-4(b)(2).

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(j) Neither Acadia nor Youth & Family Centered Services, Inc. has been either a distributing corporation or a controlled corporation within the meaning of Section 355(a)(1)(A) of the Code in a distribution qualifying (or intended to qualify) under Section 355 of the Code (or so much of Section 356 as relates to Section 355).

(k) Merger Sub is a disregarded entity as defined in Treasury Regulations section 1.368-2(b)(1)(i)(A) and is disregarded as an entity separate from Acadia for federal income Tax purposes.

Section 3.16 *Acadia Material Contracts*.

(a) Section 3.16(a) of the Acadia Disclosure Schedule sets forth a complete and correct list of all Acadia Material Contracts. For purposes of this Agreement, the term Acadia Material Contract means any of the following Contracts (together with all exhibits and schedules thereto) to which Acadia or any Subsidiary of Acadia is a party or by which Acadia or any Subsidiary of Acadia or any of their respective properties or assets are bound or affected as of the date hereof:

(i) any limited liability company agreement, partnership, joint venture or other similar agreement or arrangement with a Person other than a Subsidiary relating to the formation, creation, operation, management or control of any partnership or joint venture;

(ii) any Contract (other than among consolidated Subsidiaries) relating to: (A) indebtedness for borrowed money or other indebtedness or obligations secured by mortgages or other Liens; and (B) a guarantee of any item described in (A).

(iii) any Contract that purports to limit in any material respect the right of Acadia or its Subsidiaries (A) to engage or compete in any line of business or market, or to sell, supply or distribute any service or product or (B) to compete with any Person or operate in any location;

(iv) any Contract for the acquisition or disposition, directly or indirectly (by merger or otherwise), of assets or capital stock or other equity interests of another Person, other than Contracts relating to leasehold improvements, supplies, construction costs and reimbursable expenses, in each case entered into in the ordinary course of business;

(v) any lease or license for real property that provides for payments by Acadia or its Subsidiaries of more than $100,000, in the aggregate, per year;

(vi) any license, royalty or other Contract concerning Intellectual Property Rights which is material to Acadia and the Subsidiaries taken as a whole;

(vii) any Contract that contains a standstill or similar agreement pursuant to which one party has agreed not to acquire assets or securities of the other party or any of its Affiliates;

(viii) any Contract for the employment of any Person on a full-time or consulting basis that provides for (A) payments by Acadia and/or the Subsidiaries of more than $200,000, in the aggregate, per year or (B) payments by Acadia and/or its Subsidiaries for severance, change of control or other payments to any Person of more than $200,000, in the aggregate;

(ix) except as disclosed in the Acadia Disclosure Schedule in response to any other subsection of this Section 3.16, any Contract with any Acadia Related Party; and

(x) except as disclosed in the Acadia Disclosure Schedule in response to any other subsection of this Section 3.16, any Contract that provides for payments by or payments to Acadia and its Subsidiaries of more than $250,000, in the aggregate, per year.

(b) Except as would not have an Acadia Material Adverse Effect, (i) each Acadia Material Contract is a legal, valid and binding agreement in full force and effect and enforceable against Acadia or such Subsidiary of Acadia in accordance with its terms, (ii) none of Acadia or any Subsidiary of Acadia has received any written claim of material default under or cancellation of any Acadia Material Contract, and none of Acadia or any Subsidiary of Acadia is in material breach or material violation of, or material default under, any Acadia Material Contract, (iii) to Acadia s knowledge, no other party is in material breach or material violation of, or material default under, any Acadia Material Contract, (iv) to Acadia s knowledge, no event has occurred which would result in a breach or violation of

or a default under, any Acadia Material Contract and (v) Acadia has not received any notice from any other party to any Acadia Material Contract, and otherwise has no knowledge that such third party intends to terminate, or not renew any Acadia Material Contract, or is seeking the renegotiation thereof in any material respect or substitute performance thereunder in any material respect. Acadia has made available to Pioneer a true and complete copy of each Acadia Material Contract.

Section 3.17 *Insurance*. Section 3.17 of the Acadia Disclosure Schedule sets forth a complete and correct list of all material insurance policies owned or held by Acadia and each of its Subsidiaries, true and complete copies of which have been made available Pioneer. With respect to each such insurance policy: (i) each policy with respect to Acadia and its Subsidiaries is legal, valid, binding and enforceable in accordance with its terms and, except for policies that have expired under their terms in the ordinary course, is in full force and effect; (ii) neither Acadia nor any Subsidiary of Acadia is in material breach or default (including any such breach or default with respect to the payment of premiums or the giving of notice), and, to Acadia s knowledge, no event has occurred which, with notice or the lapse of time, would constitute such a breach or default, or permit termination or modification, under any such policy; and (iii) no notice of cancellation or termination has been received.

Section 3.18 *Environmental Matters*.

(a) Acadia and its Subsidiaries are and have been in compliance in all material respects with all applicable laws relating to the protection of human health and the environment or to occupational health and safety (Environmental Laws).

(b) Acadia and its Subsidiaries possess all material permits and approvals issued pursuant to any Environmental Law that are required to conduct the business of Acadia and its Subsidiaries as it is currently conducted, and are and have been in compliance in all material respects with all such permits and approvals.

(c) To the knowledge of Acadia, no releases of (i) any petroleum products or byproducts, radioactive materials, friable asbestos or polychlorinated biphenyls or (ii) any waste, material or substance defined as a hazardous substance, hazardous material, hazardous waste, pollutant or any analogous terminology under any applicable Environmental Law have occurred at, on, from or under any real property currently or formerly owned, operated or occupied by Acadia or any of its Subsidiaries, for which releases Acadia or any such Subsidiary may have incurred liability under any Environmental Law.

(d) Neither Acadia nor any Subsidiary of Acadia has received any written claim or notice from any Governmental Authority alleging that Acadia or any such Subsidiary is or may be in violation of, or has any liability under, any Environmental Law.

(e) Neither Acadia nor any Subsidiary of Acadia has entered into any agreement or is subject to any legal requirement that may require it to pay for, guarantee, defend or indemnify or hold harmless any Person from or against any liabilities arising under Environmental Laws.

(f) All environmental reports, assessments, audits, and other similar documents in the possession or control of Acadia or any of its Subsidiaries, containing information that could reasonably be expected to be material to Acadia or any of its Subsidiaries, have been made available to Pioneer.

Section 3.19 *Acadia Board Approval; No Vote Required*.

(a) The Acadia Board, by resolutions duly adopted has as of the date of this Agreement duly approved this Agreement and the Transactions. To the knowledge of Acadia, no state takeover statute applies to this Agreement or the Merger.

(b) No vote of the Acadia Stockholders is necessary to adopt this Agreement.

Section 3.20 *Brokers*. No broker, finder or investment banker is entitled to any brokerage, finder s or other fee or commission in connection with the Transactions based upon arrangements made by or on behalf of Acadia.

Section 3.21 *Acadia Related Party Transactions*. (a) No Acadia Related Party has, and no Acadia Related Party has had, any interest in any material asset used or otherwise relating to the business of Acadia or its Subsidiaries, (b) no Acadia Related Party is or has been indebted to Acadia or any of its Subsidiaries (other than for

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ordinary travel advances) and none of Acadia and its Subsidiaries is or has been indebted to any Acadia Related Party, (c) no Acadia Related Party has entered into, or has any financial interest in, any material Contract, transaction or business dealing with or involving Acadia or any of its Subsidiaries, other than transactions or business dealings conducted in the ordinary course of business at prevailing market prices and on prevailing market terms, and (d) no Acadia Member is engaged in any business that competes with Acadia or any of its Subsidiaries.

Section 3.22 *Estimated Acadia Fees and Expenses*. Section 3.22 of the Acadia Disclosure Schedule sets forth Acadia s estimate of the total amount of Acadia s fees and expenses that will be incurred by Acadia and its Affiliates in connection with the Transactions contemplated by this Agreement (including the Financing), including a list of the recipients of such estimated fees and expenses and the expected amount of such payments to each such recipient (the Estimated Acadia Expenses).

Section 3.23 *Interested Stockholder*. Acadia is not an interested stockholder in Pioneer, as such term is defined in Massachusetts General Laws Chapter 110F.

Section 3.24 *Representations Complete*. None of the representations or warranties made by Acadia herein or in any Schedule hereto, including the Acadia Disclosure Schedule, or certificate furnished by Acadia pursuant to this Agreement, when all such documents are read together in their entirety, contains or will contain at the Effective Time any untrue statement of a material fact, or omits or will omit at the Effective Time to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not misleading.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PIONEER

Except as set forth in the disclosure schedule delivered by Pioneer to Acadia concurrently with the execution and delivery of this Agreement (the Pioneer Disclosure Schedule), Pioneer hereby represents and warrants to Acadia and Merger Sub as follows:

Section 4.01 *Organization, Standing and Power; Subsidiaries*.

(a) Each of Pioneer and its Subsidiaries is a corporation or limited liability company, duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, formation or organization. Each of Pioneer and its Subsidiaries has the requisite power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted and as currently proposed to be conducted, and is duly qualified to do business and is in good standing, in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification, licensing or good standing necessary, except where the failure to be so qualified and in good standing would not, individually or in the aggregate, have a Pioneer Material Adverse Effect.

(b) Section 4.01(b) of the Pioneer Disclosure Schedule contains a true and complete list of all the Subsidiaries of Pioneer, together with the jurisdiction of organization of each such Subsidiary, the percentage of the outstanding capital stock or other equity interests of each such Subsidiary owned by Pioneer and each other Subsidiary of Pioneer and the ownership interest of any other Person or Persons in each Subsidiary of Pioneer. None of Pioneer or any of its Subsidiaries directly or indirectly owns any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, any corporation, partnership, joint venture or other business association or entity (other than the Subsidiaries of Pioneer).

Section 4.02 *Pioneer Organizational Documents*. Pioneer has made available to Acadia a true and correct copy of the restated articles of organization, bylaws, limited liability company agreement, and other governing documents, as applicable, of Pioneer and each of its Subsidiaries, each as amended to date (collectively, the Pioneer Organizational Documents). The Pioneer Organizational Documents are in full force and effect. Neither Pioneer nor any of its Subsidiaries is in violation of any of the provisions of its Pioneer Organizational Documents, except, in the case of any Subsidiary of Pioneer, for violations that would not have a Pioneer Material Adverse Effect.

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Section 4.03 *Capitalization*.

(a) The authorized capital stock of Pioneer consists of (i) 30,000,000 shares of Pioneer Class A Common Stock, par value $0.01 per share (Pioneer Class A Common Stock), (ii) 2,000,000 shares of Pioneer Class B Common Stock, par value $0.01 per share (Pioneer Class B Common Stock), (iii) 200,000 shares of Class C Common Stock, par value $0.01 per share (Pioneer Class C Common Stock), and (iv) 1,000,000 shares of preferred stock, par value $0.01 per share (Pioneer Preferred Stock and, collectively with the Pioneer Class A Common Stock, Pioneer Class B Common Stock and Pioneer Class C Common Stock, Pioneer Stock).

(b) As of the date hereof, (i) 18,764,118 shares of Pioneer Class A Common Stock are issued and outstanding, all of which are validly issued, fully paid and nonassessable and were issued free of preemptive (or similar) rights, fully paid and nonassessable, (ii) 773,717 shares of Pioneer Class B Common Stock are issued and outstanding, all of which are validly issued, fully paid and nonassessable and were issued free of preemptive (or similar) rights, fully paid and nonassessable, (iii) 1,214,093 shares of Pioneer Class A Common Stock and no shares of Pioneer Class B Common Stock are held in the treasury of Pioneer, (iv) no shares of Pioneer Class A Common Stock or Pioneer Class B Common Stock are held by Subsidiaries of Pioneer, (v) 3,350,000 shares of Pioneer Class A Common Stock are reserved for future issuance in connection with the Pioneer Stock Plans (including 1,287,250 shares of Pioneer Class A Common Stock reserved pursuant to outstanding Pioneer Stock Options), (vi) 363,000 shares of Pioneer Class A Common Stock are reserved for future issuance in connection with the outstanding Warrants, and (vii) no shares of Pioneer Class C Common Stock or Pioneer Preferred Stock are issued or outstanding.

(c) There are no options, warrants or other rights, agreements, arrangements or commitments of any character relating to the issued or unissued capital stock of Pioneer or any Subsidiary of Pioneer or obligating Pioneer or any of its Subsidiaries to issue or sell any shares of capital stock of, or other equity interests in, Pioneer or any of its Subsidiaries. All shares of Pioneer Common Stock subject to issuance in connection with the Transactions, upon issuance on the terms and conditions specified in the instruments pursuant to which they are issuable, will be duly authorized, validly issued, fully paid and nonassessable and free of preemptive (or similar) rights. There are no material outstanding contractual obligations of Pioneer or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock or options, warrants or other rights to acquire shares of capital stock of Pioneer or of any Subsidiary of Pioneer, or to provide funds to or make any investment (in the form of a loan, capital contribution or otherwise) in any such Subsidiary or any other Person. There are no bonds, debentures, notes or other indebtedness of Pioneer or any of its Subsidiaries having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which holders of Pioneer Stock may vote (Voting Pioneer Debt). Except for any obligations pursuant to this Agreement, the Pioneer Stock Plans, or as otherwise set forth above, there are no options, warrants, rights, convertible or exchangeable securities, stock-based performance units, Contracts or undertakings of any kind to which Pioneer or any of its Subsidiaries is a party or by which any of them is bound (1) obligating Pioneer or any such Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other equity interests in, or any security convertible or exchangeable for any capital stock of or other equity interest in, Pioneer or any of its Subsidiaries or any Voting Pioneer Debt, (2) obligating Pioneer or any such Subsidiary to issue, grant or enter into any such option, warrant, right, security, unit, Contract or undertaking or (3) that give any Person the right to receive any economic interest of a nature accruing to the holders of any Pioneer Stock. Except for the Pioneer Voting Agreements, none of Pioneer or any of its Subsidiaries is a party to any shareholders agreement, voting trust agreement or registration rights agreement relating to any equity securities of Pioneer or any of its Subsidiaries or any other Contract relating to disposition, voting or dividends with respect to any equity securities of Pioneer or of any of its Subsidiaries.

(d) Section 4.03(d) of the Pioneer Disclosure Schedule sets forth a true and complete list, as of the date of this Agreement, of any agreement, instrument or other obligation pursuant to which any indebtedness for borrowed money

of Pioneer or any of its Subsidiaries in an aggregate principal amount in excess of $100,000 is outstanding or may be incurred, (ii) the respective principal amounts outstanding thereunder as of the date of this Agreement, and (iii) a list of any agreements that relate to guarantees by Pioneer or any of its Subsidiaries of indebtedness of any other Person in excess of $100,000.

(e) Section 4.03(e) of the Pioneer Disclosure Schedule sets forth, as of the date of this Agreement, a true and complete list of all outstanding Pioneer Stock Options, the recipient of each such Pioneer Stock Option, the number

of unpurchased shares subject to each such Pioneer Stock Option and the grant date, exercise price, and expiration date of each such Pioneer Stock Option.

(f) Each outstanding share of capital stock, each limited liability company membership interest and each partnership interest of each Subsidiary of Pioneer is duly authorized, validly issued, fully paid and nonassessable and was issued free of preemptive (or similar) rights, and each such share or interest is owned by Pioneer or another Subsidiary of Pioneer free and clear of all options, rights of first refusal, agreements, limitations on Pioneer s or any of its Subsidiaries voting, dividend or transfer rights, charges and other encumbrances or Liens of any nature whatsoever.

Section 4.04 *Authority Relative to This Agreement.* Pioneer has all necessary corporate power and authority to execute and deliver this Agreement, and, subject to the receipt of the Pioneer Shareholder Approval, to perform its obligations hereunder and to consummate the Transactions. The execution, delivery and performance of this Agreement by Pioneer and the consummation by Pioneer of the Transactions have been duly and validly authorized by all necessary corporate action, and no other corporate proceedings on the part of Pioneer are necessary to authorize this Agreement or to consummate the Transactions (other than the receipt of the Pioneer Shareholder Approval and the filing and recordation of appropriate merger documents as required by the MBCA and Delaware law). This Agreement has been duly and validly executed and delivered by Pioneer and, assuming the due authorization, execution and delivery by Acadia and Merger Sub, constitutes a legal, valid and binding obligation of Pioneer, enforceable against Pioneer in accordance with its terms, subject to the effect of any applicable bankruptcy, insolvency (including all laws relating to fraudulent transfers), reorganization, moratorium or similar laws affecting creditors rights generally and subject to the effect of general principles of equity (regardless of whether considered in a proceeding at law or in equity).

Section 4.05 *No Conflict; Required Filings and Consents.*

(a) The execution and delivery of this Agreement by Pioneer does not, and the performance of this Agreement by Pioneer and the consummation by Pioneer of the Transactions will not, (i) assuming Pioneer Shareholder Approval is obtained, conflict with or violate the Pioneer Organizational Documents, (ii) assuming that all consents, approvals and other authorizations described in Section 4.05(b) have been obtained, that all filings and notifications and other actions described in Section 4.05(b) have been made or taken, and the Pioneer Shareholder Approval has been obtained, conflict with or violate any law, applicable to Pioneer or any of its Subsidiaries or by which any property or asset of Pioneer or any such Subsidiary is bound or affected, or (iii) require any consent or approval under, result in any breach or violation of or constitute a default (or an event which, with notice or lapse of time or both, would become a default) under, or give to others any right of termination, amendment, acceleration or cancellation of, or result in the creation of a Lien on any property or asset of Pioneer or any such Subsidiary pursuant to, any Pioneer Material Contract, except, with respect to clauses (ii) and (iii), for any such conflicts, violations, breaches, defaults or other occurrences which would not have a Pioneer Material Adverse Effect or prevent, or materially alter or delay, the consummation of any of the Transactions.

(b) The execution and delivery of this Agreement by Pioneer does not, and the performance of this Agreement by Pioneer and the consummation by Pioneer of the Transactions will not, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority, except for (i) applicable requirements, if any, of the Exchange Act, (ii) the filing with the SEC of the Proxy Statement/ Prospectus and the Form S-4, (iii) any filings required by the rules of the AMEX, (iv) the filing and recordation of appropriate merger documents as required by Delaware law and the MBCA and appropriate documents with the relevant authorities of other states in which Pioneer or any Subsidiary of Pioneer is qualified to do business, (v) the premerger notification and waiting period requirements of HSR Act, (vi) applicable requirements, if any, of Health Care Laws; and (vii) applicable requirements, if any, of Government Programs in which Pioneer or any Pioneer Subsidiary participates; and (viii) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or

notifications, would not, individually or in the aggregate, reasonably be expected to have a Pioneer Material Adverse Effect and would not prevent, or materially alter or delay, the consummation of any of the Transactions.

Section 4.06 *Permits; Compliance*. Pioneer, each Subsidiary of Pioneer and each of the Pioneer Health Care Facilities is in possession of all licenses, interim licenses, qualifications, exemptions, registrations, permits,

approvals, accreditations, certificates of occupancy and other certificates, franchises and other authorizations of any Governmental Authority necessary for each such entity to own, lease and operate its properties or to carry on its business as it is now being conducted (the Pioneer Permits), except where the failure to have, or the suspension or cancellation of, any of the Pioneer Permits would not, individually or in the aggregate, reasonably be expected to have a Pioneer Material Adverse Effect. As of the date of this Agreement, no suspension or cancellation of any of the Pioneer Permits is pending or, to the knowledge of Pioneer, threatened in writing, except where the failure to have, or the suspension or cancellation of, any of the Pioneer Permits would not, individually or in the aggregate, reasonably be expected to have a Pioneer Material Adverse Effect. Since January 1, 2008, neither Pioneer, any Subsidiary of Pioneer or any of the Pioneer Health Care Facilities is or has been in conflict with, or in default, breach or violation of, (i) any Healthcare Law or other law applicable to such entity or by which any property or asset of such entity is bound or affected, or (ii) any contract or Pioneer Permit to which such entity is a party or by which such entity or any property or asset of such entity is bound, except, with respect to clauses (i) and (ii), for any such conflicts, defaults, breaches or violations that would not, individually or in the aggregate, reasonably be expected to have a Pioneer Material Adverse Effect. Without limiting the generality of the foregoing, (x) Pioneer, each Subsidiary of Pioneer and each of the Pioneer Health Care Facilities is in compliance with the requirements of and conditions for participating in the Government Programs such facility participates in as of the date of this Agreement and (y) all claims for payment or cost reports filed or required to be filed by Pioneer and each Pioneer Healthcare Facility under any Government Program or any private payor program have been prepared and filed in accordance with all applicable laws, except, in the case of clauses (x) and (y), for any such noncompliance that would not, individually or in the aggregate, reasonably be expected to have a Pioneer Material Adverse Effect.

Section 4.07 *SEC Filings; Undisclosed Liabilities*.

(a) Pioneer has filed all forms, reports, statements, schedules and other documents required to be filed by it with the SEC since July 1, 2008 (collectively, the SEC Reports). The SEC Reports (i) were prepared, in all material respects, in accordance with the applicable requirements of the Securities Act, the Exchange Act, and, in each case, the rules and regulations promulgated thereunder, and (ii) did not, at the time they were filed, or, if amended, as of the date of such amendment, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. Pioneer has delivered to Acadia unaudited consolidated financial statements (including balance sheet, statement of operations and statement of cash flows) of Pioneer and its consolidated Subsidiaries as at and for the nine-month period ending on March 31, 2011 (the Interim Pioneer Financials). The consolidated financial statements contained in the SEC Reports and the Interim Pioneer Financials are collectively herein referred to as the Pioneer Financials.

(b) Each of the financial statements (including, in each case, any notes thereto) comprising the Pioneer Financials was prepared in accordance with GAAP applied on a consistent basis throughout the periods indicated (except as may be indicated in the notes thereto or, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) and each fairly presents, in all material respects, the consolidated financial position, results of operations and cash flows of Pioneer and its consolidated Subsidiaries as at the respective dates thereof and for the respective periods indicated therein, except as otherwise noted therein (subject, in the case of unaudited statements, to the absence of notes and normal and recurring year end adjustments).

(c) Except as would not, individually or in the aggregate, reasonably be expected to have a Pioneer Material Adverse Effect, the management of Pioneer (i) has implemented and maintains adequate disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) to ensure that material information relating to Pioneer, including its consolidated Subsidiaries, is in all material respects made known to the principal executive officer and the principal financial and accounting officer of Pioneer by others within those entities, and (ii) has disclosed, based on its most recent evaluation prior to the date of this Agreement, to Pioneer s outside auditors and the audit committee of the

Pioneer Board (x) any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) which are reasonably likely to adversely affect Pioneer s ability to record, process, summarize and report financial information, and (y) any material fraud, within the knowledge of Pioneer, that involves management or other employees who have a significant role in Pioneer s internal controls over financial reporting.

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(d) The records, systems, controls, data and information of Pioneer and its Subsidiaries are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic process, whether computerized or not) that are under the exclusive ownership and direct control of Pioneer and its Subsidiaries or their accountants (including all means of access thereto and therefrom), except for any non-exclusive ownership and non-direct control that would not have a material adverse effect on Pioneer s system of internal accounting controls.

(e) Neither Pioneer nor any Subsidiary of Pioneer has any material liability or obligation of a nature required to be reflected on a balance sheet prepared in accordance with GAAP, except for liabilities and obligations (i) reflected or reserved against on the consolidated balance sheet of Pioneer and the consolidated Subsidiaries as at June 30, 2010 (including the notes thereto) included in Pioneer s Annual Report on Form 10-K for the fiscal year ended June 30, 2010 filed with the SEC prior to the date hereof, or in a balance sheet for a later date contained in a Quarterly Report on Form 10-Q filed with the SEC prior to the date hereof, (ii) incurred in connection with the Transactions, or (iii) incurred in the ordinary course of business since June 30, 2010 that would not have a Pioneer Material Adverse Effect.

(f) Pioneer s Net Debt does not exceed $30,899,468. No items set forth on the Pioneer Disclosure Schedule shall qualify this Section 4.07(f).

Section 4.08 *Information Supplied*. The information supplied by Pioneer for inclusion or incorporation by reference in the Form S-4 shall not at the time the Form S-4 is declared effective by the SEC (or, with respect to any post-effective amendment or supplement, at the time such post-effective amendment or supplement becomes effective) contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The information supplied by Pioneer for inclusion in the Proxy Statement/ Prospectus shall not, on the date the Proxy Statement/ Prospectus is first mailed to the Pioneer Shareholders, at the time of the Pioneer Shareholder Approval, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The representations and warranties contained in this Section 4.08 will not apply to statements or omissions included or incorporated by reference in the Proxy Statement/ Prospectus based upon information furnished by Acadia or any of its Representatives.

Section 4.09 *Absence of Certain Changes or Events*. Since the Pioneer Balance Sheet Date, except in connection with the execution and delivery of this Agreement and the consummation of the Transactions, the business of Pioneer and its Subsidiaries has been conducted in the ordinary course of business consistent with past practices and there has not been or occurred:

(a) any Pioneer Material Adverse Effect; or

(b) any event, condition, action or effect that, if taken during the period from the date of this Agreement through the Effective Time, would constitute a breach of the covenants set forth in Section 5.02.

Section 4.10 *Absence of Litigation; Restrictions of Business Activities*. (a) There is no material Action before any Governmental Authority pending or, to the knowledge of Pioneer, threatened against Pioneer or any of its Subsidiaries, or any of their respective officers, directors or limited liability company managers, or any property or asset of Pioneer or any of its Subsidiaries and (b) none of Pioneer or any Subsidiary of Pioneer is subject or bound by any material outstanding Order.

Section 4.11 *Title to Property*. Pioneer and its Subsidiaries have good and marketable title to all of their respective properties, interests in properties and assets, real and personal, reflected in the unaudited consolidated balance sheet of Pioneer and its consolidated Subsidiaries at the Pioneer Balance Sheet Date (the Pioneer Balance Sheet) or acquired after the Pioneer Balance Sheet Date (except properties, interests in properties and assets sold or otherwise disposed of since the Pioneer Balance Sheet Date in the ordinary course of business), or with respect to leased properties and assets, valid leasehold interests in, free and clear of all Liens, other than Permitted Liens. The plants, property and equipment of Pioneer and its Subsidiaries that are used in the operations of their businesses are in all material respects in good operating condition and repair, subject to normal wear and tear. All material properties used in the operations of Pioneer and its Subsidiaries are reflected in the Pioneer Balance Sheet to the

extent required by GAAP. Section 4.11 of the Pioneer Disclosure Schedule identifies the address of each parcel of real property owned or leased by Pioneer or any of its Subsidiaries.

Section 4.12 *Intellectual Property*.

(a) Pioneer and its Subsidiaries own, license or otherwise legally possess enforceable rights to use all Intellectual Property Rights that are used in the business of Pioneer and its Subsidiaries as currently conducted, except as would not, individually or in the aggregate, reasonably be expected to have a Pioneer Material Adverse Effect. Pioneer and its Subsidiaries have not (i) licensed any of the Software owned by Pioneer or any of its Subsidiaries in source code form to any party or (ii) entered into any exclusive agreements relating to the Intellectual Property Rights owned by Pioneer or any of its Subsidiaries with any party.

(b) Section 4.12(b) of the Pioneer Disclosure Schedule lists (i) all Intellectual Property Rights owned by Pioneer or any of its Subsidiaries that are patented, registered or subject to applications for patent or registration, including the jurisdictions in which each such Intellectual Property Rights have been issued or registered or in which any application for such issuance and registration has been filed, and (ii) all Pioneer Third Party Intellectual Property Rights.

(c) To the knowledge of Pioneer, there has been no unauthorized use, disclosure, infringement or misappropriation of any Intellectual Property Rights owned by Pioneer or any of its Subsidiaries by any third party, including any employee or former employee of Pioneer or any of its Subsidiaries. To the knowledge of Pioneer, no claim by any Person contesting the validity, enforceability use or ownership if any Intellectual Property Rights owned by Pioneer or any of its Subsidiaries has been made or is currently outstanding.

(d) Subject to Section 6.07, Pioneer is not, nor will it be as a result of the execution and delivery of this Agreement or the performance of its obligations under this Agreement, in material breach of any license, sublicense or other agreement relating to the Intellectual Property Rights or Pioneer Third Party Intellectual Property Rights.

(e) Pioneer has taken commercially reasonable steps to maintain the Intellectual Property Rights that Pioneer or any of its Subsidiaries owns. Neither Pioneer nor any Subsidiary of Pioneer has been sued in any Action which involves a claim of infringement or misappropriation of any Intellectual Property Rights of any third party. To the knowledge of Pioneer, neither Pioneer nor any Subsidiary of Pioneer has infringed or misappropriated any Intellectual Property Rights of any third party. Neither Pioneer nor any Subsidiary of Pioneer has received any written threats or notices regarding any of the foregoing (including any demands or offer to license any Intellectual Property Rights from any Person). Neither Pioneer nor any Subsidiary of Pioneer has brought any Action for infringement or misappropriation of Intellectual Property Rights or breach of any license or agreement involving Intellectual Property Rights against any third party.

(f) Pioneer and all of its Subsidiaries, in connection with businesses of Pioneer and all of its Subsidiaries, have taken commercially reasonable steps to safeguard the internal and external integrity of their IT Assets. With respect to such IT Assets, (a) there have been no material unauthorized intrusions or breaches of security within the past thirty-six (36) months, (b) there has not been any material malfunction that has not been remedied or replaced in all material respects, (c) within the past thirty-six (36) months, there has been no material unplanned downtime or material service interruption.

Section 4.13 *Employee Benefit Plans*.

(a) Section 4.13(a) of the Pioneer Disclosure Schedule lists all employee benefit plans (as defined in Section 3(3) of the ERISA), other deferred compensation, retiree medical or life insurance, supplemental retirement, severance,

change in control, retention, plans, equity and equity-based compensation plans, and other material benefit plans, programs, policies or arrangements which are currently maintained, contributed to or sponsored by Pioneer or any Subsidiary of Pioneer for the benefit of any current or former employee, consultant, officer or director of Pioneer or any Subsidiary of Pioneer (collectively, the Pioneer Plans).

(b) With respect to each Pioneer Plan, Pioneer has made available to Acadia, as applicable, of (A) such Pioneer Plan, including any material amendment thereto, (B) the most recent audited financial statements and actuarial or other valuation reports prepared with respect thereto and (C) the two most recent annual reports on Form 5500 required to be filed with respect thereto.

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(c) Each Pioneer Plan that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter or is in the form of a prototype document that is the subject of a favorable opinion letter from the IRS, or an application for such a letter is currently being processed by the IRS, and, to the knowledge of Pioneer, no circumstance exists that would reasonably be expected to adversely affect the qualified status of such Pioneer Plan.

(d) Each Pioneer Plan has been established, funded and administered in accordance in all material respect with its terms, and in compliance in all material respects with the applicable provisions of ERISA, the Code and other applicable laws. No Pioneer Plan provides retiree or post-employment welfare benefits, and neither Pioneer nor any Subsidiary of Pioneer has any obligation to provide any retiree or post-employment welfare benefits other than as required by Section 4980B of the Code and for which the covered individual pays the full cost of coverage.

(e) With respect to any Pioneer Plan (i) no Actions (other than routine claims for benefits in the ordinary course) are pending or, to the knowledge of Pioneer, threatened that would reasonably be expected to result in material liability to Pioneer or any Subsidiary of Pioneer, (ii) no administrative investigation, audit or other administrative proceeding by the Department of Labor, the IRS or other Governmental Authority is pending, in progress or, to the knowledge of Pioneer, threatened that would reasonably be expected to result in material liability to Pioneer or any Subsidiary of Pioneer, (iii) there have been no non-exempt prohibited transactions (as defined in Section 406 of ERISA or Section 4975 of the Code) that would reasonably be expected to result in material liability to Pioneer or any Subsidiary of Pioneer, and (iv) no fiduciary (as defined in Section 3(21) of ERISA) has any liability for breach of fiduciary duty that would reasonably be expected to result in material liability to Pioneer or any Subsidiary of Pioneer.

(f) Neither Pioneer nor any Subsidiary of Pioneer sponsors, maintains or contributes to any plan subject to, or has any liability (including on account of any Person that would be treated as a single employer with Pioneer or any Subsidiary of Pioneer under Section 414(b) or (c) of the Code) under, Section 302 or Title IV of ERISA or Sections 412, 430, 431 or 432 of the Code, including without limitation any defined benefit plan or multiemployer plan (as defined in Sections 3(35) and 3(37) of ERISA, respectively).

(g) None of the execution and delivery of this Agreement, the performance by any party of its obligations hereunder or the consummation of the Transactions (alone or in conjunction with any termination of employment on or following the Effective Time) will (i) entitle any employee to any material compensation or benefit or (ii) accelerate the time of payment or vesting, or trigger any payment or funding, of any material compensation or benefit or trigger any other material obligation under any Pioneer Plan.

(h) No amount or other entitlement that could be received as a result of the Transactions (alone or in conjunction with any other event) by any disqualified individual (as defined in Section 280G(c) of the Code) with respect to Pioneer will constitute an excess parachute payment (as defined in Section 280G(b)(1) of the Code). No director, officer, employee or independent contractor of Pioneer or any of its Subsidiaries is entitled to receive any gross-up or additional payment by reason of the Tax required by Sections 409A or 4999 of the Code being imposed on such Person.

Section 4.14 *Labor and Employment Matters*.

(a) Neither Pioneer nor any Subsidiary is a party or otherwise subject to any collective bargaining agreement or other labor union Contract applicable to persons employed by Pioneer or any of its Subsidiaries, nor, to the knowledge of Pioneer, are there any activities or proceedings of any labor union to organize any such employees. To the knowledge of Pioneer, as of the date of this Agreement, there are no unfair labor practice complaints pending against Pioneer or any of its Subsidiaries before the National Labor Relations Board or any other Governmental Authority or any current union representation questions involving employees of Pioneer or any of its Subsidiaries. As of the date of this

Agreement, there is no strike, work stoppage or lockout pending, or, to the knowledge of Pioneer, threatened by or with respect to any employees of Pioneer or any of its Subsidiaries.

(b) True and complete information as to the name, current job title and compensation for each of the last three years of all current directors and executive officers of Pioneer and its Subsidiaries has been provided to Pioneer. Since January 1, 2009, no executive officer s or key employee s employment with Pioneer or of its Subsidiaries has

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been terminated for any reason. As of the date of this Agreement, no executive officer has notified Pioneer or any of its Subsidiaries of his or her intention to resign or retire.

(c) Pioneer and its Subsidiaries are and have been in material compliance with all applicable laws respecting employment and employment practices, terms and conditions of employment, including but not limited to wages and hours and the classification of employees and independent contractors, and have not been and are not engaged in any unfair labor practice as defined in the National Labor Relations Act or equivalent law. Neither Pioneer nor its Subsidiaries have incurred, and to the knowledge of Pioneer no circumstances exist under which Pioneer or its Subsidiaries would reasonably be expected to incur, any material liability arising from the misclassification of employees as consultants or independent contractors, and/or from the misclassification of employees as exempt from the requirements of the Fair Labor Standards Act or state law equivalents.

(d) Neither Pioneer nor its Subsidiaries have, during the four-year period prior to the date hereof, taken any action that would constitute a Mass Layoff or Plant Closing within the meaning of the WARN Act or would otherwise trigger notice requirements or liability under any plant closing notice law without complying in all material respects with the applicable requirements under the WARN Act or such other applicable plant closing notice law. No arbitration, court decision, order by any Governmental Authority, Pioneer Material Contract or collective bargaining agreement to which Pioneer or its Subsidiaries is a party or is subject in any way limits or restricts Pioneer or its Subsidiaries from relocating or closing any of the operations of Pioneer or its Subsidiaries.

Section 4.15 *Taxes*.

(a) Pioneer and its Subsidiaries have timely filed or caused to be filed or will timely file or cause to be timely filed (taking into account any extension of time to file granted or obtained) all material Tax Returns required to be filed by them and all such material Tax Returns are complete and accurate in all material respects. Pioneer and its Subsidiaries have timely paid or will timely pay all amounts of Taxes due and payable except to the extent that such Taxes are being contested in good faith and for which Pioneer or the appropriate Subsidiary has set aside adequate reserves in accordance with GAAP.

(b) Pioneer and its Subsidiaries have deducted, withheld and timely paid to the appropriate Governmental Authority all Taxes required to be deducted, withheld or paid in connection with amounts paid or owing to any employee, independent contractor, creditor, member, owner or other third party, and Pioneer and its Subsidiaries have complied with all reporting and recordkeeping requirements.

(c) Pioneer has made available to Pioneer copies of all Tax Returns filed, and any associated examination reports and statements of deficiencies assessed against or agreed to with respect to such Tax Returns, by Pioneer or any of its Subsidiaries for all taxable years beginning on or after January 1, 2007. There are no audits, examinations, investigations or other proceedings in respect of any material Tax of Pioneer or any of its Subsidiaries in progress, pending, or, to the knowledge of Pioneer, threatened. No deficiency for any material amount of Tax has been asserted or assessed by any taxing authority in writing against Pioneer or any of its Subsidiaries, which deficiency has not been satisfied by payment, settled or been withdrawn or contested in good faith.

(d) Neither Pioneer nor any Subsidiary of Pioneer has waived any statute of limitations in respect of any material Tax or agreed to any extension of time with respect to a Tax assessment or deficiency (other than pursuant to extensions of time to file Tax Returns obtained in the ordinary course of business).

(e) With respect to any period ending on or before the date hereof for which Tax Returns have not yet been filed, or for which Taxes are not yet due and owing, Pioneer and each Subsidiary of Pioneer has made such accruals as required by GAAP for such Taxes in the books and records of Pioneer or its Subsidiaries (as appropriate).

(f) No claim has been made at any time during the past three (3) years by a taxing authority in a jurisdiction where Pioneer or any of its Subsidiaries does not file a Tax Return that Pioneer or such Subsidiary is or may be subject to Tax by such jurisdiction.

(g) Neither Pioneer nor any Subsidiary of Pioneer will be required to include any item of income in, or exclude any item of deduction from, taxable income for a taxable period beginning after the Closing as a result of any (1) adjustment pursuant to Section 481 of the Code, the regulations thereunder or any similar provision under state or local law, for a taxable period ending on or before the Closing, (2) closing agreement as described in

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Section 7121 of the Code (or any corresponding or similar provision of state, local or foreign income Tax Law) executed on or prior to the Closing, (3) intercompany transaction (within the meaning of Section 1.1502-13 of the Treasury Regulations or any corresponding or similar provision of state, local or foreign income Tax law) or excess loss account (within the meaning of Section 1.1502-19 of the Treasury Regulations or any corresponding or similar provision of state, local or foreign income Tax law), (4) installment sale or open transaction disposition made on or prior to the Closing, or (5) cancellation of debt income deferred under Section 108(i) of the Code.

(h) Neither Pioneer nor any Subsidiary of Pioneer (A) is a party to or is bound by any material Tax sharing, indemnification or allocation agreement with persons other than wholly owned Subsidiaries of Pioneer or (B) has any liability for Taxes of any Person pursuant to Treasury Regulation Section 1.1502-6 (or any similar provision of law), as a transferee or successor, by Contract or otherwise (other than agreements among Pioneer and its Subsidiaries and other than customary Tax indemnifications contained in credit or other commercial agreements the primary purposes of which agreements do not relate to Taxes).

(i) Neither Pioneer nor any Subsidiary of Pioneer has participated in any listed transactions within the meaning of Treasury Regulation Section 1.6011-4(b)(2).

(j) Pioneer has not been either a distributing corporation or a controlled corporation within the meaning of Section 355(a)(1)(A) of the Code in a distribution qualifying (or intended to qualify) under Section 355 of the Code (or so much of Section 356 as relates to Section 355).

Section 4.16 *Pioneer Material Contracts*.

(a) Section 4.16 of the Pioneer Disclosure Schedule sets forth a complete and correct list of all Pioneer Material Contracts. For purposes of this Agreement, the term Pioneer Material Contract means any of the following Contracts (together with all exhibits and schedules thereto) to which Pioneer or any Subsidiary of Pioneer is a party or by which Pioneer or any Subsidiary of Pioneer or any of their respective properties or assets are bound or affected as of the date hereof:

(i) any limited liability company agreement, partnership, joint venture or other similar agreement or arrangement with a Person, other than a Subsidiary, relating to the formation, creation, operation, management or control of any partnership or joint venture;

(ii) any Contract (other than among consolidated Subsidiaries) relating to: (A) indebtedness for borrowed money or other indebtedness or obligations secured by mortgages or other Liens and (B) a guarantee of any item described in (A);

(iii) any Contract that purports to limit in any material respect the right of Pioneer or its Subsidiaries (A) to engage or compete in any line of business or market, or to sell, supply or distribute any service or product or (B) to compete with any Person or operate in any location;

(iv) any Contract for the acquisition or disposition, directly or indirectly (by merger or otherwise), of assets or capital stock or other equity interests of another Person, other than Contracts relating to leasehold improvements, supplies, construction costs and reimbursable expenses, in each case entered into in the ordinary course of business;

(v) any lease or license for real property that provides for payments by Pioneer or its Subsidiaries of more than $100,000, in the aggregate, per year;

(vi) any license, royalty or other Contract concerning Intellectual Property Rights which is material to Pioneer and the Subsidiaries taken as a whole;

(vii) any Contract that contains a standstill or similar agreement pursuant to which one party has agreed not to acquire assets or securities of the other party or any of its Affiliates;

(viii) any Contract for the employment of any Person on a full-time or consulting basis that provides for (A) payments by Pioneer and/or the Subsidiaries of more than $100,000, in the aggregate, per year or (B) payments by Pioneer and/or its Subsidiaries for severance, change of control or other payments to any Person of more than $100,000, in the aggregate;

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(ix) except as disclosed in the Pioneer Disclosure Schedule in response to any other subsection of this Section 4.16, any Contract with any Pioneer Related Party; and

(x) except as disclosed in the Pioneer Disclosure Schedule in response to any other subsection of this Section 4.16, any Contract that provides for payments by or payments to Pioneer and its Subsidiaries of more than $100,000, in the aggregate, per year.

(b) Except as would not have a Pioneer Material Adverse Effect, (i) each Pioneer Material Contract is a legal, valid and binding agreement in full force and effect and enforceable against Pioneer or such Subsidiary of Pioneer in accordance with its terms, (ii) none of Pioneer or any Subsidiary of Pioneer has received any written claim of material default under or cancellation of any Pioneer Material Contract, and none of Pioneer or any Subsidiary of Pioneer is in material breach or material violation of, or material default under, any Pioneer Material Contract, (iii) to Pioneer s knowledge, no other party is in material breach or material violation of, or material default under, any Pioneer Material Contract, (iv) to Pioneer s knowledge, no event has occurred which would result in a breach or violation of or a default under, any Pioneer Material Contract and (v) Pioneer has not received any notice from any other party to any Pioneer Material Contract, and otherwise has no knowledge that such third party intends to terminate, or not renew any Pioneer Material Contract, or is seeking the renegotiation thereof in any material respect or substitute performance thereunder in any material respect. Pioneer has made available to Pioneer a true and complete copy of each Pioneer Material Contract.

Section 4.17 *Insurance*. Section 4.17 of the Pioneer Disclosure Schedule sets forth a complete and correct list of all material insurance policies owned or held by Pioneer and each of its Subsidiaries, true and complete copies of which have been made available Pioneer. With respect to each such insurance policy: (i) each policy with respect to Pioneer and its Subsidiaries is legal, valid, binding and enforceable in accordance with its terms and, except for policies that have expired under their terms in the ordinary course, is in full force and effect; (ii) neither Pioneer nor any Subsidiary of Pioneer is in material breach or default (including any such breach or default with respect to the payment of premiums or the giving of notice), and, to Pioneer s knowledge, no event has occurred which, with notice or the lapse of time, would constitute such a breach or default, or permit termination or modification, under any such policy; and (iii) no notice of cancellation or termination has been received.

Section 4.18 *Environmental Matters*.

(a) Pioneer and its Subsidiaries are and have been in compliance in all material respects with all Environmental Laws.

(b) Pioneer and its Subsidiaries possess all material permits and approvals issued pursuant to any Environmental Law that are required to conduct the business of Pioneer and its Subsidiaries as it is currently conducted, and are and have been in compliance in all material respects with all such permits and approvals.

(c) To the knowledge of Pioneer, no releases of (i) any petroleum products or byproducts, radioactive materials, friable asbestos or polychlorinated biphenyls or (ii) any waste, material or substance defined as a hazardous substance, hazardous material, hazardous waste, pollutant or any analogous terminology under any applicable Environmental Law have occurred at, on, from or under any real property currently or formerly owned, operated or occupied by Pioneer or any of its Subsidiaries, for which releases Pioneer or any such Subsidiary may have incurred liability under any Environmental Law.

(d) Neither Pioneer nor any Subsidiary of Pioneer has received any written claim or notice from any Governmental Authority alleging that Pioneer or any such Subsidiary is or may be in violation of, or has any liability under, any Environmental Law.

(e) Neither Pioneer nor any Subsidiary of Pioneer has entered into any agreement or is subject to any legal requirement that may require it to pay for, guarantee, defend or indemnify or hold harmless any Person from or against any liabilities arising under Environmental Laws.

(f) All environmental reports, assessments, audits, and other similar documents in the possession or control of Pioneer or any of its Subsidiaries, containing information that could reasonably be expected to be material to Pioneer or any of its Subsidiaries, have been made available to Acadia.

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Section 4.19 *Pioneer Board Approval; Vote Required*.

(a) The Pioneer Board, by resolutions duly adopted at a meeting duly called and held, has as of the date of this Agreement duly (i) determined that this Agreement and the Transactions are fair to and in the best interests of the Pioneer Shareholders, (ii) adopted this Agreement, and (iii) recommended that the Pioneer Shareholders approve this Agreement and directed that this Agreement be submitted for consideration by the Pioneer Shareholders at the Pioneer Shareholders Meeting (collectively, the Pioneer Board Recommendation). The provisions of Massachusetts General Laws Chapter 110D do not apply to Pioneer, the Merger, this Agreement or any of the other Transactions. Pioneer s Board of Directors has taken all actions necessary such that the restrictions contained in Massachusetts General Laws Chapter 110C and 110F do not apply to the Merger, this Agreement or any of the other Transactions; provided, that, for purposes hereof, Pioneer specifically relies upon Acadia s representation that it is not an interested stockholder in Pioneer, as such term is defined in Massachusetts General Laws Chapter 110F. To the knowledge of Pioneer, there is no other control share acquisition, fair price, business combination , control share acquisition statute or other similar statute or regulation that applies to the Merger, this Agreement or any of the other Transactions.

(b) The only votes of the holders of any class of capital stock of Pioneer necessary to approve this Agreement is the affirmative vote of holders of at least (i) two-thirds of the outstanding Pioneer Class A Common Stock and Pioneer Class B Common Stock entitled to vote, voting together as a single class, with the holders of Pioneer Class A Common Stock having one vote per share and the holders of the Pioneer Class B Common Stock having five votes per share, (ii) two-thirds of the outstanding Pioneer Class A Common Stock entitled to vote, voting as a single class and (iii) two-thirds of the outstanding Pioneer Class B Common Stock entitled to vote, voting as a single class.

Section 4.20 *Opinion of Financial Advisor*. Prior to the execution of this Agreement, the Pioneer Board has received the opinion of Stout Risius Ross, financial advisor to Pioneer, as of the date of such opinion and based on the assumptions, qualifications and limitations contained therein, that (i) the Merger Consideration to be received by the Pioneer Shareholders in the Merger (in the aggregate) is fair, from a financial point of view, to such Pioneer Shareholders, and (ii) the Class A Merger Consideration to be received by the holders of Pioneer Class A Common Stock in the Merger (in the aggregate) is fair, from a financial point of view, to such holders.

Section 4.21 *Brokers*. No broker, finder or investment banker (other than Jefferies & Company, Inc., the Pioneer Financial Advisor) is entitled to any brokerage, finder s or other fee or commission in connection with the Transactions based upon arrangements made by or on behalf of Pioneer. Pioneer has provided to Acadia a true and complete copy of all agreements between Pioneer and the Pioneer Financial Advisor.

Section 4.22 *Pioneer Related Party Transactions*. (a) No Pioneer Related Party has, and no Pioneer Related Party has had, any interest in any material asset used or otherwise relating to the business of Pioneer or its Subsidiaries, (b) no Pioneer Related Party is or has been indebted to Pioneer or any of its Subsidiaries (other than for ordinary travel advances) and none of Pioneer and its Subsidiaries is or has been indebted to any Pioneer Related Party, (c) no Pioneer Related Party has entered into, or has any financial interest in, any material Contract, transaction or business dealing with or involving Pioneer or any of its Subsidiaries, other than transactions or business dealings conducted in the ordinary course of business at prevailing market prices and on prevailing market terms, and (d) no Pioneer Member is engaged in any business that competes with Pioneer or any of its Subsidiaries.

Section 4.23 *Estimated Pioneer Fees and Expenses*. Section 4.23 of the Pioneer Disclosure Schedule sets forth Pioneer s estimate of the total amount of Pioneer s fees and expenses that will be incurred by Pioneer and its Affiliates in connection with the Transactions contemplated by this Agreement (including the Financing), including a list of the recipients of such estimated fees and expenses and the expected amount of such payments to each such recipient (the Estimated Pioneer Expenses).

Section 4.24 *Representations Complete*. None of the representations or warranties made by Pioneer herein or in any Schedule hereto, including the Pioneer Disclosure Schedule, or certificate furnished by Pioneer pursuant to this Agreement, when all such documents are read together in their entirety, contains or will contain at the Effective Time any untrue statement of a material fact, or omits or will omit at the Effective Time to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not misleading.

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ARTICLE V

CONDUCT OF BUSINESS PENDING THE MERGER

Section 5.01 *Conduct of Business by Acadia Pending the Merger*. Acadia agrees that, between the date of this Agreement and the Effective Time, except as contemplated by this Agreement or as set forth in Section 5.01 of the Acadia Disclosure Schedule, the businesses of Acadia and its Subsidiaries shall be conducted in the ordinary course of business consistent with past practice in all material respects, and Acadia shall, and shall cause its Subsidiaries to, use its reasonable best efforts to preserve substantially intact the business organization of Acadia and its Subsidiaries, to keep available the services of Acadia s and its Subsidiaries current officers and employees, to preserve Acadia s and its Subsidiaries present relationships with customers, suppliers, distributors, licensors, licensees and other Persons having business relationships with Acadia or its Subsidiaries. Except as contemplated by this Agreement or as set forth in Section 5.01 of the Acadia Disclosure Schedule, Acadia shall not (and shall cause each of its Subsidiaries not to), between the date of this Agreement and the Effective Time, directly or indirectly, take any of the following actions without the prior written consent of Pioneer, which consent shall not be unreasonably withheld or delayed:

(a) amend or propose to amend its certificate of formation or limited liability company agreement (or other comparable organizational documents);

(b) (i) split, combine or reclassify any membership interests, shares of capital stock or other equity securities of Acadia or any of its Subsidiaries, (ii) purchase, repurchase, redeem or otherwise acquire any membership interests, shares of capital stock or other equity securities of Acadia or any of its Subsidiaries, (iii) declare, set aside, establish a record date for, make or pay any dividend or distribution (whether in cash, stock, property or otherwise) in respect of, or enter into any Contract with respect to the voting of, any membership interests, shares of capital stock or other equity securities of Acadia or any of its Subsidiaries (other than Tax distributions or dividends or distributions from a direct or indirect wholly-owned Subsidiary of Acadia to Acadia or to another direct or indirect wholly-owned Subsidiary of Acadia);

(c) issue, deliver, sell, pledge, transfer, dispose of or encumber any shares of capital stock or other equity securities of Acadia or any of its Subsidiaries, or any securities convertible into or exchangeable for, or any options, warrants or other rights of any kind to acquire any such shares of such capital stock or other equity securities of Acadia or any of its Subsidiaries (other than pursuant to the exercise of options or equity-based awards outstanding on the date of this Agreement and in accordance with their terms as in effect on the date of this Agreement);

(d) except to the extent required by applicable law or by a Contract that is in effect as of the date of this Agreement and has been previously disclosed to or made available to Pioneer, (i) increase the salaries, bonuses or other compensation and benefits payable or that could become payable by Acadia or any of its Subsidiaries to any of their respective directors, limited liability company managers, officers, shareholders, members, employees or other service providers, except, solely with respect to employees who are not officers or directors, in the ordinary course of business consistent with past practice, (ii) enter into any new or amend in any material respect, any employment, severance, retention or change in control agreement with any past or present director, limited liability company manager, officer, shareholder, member, employee or other service provider of Acadia or any of its Subsidiaries, (iii) promote any officers or employees, except in the ordinary course of business consistent with past practice or as the result of the termination or resignation of any officer or employee, or (iv) establish, adopt, enter into, amend, terminate, exercise any discretion under, or take any action to accelerate rights under any Acadia Plan or any plan, agreement, program, policy, trust, fund or other arrangement that would be an Acadia Plan if it were in existence as of the date of this Agreement, or make any contribution to any Acadia Plan, other than contributions required by applicable law or the terms of such Acadia Plan as in effect on the date hereof;

(e) acquire (whether by merging or consolidating with, by purchasing any equity securities or a substantial portion of the assets of, or by any other manner) any interest in, or make any loan, advance or capital contribution to or investment in, any Person or any division thereof or any assets thereof, other than acquisitions in the ordinary course of business not exceeding $25,000,000 in the aggregate;

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(f) (i) transfer, license, sell, lease, assign or otherwise dispose of any material assets (whether by way of merger, consolidation, sale of stock or assets, or otherwise), including the capital stock or other equity securities of any Subsidiary of Acadia, provided that the foregoing shall not prohibit Acadia and its Subsidiaries from transferring, licensing, selling, leasing or disposing of obsolete equipment or assets being replaced, in each case in the ordinary course of business consistent with past practice, (ii) grant any Lien on any of the assets of Acadia or any of its Subsidiaries (other than Permitted Liens granted in the ordinary course of business consistent with past practice), or (iii) adopt, enter into or effect a plan of complete or partial liquidation, dissolution, restructuring, recapitalization or other reorganization of Acadia or any of its Subsidiaries;

(g) redeem, repurchase, prepay, defease, cancel, incur or otherwise acquire, or modify the terms of, any indebtedness for borrowed money or assume, guarantee or endorse, or otherwise become responsible for, any such indebtedness of another Person, issue or sell any debt securities or options, warrants, calls or other rights to acquire any debt securities of Acadia or any of its Subsidiaries or assume, guarantee or endorse, or otherwise become responsible for, any debt securities of another Person;

(h) make any capital expenditures, capital additions or capital improvements having a cost in excess of $250,000, except for capital expenditures that are contemplated by Acadia s existing plan for annual capital expenditures for the fiscal year ending December 31, 2011, a copy of which has been previously made available to Pioneer or fail to make any capital expenditures, capital additions or capital improvements contemplated by such existing plan;

(i) (A) enter into or amend or modify in any material respect, or terminate or consent to the termination of (other than at its stated expiry date), any Acadia Material Contract or any other Contract that if in effect as of the date of this Agreement would constitute an Acadia Material Contract, or (B) waive any material default under, or release, settle or compromise any material claim against Acadia or liability or obligation owing to Acadia under any Acadia Material Contract;

(j) institute, settle, release, waive or compromise any (i) Action pending or threatened before any arbitrator, court or other Governmental Authority involving the payment of monetary damages by Acadia or any of its Subsidiaries of any amount exceeding $250,000, (ii) Action involving any current, former or purported holder or group of holders of the capital stock or other equity securities of Acadia or any of its Subsidiaries, or (iii) Action which settlement involves a conduct remedy or injunctive or similar relief or has a restrictive impact on the business of Acadia or its Subsidiaries;

(k) except as required by GAAP or as a result of a change in applicable law, make any change in financial accounting methods, principles, policies, procedures or practices;

(l) make, change or rescind any Tax election, file any amended Tax Return, enter into any closing agreement relating to Taxes, waive or extend the statute of limitations in respect of material Taxes (other than pursuant to extensions of time to file Tax Returns obtained in the ordinary course of business) or settle or compromise any Tax liability in excess of $100,000;

(m) enter into any material agreement, agreement in principle, letter of intent, memorandum of understanding or similar Contract with respect to any joint venture, strategic partnership or alliance;

(n) abandon, encumber, convey title (in whole or in part), exclusively license or grant any right or other licenses to Intellectual Property Rights owned by Acadia or any of its Subsidiaries, other than, in each case, in the ordinary course of business consistent with past practice;

(o) fail to maintain in full force and effect the existing insurance policies (or alternative policies with comparable terms and conditions providing no less favorable coverage) covering Acadia and its Subsidiaries and its and their respective properties, assets and businesses;

(p) (i) effect or permit a plant closing or mass layoff as those terms are defined in the WARN Act without complying with the notice requirements and all other provisions of such act or (ii) enter into or modify or amend in any material respect or terminate any collective bargaining agreement with any labor union other than pursuant to customary negotiations in the ordinary course of business; or

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(q) authorize, propose, announce an intention, offer, enter into any formal or informal agreement or otherwise make any commitment, to take any of the foregoing actions.

Notwithstanding anything to the contrary contained herein or any other agreement, document or instrument executed in connection with herewith (collectively, the Purchase Documents), (a) neither Acadia, any of its Affiliates nor any other Person shall be (a) restricted (or encumbered) from (i) making any Restricted Payment (as defined in the Existing Acadia Credit Agreement) to any Loan Party (as defined in the Existing Acadia Credit Agreement), (ii) paying any Indebtedness (as defined in the Existing Acadia Credit Agreement) or other obligation owed to any Loan Party (as defined in the Existing Acadia Credit Agreement), (iii) making loans or advances to any Loan Party (as defined in the Existing Acadia Credit Agreement), (iv) transfering any of its property to any Loan Party (as defined in the Existing Acadia Credit Agreement), (v) pledging its property pursuant to the Loan Documents (as defined in the Existing Acadia Credit Agreement) or any renewals, refinancings, exchanges, refundings or extension thereof or (vi) acting as a Loan Party (as defined in the Existing Acadia Credit Agreement) pursuant to the Loan Documents (as defined in the Existing Acadia Credit Agreement) or any renewals, refinancings, exchanges, refundings or extension thereof and (b) the Purchase Documents shall not require the grant of any security for any obligation if such property is given as security for the Obligations (as defined in the Existing Acadia Credit Agreement).

Section 5.02 *Conduct of Business by Pioneer Pending the Merger*. Pioneer agrees that, between the date of this Agreement and the Effective Time, except as contemplated by this Agreement or as set forth in Section 5.02 of the Pioneer Disclosure Schedule, the businesses of Pioneer and its Subsidiaries shall be conducted in the ordinary course of business consistent with past practice in all material respects, and Pioneer shall, and shall cause its Subsidiaries to, use its reasonable best efforts to preserve substantially intact the business organization of Pioneer and its Subsidiaries, to keep available the services of Pioneer s and its Subsidiaries current officers and employees, to preserve Pioneer s and its Subsidiaries present relationships with customers, suppliers, distributors, licensors, licensees and other Persons having business relationships with Pioneer or its Subsidiaries. Except as contemplated by this Agreement or as set forth in Section 5.02 of the Pioneer Disclosure Schedule, Pioneer shall not (and shall cause each of its Subsidiaries not to), between the date of this Agreement and the Effective Time, directly or indirectly, take any of the following actions without the prior written consent of Acadia, which consent shall not be unreasonably withheld or delayed:

(a) amend or propose to amend its articles of organization or bylaws (or other comparable organizational documents);

(b) (i) split, combine or reclassify any shares of capital stock or other equity securities of Pioneer or any of its Subsidiaries, (ii) purchase, repurchase, redeem or otherwise acquire any shares of capital stock or other equity securities of Pioneer or any of its Subsidiaries, (iii) declare, set aside, establish a record date for, make or pay any dividend or distribution (whether in cash, stock, property or otherwise) in respect of, or enter into any Contract with respect to the voting of, any shares of capital stock or other equity securities of Pioneer or any of its Subsidiaries (other than dividends or distributions from a direct or indirect wholly-owned Subsidiary of Pioneer to Pioneer or to another direct or indirect wholly-owned Subsidiary of Pioneer);

(c) issue, deliver, sell, pledge, transfer, dispose of or encumber any shares of capital stock or other equity securities of Pioneer or any of its Subsidiaries, or any securities convertible into or exchangeable for, or any options, warrants or other rights of any kind to acquire any such shares of such capital stock or other equity securities of Pioneer or any of its Subsidiaries (other than pursuant to the exercise of options or equity-based awards outstanding on the date of this Agreement and in accordance with their terms as in effect on the date of this Agreement);

(d) except to the extent required by applicable law or by a Contract that is in effect as of the date of this Agreement and has been previously disclosed to or made available to Acadia, (i) increase the salaries, bonuses or other compensation and benefits payable or that could become payable by Pioneer or any of its Subsidiaries to any of their

respective directors, limited liability company managers, officers, shareholders, members, employees or other service providers, except, solely with respect to employees who are not officers or directors, in the ordinary course of business consistent with past practice, (ii) enter into any new or amend in any material respect, any employment, severance, retention or change in control agreement with any past or

present director, limited liability company manager, officer, shareholder, member, employee or other service provider of Pioneer or any of its Subsidiaries, (iii) promote any officers or employees, except in the ordinary course of business consistent with past practice or as the result of the termination or resignation of any officer or employee, or (iv) establish, adopt, enter into, amend, terminate, exercise any discretion under, or take any action to accelerate rights under any Pioneer Plan or any plan, agreement, program, policy, trust, fund or other arrangement that would be a Pioneer Plan if it were in existence as of the date of this Agreement, or make any contribution to any Pioneer Plan, other than contributions required by applicable law or the terms of such Pioneer Plan as in effect on the date hereof;

(e) acquire (whether by merging or consolidating with, by purchasing any equity securities or a substantial portion of the assets of, or by any other manner) any interest in, or make any loan, advance or capital contribution to or investment in, any Person or any division thereof or any assets thereof;

(f) (i) transfer, license, sell, lease, assign or otherwise dispose of any material assets (whether by way of merger, consolidation, sale of stock or assets, or otherwise), including the capital stock or other equity securities of any Subsidiary of Pioneer, provided that the foregoing shall not prohibit Pioneer and its Subsidiaries from transferring, licensing, selling, leasing or disposing of obsolete equipment or assets being replaced, in each case in the ordinary course of business consistent with past practice, (ii) grant any Lien on any of the assets of Pioneer or any of its Subsidiaries (other than Permitted Liens granted in the ordinary course of business consistent with past practice or Liens granted in connection with indebtedness incurred pursuant to and in accordance with Section 6.17), or (iii) adopt, enter into or effect a plan of complete or partial liquidation, dissolution, restructuring, recapitalization or other reorganization;

(g) redeem, repurchase, prepay, defease, cancel, incur or otherwise acquire, or modify the terms of, any indebtedness for borrowed money or assume, guarantee or endorse, or otherwise become responsible for, any such indebtedness of another Person, issue or sell any debt securities or options, warrants, calls or other rights to acquire any debt securities of Pioneer or any of its Subsidiaries or assume, guarantee or endorse, or otherwise become responsible for, any debt securities of another Person, except for indebtedness incurred pursuant to and in accordance with Section 6.17;

(h) make any capital expenditures, capital additions or capital improvements having a cost in excess of $100,000, except for capital expenditures that are contemplated by Pioneer s existing plan for annual capital expenditures for the fiscal year ending June 30, 2011, a copy of which has been previously made available to Acadia or fail in any material respect to make any capital expenditures, capital additions or capital improvements contemplated by such existing plan;

(i) (A) enter into or amend or modify in any material respect, or terminate or consent to the termination of (other than at its stated expiry date), any Pioneer Material Contract or any other Contract that if in effect as of the date of this Agreement would constitute a Pioneer Material Contract, or (B) waive any material default under, or release, settle or compromise any material claim against Pioneer or liability or obligation owing to Pioneer under any Pioneer Material Contract;

(j) institute, settle, release, waive or compromise any (i) Action pending or threatened before any arbitrator, court or other Governmental Authority involving the payment of monetary damages by Pioneer or any of its Subsidiaries of any amount exceeding $100,000, (ii) any Action involving any current, former or purported holder or group of holders of the capital stock or other equity securities of Pioneer or any of its Subsidiaries, or (iii) any Action which settlement involves a conduct remedy or injunctive or similar relief or has a restrictive impact on the business of Pioneer or its Subsidiaries;

(k) except as required by GAAP or as a result of a change in applicable law, make any change in financial accounting methods, principles, policies, procedures or practices;

(l) make, change or rescind any Tax election, file any amended Tax Return, enter into any closing agreement relating to Taxes, waive or extend the statute of limitations in respect of material Taxes (other than pursuant to extensions of time to file Tax Returns obtained in the ordinary course of business) or settle or compromise any Tax liability in excess of $50,000;

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(m) enter into any material agreement, agreement in principle, letter of intent, memorandum of understanding or similar Contract with respect to any joint venture, strategic partnership or alliance;

(n) abandon, encumber, convey title (in whole or in part), exclusively license or grant any right or other licenses to Intellectual Property owned by Pioneer or any of its Subsidiaries, other than, in each case, in the ordinary course of business consistent with past practice;

(o) fail to maintain in full force and effect the existing insurance policies (or alternative policies with comparable terms and conditions providing no less favorable coverage) covering Pioneer and its Subsidiaries and its and their respective properties, assets and businesses;

(p) (i) effect or permit a plant closing or mass layoff as those terms are defined in the WARN Act without complying with the notice requirements and all other provisions of such act or (ii) enter into or modify or amend in any material respect or terminate any collective bargaining agreement with any labor union other than pursuant to customary negotiations in the ordinary course of business; or

(q) authorize, propose, announce an intention, offer, enter into any formal or informal agreement or otherwise make any commitment, to take any of the foregoing actions.

Section 5.03 *Pioneer s Pending Acquisition*. Pioneer will not agree to or enter into any amendment to, grant any waiver under or otherwise waive any rights under the MeadowWood Asset Purchase Agreement that would (i) increase the consideration paid by Pioneer pursuant thereto or (ii) be adverse to Pioneer in any respect that is not d*e minimus*, in either case, without the prior written consent of Acadia, which will not be unreasonably withheld or delayed.

ARTICLE VI

ADDITIONAL AGREEMENTS

Section 6.01 *Proxy Statement; Registration Statement*.

(a) Pioneer and Acadia shall cooperate to promptly prepare the Proxy Statement/ Prospectus and Acadia (with the Pioneer s reasonable cooperation) shall promptly prepare the Form S-4, in which the Proxy Statement/ Prospectus will be included as a prospectus. Pioneer shall as promptly as practicable file the Proxy Statement with the SEC and Acadia shall as promptly as practicable file the Form S-4 with the SEC. Each of Acadia and the Pioneer shall use its reasonable best efforts to have the Form S-4 declared effective under the Securities Act as promptly as practicable after such filing and to keep the Form S-4 effective as long as is necessary to consummate the Merger and have the Proxy Statement cleared by the SEC as promptly as practicable after such filing. Each of Acadia and the Pioneer shall, upon request, furnish to the other all information concerning itself, its Subsidiaries, directors, officers and shareholders or stockholders, as applicable, and such other matters as may be reasonably necessary or advisable in connection with the Proxy Statement, the Form S-4 or applicable law related thereto. Without limiting the generality of the foregoing, each of Acadia and Pioneer agrees to use its reasonable best efforts to obtain the auditors consents with respect to the inclusion of its consolidated financial statements, and to the extent required by the Securities Act or the Exchange Act the consolidated financial statements of its Subsidiaries and any entity the acquisition of which is probable, in the Form S-4 and the Proxy Statement. Without limiting the generality of the foregoing, Pioneer agrees (i) to use its reasonable best efforts to provide to Acadia as promptly as possible and in no event later than two (2) Business Days following the closing pursuant to the MeadowWood Asset Purchase Agreement all audited and unaudited financial statements of MeadowWood Behavioral Health System required to be included in the Form S-4

and the Proxy Statement and (ii) to use its reasonable best efforts to provide Acadia as promptly as possible and in no event later than September 15, 2011, the audited financial statements of Pioneer for the fiscal year ending June 30, 2011.

(b) Subject to Section 6.04(b), the Proxy Statement/ Prospectus shall include the Pioneer Board Recommendation. The Proxy Statement/Prospectus shall also include all material disclosure relating to the Pioneer Financial Advisor (including the amount of fees and other consideration the Pioneer Financial Advisor will be paid upon consummation of the Merger and the conditions precedent to the payment of such fees and other consideration), the opinion referred to in Section 4.20 and the basis for rendering such opinion. Pioneer and Acadia shall

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make all necessary filings with respect to the Transactions under the Securities Act, the Exchange Act and applicable state blue sky laws and the rules and regulations promulgated thereunder.

(c) Pioneer and Acadia shall use their respective reasonable best efforts to respond as promptly as practicable to any comments made by the SEC with respect to the Proxy Statement and the Form S-4. Pioneer and Acadia shall provide the other party and its respective counsel with (i) any comments or other communications, whether written or oral, that Pioneer or its counsel or Acadia or its counsel may receive from time to time from the SEC or its staff with respect to the Proxy Statement or the Form S-4, as applicable, promptly after receipt of those comments or other communications and (ii) Acadia and Pioneer shall cooperate with each other in preparing a response to those comments.

(d) Each of Pioneer and Acadia agrees, as to it and its Affiliates, directors, officers, employees, agents or Representatives, that none of the information supplied or to be supplied by Pioneer or Acadia, as applicable, expressly for inclusion or incorporation by reference in the Proxy Statement, the Form S-4 or any other documents filed or to be filed with the SEC in connection with the Transactions, will, as of the time such documents (or any amendment thereof or supplement thereto) are mailed to the Pioneer Shareholders and at the time of the Pioneer Shareholders Meeting, contain any untrue statement of a material fact, or omit to state any material fact required to be stated therein in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of Pioneer and Acadia further agrees that all documents that it is responsible for filing with the SEC in connection with the Merger will comply as to form and substance in all material respects with the applicable requirements of the Securities Act, the Exchange Act and any other applicable laws and will not contain any untrue statement of a material fact, or omit to state any material fact required to be stated therein in order to make the statements therein, in light of the circumstances under which they were made, not misleading; provided that the foregoing shall not apply to statements or omissions based upon information furnished by the other party or its Representatives.

(e) No amendment or supplement to the Proxy Statement will be made by Pioneer without the approval of Acadia, which approval shall not be unreasonably withheld or delayed. No amendment or supplement to the Form S-4 will be made by Acadia without the approval of Pioneer, which approval shall not be unreasonably withheld or delayed. Pioneer will advise Acadia promptly after the Proxy Statement has been cleared by the SEC (or the time period for the SEC to review the same as lapsed) or any supplement or amendment has been filed. Acadia will advise Pioneer promptly after it receives notice of the time when the Form S-4 has become effective or any supplement or amendment has been filed, the issuance of any stop order, the suspension of the qualification of Acadia Common Stock issuable in connection with the Merger for offering or sale in any jurisdiction, or any request by the SEC for amendment of the Form S-4. If, at any time prior to the Effective Time, Pioneer or Acadia discovers any information relating to any party or any of its Affiliates, officers or directors that should be set forth in an amendment or supplement to the Proxy Statement or the Form S-4, so that none of those documents would include any misstatement of a material fact or omit to state any material fact necessary to make the statements in any such document, in light of the circumstances under which they were made, not misleading, the party that discovers that information shall promptly notify the other parties and an appropriate amendment or supplement describing that information promptly shall be filed with the SEC and, to the extent required by applicable law, disseminated to the Pioneer Shareholders.

(f) Acadia and Pioneer shall bear 75% and 25%, respectively, of the aggregate filing, Edgarizing, printing, mailing and similar out of pocket fees and expenses (but not legal or accounting fees and expenses) relating to the Proxy Statement, the Form S-4 and any other necessary filings with respect to the Transactions under the Securities Act, the Exchange Act and applicable state blue sky laws and the rules and regulations promulgated thereunder.

Section 6.02 *Pioneer Shareholders Meeting*.

(a) Pioneer shall, in accordance with and subject to the Laws of the Commonwealth of Massachusetts (Massachusetts Law), its restated articles of organization, as amended, and bylaws, and the rules of the AMEX, cause a meeting of the Pioneer Shareholders (the Pioneer Shareholders Meeting) to be duly called and held as soon as reasonably practicable after the Proxy Statement is cleared by the SEC and the Form S-4 is declared effective under the Securities Act for the purpose of voting on the approval of this Agreement. Without the prior written consent of Acadia, (i) the Pioneer Shareholders Meeting shall not be held later than thirty (30) days after the

date on which the Proxy Statement is mailed to the Pioneer Shareholders, and (ii) Pioneer may not adjourn or postpone the Pioneer Shareholders Meeting; provided that notwithstanding the foregoing, Acadia may require Pioneer to adjourn or postpone the Pioneer Shareholders Meeting one (1) time. Pioneer shall, upon the reasonable request of Acadia, advise Acadia at least on a daily basis on each of the last ten (10) Business Days prior to the date of the Pioneer Shareholders Meeting, as to the aggregate tally of the proxies received by Pioneer with respect to the Pioneer Shareholder Approval. Without the prior written consent of Acadia, (i) the approval of this Agreement and (ii) an advisory vote on the Pioneer change-in-control agreements shall be the only matters (other than procedure matters) which Pioneer shall propose to be acted on by the Pioneer Shareholders at the Pioneer Shareholders Meeting.

(b) In connection with the Pioneer Shareholders Meeting, Pioneer shall (i) mail the Proxy Statement/ Prospectus and all other proxy materials for such meeting to the Pioneer Shareholders as promptly as practicable after the Proxy Statement is cleared by the SEC and the Form S-4 is declared effective under the Securities Act, (ii) use its reasonable best efforts to obtain the Pioneer Shareholder Approval, and (iii) otherwise comply with all legal requirements applicable to such meeting. Without limiting the generality of the foregoing, as promptly as practicable after the Proxy Statement is cleared by the SEC and the Form S-4 is declared effective under the Securities Act,, Pioneer shall establish a record date for purposes of determining shareholders entitled to notice of and vote at the Pioneer Shareholders Meeting (the Record Date). Once Pioneer has established the Record Date, Pioneer shall not change such Record Date or establish a different record date for the Pioneer Shareholders Meeting without the prior written consent of Acadia, unless required to do so by applicable law. In the event that the date of the Pioneer Shareholders Meeting as originally called is for any reason adjourned or postponed or otherwise delayed, Pioneer agrees that unless Acadia shall have otherwise approved in writing, it shall implement such adjournment or postponement or other delay in such a way that Pioneer does not establish a new Record Date for the Pioneer Shareholders Meeting, as so adjourned, postponed or delayed, except as required by applicable law.

(c) Subject to Section 6.04(b), at the Pioneer Shareholders Meeting, Pioneer shall, through the Pioneer Board, make the Pioneer Board Recommendation and, unless there has been a Pioneer Board Adverse Recommendation Change, Pioneer shall (x) take all reasonable lawful action to solicit the Pioneer Shareholder Approval, and (y) publicly reaffirm the Pioneer Board Recommendation within two (2) Business Days after any written request by Acadia. Without limiting the generality of the foregoing, this Agreement shall be submitted to the Pioneer Shareholders at the Pioneer Shareholders Meeting for the purpose of obtaining the Pioneer Shareholder Approval whether or not any Acquisition Proposal shall have been publicly proposed or announced or otherwise submitted to Pioneer or any of its advisors, unless this Agreement has been terminated pursuant to Section 8.01.

Section 6.03 *Access to Information; Confidentiality*.

(a) Except as required pursuant to applicable law or the regulations or requirements of any stock exchange or other regulatory organization with whose rules the parties are required to comply, as would be reasonably expected to violate any attorney-client privilege or as would be reasonably expected to violate any applicable confidentiality agreement (in each case, so long as, upon request by the other party, a party has taken all reasonable steps to permit access or disclosure on a basis that does not compromise attorney-client privilege with respect thereto), from the date of this Agreement to the Effective Time, Acadia and Pioneer shall, and shall cause their respective Subsidiaries to, (i) provide to the other party (and the other party s Representatives) access, at reasonable times upon prior notice, to its and its Subsidiaries officers, employees, agents, Representatives, properties, offices, facilities, books and records and (ii) furnish promptly such information concerning its and its Subsidiaries business, properties, Contracts, assets, liabilities and personnel as the other party or its Representatives may reasonably request.

(b) All information obtained by Acadia, Pioneer, Merger Sub or its or their Representatives pursuant to this Section 6.03 shall be kept confidential in accordance with the confidentiality agreement, dated March 31, 2011 (the Confidentiality Agreement), between Acadia Holdings, LLC and Pioneer. The Confidentiality Agreement shall

continue in full force and effect in accordance with its terms until the earlier of the Effective Time or the expiration of the Confidentiality Agreement according to its terms.

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Section 6.04 *Solicitation By Pioneer*.

(a) Except as expressly permitted by this Section 6.04, Pioneer and its officers and directors shall, and Pioneer shall instruct and cause its Representatives, its Subsidiaries and their Representatives to:

(i) immediately cease all discussions and negotiations with any Persons that may be ongoing with respect to an Acquisition Proposal, and deliver a written notice to each such Person to the effect that Pioneer is ending all discussions and negotiations with such Person with respect to any Acquisition Proposal, effective on and from the date hereof, and the notice shall also request such Person to promptly return all confidential information concerning Pioneer and its Subsidiaries; and

(ii) from the date hereof until the Effective Time or, if earlier, the termination of this Agreement in accordance with Article VIII, not:

(A) initiate, solicit, propose, encourage (including by providing information) or take any action to facilitate any inquiries or the making of any proposal or offer that constitutes, or may reasonably be expected to lead to, an Acquisition Proposal;

(B) engage in, continue or otherwise participate in any discussions or negotiations regarding, or provide any information or data concerning Pioneer or any of its Subsidiaries to any Person relating to, any Acquisition Proposal or any proposal or offer that could reasonably be expected to lead to an Acquisition Proposal, or provide any information or data concerning Pioneer or any of its Subsidiaries to any Person pursuant to any commercial arrangement, joint venture arrangement, or other existing agreement or arrangement if it is reasonably likely that the Person receiving the confidential information would use such information for purposes of evaluating or developing an Acquisition Proposal;

(C) grant any waiver, amendment or release under any standstill or confidentiality agreement or Takeover Statutes, or otherwise knowingly facilitate any effort or attempt by any Person to make an Acquisition Proposal (including providing consent or authorization to make an Acquisition Proposal to any officer or employee of Pioneer or to the Pioneer Board (or any member thereof) pursuant to any existing confidentiality agreement);

(D) approve, endorse, recommend, or execute or enter into any letter of intent, agreement in principle, merger agreement, acquisition agreement or other similar agreement relating to an Acquisition Proposal or any proposal or offer that would reasonably be expected to lead to an Acquisition Proposal, or that contradicts this Agreement or requires Pioneer to abandon this Agreement; or

(E) resolve, propose or agree to do any of the foregoing.

(b) Notwithstanding anything to the contrary contained in Section 6.04(a) but subject to the last sentence of this Section 6.04(b), at any time following the date hereof and prior to, but not after, the receipt of the Pioneer Stockholder Approval, Pioneer may, subject to compliance with this Section 6.04:

(i) provide information in response to a request therefor to a Person who has made an unsolicited *bona fide* written Acquisition Proposal after the date of this Agreement if and only if, prior to providing such information, Pioneer has received from the Person so requesting such information an executed Acceptable Confidentiality Agreement, provided that Pioneer shall promptly make available to Acadia any material information concerning Pioneer and its Subsidiaries that is provided to any Person making such Acquisition Proposal that is given such access and that was not previously made available to Acadia or its Representatives; and

(ii) engage or participate in any discussions or negotiations with any Person who has made such an unsolicited *bona fide* written Acquisition Proposal;

provided, that prior to taking any action described in Section 6.04(b)(i) or Section 6.04(b)(ii) above, (x) the Pioneer Board shall have determined in good faith, after consultation with outside legal counsel, that failure to take such action would be inconsistent with the directors fiduciary duties under applicable laws, and (y) the Pioneer Board shall have determined in good faith, based on the information then available and after consultation with its independent financial advisor and outside legal counsel, that such Acquisition Proposal either constitutes a Superior

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Proposal or is reasonably likely to result in a Superior Proposal. Notwithstanding the foregoing, Pioneer shall not provide any commercially sensitive non-public information to any competitor in connection with the actions permitted by clause (i) of this Section 6.04(b), except in a manner consistent with Pioneer s past practice in dealing with the disclosure of such information in the context of considering Acquisition Proposals prior to the date of this Agreement.

(c) Except as expressly provided by Section 6.04(d), at any time after the date hereof, neither the Pioneer Board nor any committee thereof shall:

(i) (A) withhold, withdraw (or not continue to make), qualify or modify (or publicly propose or resolve to withhold, withdraw (or not continue to make), qualify or modify), in a manner adverse to Acadia, the Pioneer Board Recommendation with respect to the Merger, (B) adopt, approve or recommend or propose to adopt, approve or recommend (publicly or otherwise) an Acquisition Proposal, (C) (x) fail to publicly recommend against any Acquisition Proposal or (y) fail to publicly reaffirm the Pioneer Board Recommendation, in each case of (x) and (y) within two (2) Business Days after Acadia so requests in writing, (D) fail to recommend against any Acquisition Proposal subject to Regulation 14D under the Exchange Act in a Solicitation/Recommendation Statement on Schedule 14D-9 within ten (10) Business Days after the commencement of such Acquisition Proposal, (E) fail to include the Pioneer Board Recommendation in the Proxy Statement/ Prospectus, (F) enter into any letter of intent, memorandum of understanding or similar document or Contract relating to any Acquisition Proposal (other than any Acceptable Confidentiality Agreement entered into in accordance with Section 6.04(b) or (G) take any other action or make any other public statement that is inconsistent with the Pioneer Board Recommendation (any action described in clauses (A) through (G), a Pioneer Board Adverse Recommendation Change); or

(ii) cause or permit Pioneer or any of its Subsidiaries to enter into any acquisition agreement, merger agreement or similar definitive agreement (other than any Acceptable Confidentiality Agreement entered into in accordance with Section 6.04(b)) (an Alternative Acquisition Agreement) relating to any Acquisition Proposal.

(d) Notwithstanding anything to the contrary set forth in this Agreement, at any time prior to obtaining the Pioneer Stockholder Approval, if Pioneer has received a *bona fide* written Acquisition Proposal from any Person that is not withdrawn and that the Pioneer Board concludes in good faith constitutes a Superior Proposal, the Pioneer Board may effect a Pioneer Board Adverse Recommendation Change with respect to such Superior Proposal if and only if:

(i) the Pioneer Board determines in good faith, after consultation with independent financial advisor and outside legal counsel, that failure to do so would be inconsistent with its fiduciary obligations under applicable laws;

(ii) Pioneer shall have complied with its obligations under this Section 6.04;

(iii) Pioneer shall have provided prior written notice to Acadia at least five (5) Business Days in advance (the Notice Period), to the effect that the Pioneer Board has received a *bona fide* written Acquisition Proposal that is not withdrawn and that the Pioneer Board concludes in good faith constitutes a Superior Proposal and, absent any revision to the terms and conditions of this Agreement, the Pioneer Board has resolved to effect a Pioneer Adverse Recommendation Change pursuant to this Section 6.04(d), which notice shall specify the basis for such Pioneer Adverse Recommendation Change, including the identity of the party making the Superior Proposal, the material terms thereof and copies of all relevant documents relating to such Superior Proposal; and

(iv) prior to effecting such Pioneer Board Adverse Recommendation Change, Pioneer shall, and shall cause their Representatives to, during the Notice Period, (1) negotiate with Acadia and its financial and legal advisors in good faith (to the extent Acadia desires to negotiate) to make such adjustments in the terms and conditions of this Agreement, so that such Acquisition Proposal would cease to constitute a Superior Proposal, and (2) permit Acadia and its financial and legal advisors to make a presentation to the Pioneer Board regarding this Agreement and any

adjustments with respect thereto (to the extent Acadia desires to make such presentation); provided, that in the event of any material revisions to the Acquisition Proposal that the Pioneer

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Board has determined to be a Superior Proposal, Pioneer shall be required to deliver a new written notice to Acadia and to comply with the requirements of this Section 6.04 including 6.04(d)) with respect to such new written notice.

None of Pioneer, the Pioneer Board or any committee of the Pioneer Board shall enter into any binding agreement with any Person to limit or not to give prior notice to Acadia of its intention to effect a Pioneer Board Adverse Recommendation Change.

(e) Nothing contained in this Section 6.04 shall be deemed to prohibit Pioneer or the Pioneer Board from (i) complying with its disclosure obligations under U.S. federal or state law with regard to an Acquisition Proposal, including taking and disclosing to its stockholders a position contemplated by Rule 14d-9 or Rule 14e-2(a) under the Exchange Act (or any similar communication to stockholders), provided that any such disclosure (other than a stop, look and listen communication or similar communication of the type contemplated by Rule 14d-9(f) under the Exchange Act) shall be deemed to be a Pioneer Board Adverse Recommendation Change unless the Pioneer Board expressly publicly reaffirms the Pioneer Recommendation within two (2) Business Days following any request by Acadia, or (ii) making any stop-look-and-listen communication or similar communication of the type contemplated by Rule 14d-9(f) under the Exchange Act.

(f) From and after the date hereof, Pioneer agrees that it will promptly (and, in any event, within 24 hours) notify Acadia if any proposals or offers with respect to an Acquisition Proposal are received by, any non-public information is requested from, or any discussions or negotiations are sought to be initiated or continued with, Pioneer or any of its Representatives, indicating, in connection with such notice, the identity of the Person or group of Persons making such offer or proposal, the material terms and conditions of any proposals or offers (including, if applicable, copies of any written requests, proposals or offers, including proposed agreements) and thereafter shall keep Acadia reasonably informed, on a prompt basis, of the status and terms of any such proposals or offers (including any amendments thereto) and the status of any such discussions or negotiations, including any change in Pioneer s intentions as previously notified.

(g) No Pioneer Board Adverse Recommendation Change shall change the approval of the Pioneer Board for purposes of causing any Takeover Statute to be inapplicable to the transactions contemplated by this Agreement. Pioneer shall promptly notify Acadia of any breach of any (including the standstill provisions thereof) by the counterparty thereto, or any request by the counterparty to any Existing Confidentiality Agreement that Pioneer or the Pioneer board waive the standstill provision thereof or authorize or give permission to such counterparty to take actions that would otherwise be prohibited by the standstill provisions thereof. To the extent Acadia and/or Pioneer believes that there has been a breach of any Existing Confidentiality Agreement by the counterparty thereto, Pioneer shall take all necessary actions to enforce such Existing Confidentiality Agreement.

(h) Pioneer agrees that in the event any of its Representatives takes any action which, if taken by Pioneer, would constitute a breach of this Section 6.04, then Pioneer shall be deemed to be in breach of this Section 6.04.

Section 6.05 *Directors and Officers Indemnification and Insurance*.

(a) From and after the Effective Time, Acadia and the Surviving Company shall, jointly and severally, to the fullest extent permitted under applicable law, indemnify and hold harmless the present and former officers, directors and limited liability company managers of Pioneer and its Subsidiaries (each an Indemnified Party) against all costs and expenses (including attorneys fees), judgments, fines, losses, claims, damages, liabilities and settlement amounts paid in connection with any Action (whether arising before or after the Effective Time), whether civil, criminal, administrative or investigative, arising out of or pertaining to any action or omission in their capacity as an officer, director, limited liability company manager, employee, fiduciary or agent, whether occurring at or before the Effective Time. In the event of any such Action, (i) Acadia and the Surviving Company shall pay the reasonable fees and

expenses of counsel selected by the Indemnified Parties promptly after statements therefor are received, (ii) neither Acadia nor the Surviving Company shall settle, compromise or consent to the entry of any judgment in any pending or threatened Action to which an Indemnified Party is a party (and in respect of which indemnification could be sought by such Indemnified Party hereunder), unless such settlement, compromise or consent includes an unconditional release of such Indemnified Party from all liability arising out of such Action or such Indemnified Party otherwise consents, and (iii) Acadia and the Surviving Company shall cooperate in the defense of any such

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matter; *provided* that, neither Acadia nor the Surviving Company shall be liable for any settlement effected without such Person s written consent (which consent shall not be unreasonably withheld or delayed); and, *provided further*, that all rights to indemnification in respect of such claim shall continue until the final and nonappealable disposition of such claim. The rights of each Indemnified Person under this Section 6.05(a) shall be in addition to any rights such Person may have under the governing documents of Acadia and the Surviving Company or any of their respective Subsidiaries, or under any law or under any agreement of any Indemnified Person with Acadia, the Surviving Company or any of their respective Subsidiaries.

(b) Prior to the Effective Time, Pioneer shall and, if Pioneer is unable to, the Surviving Company shall, as of the Effective Time to, obtain and fully pay the premium for the extension of the directors and officers liability coverage of Pioneer s existing directors and officers insurance policies, for a claims reporting or discovery period of at least six (6) years from and after the Effective Time with respect to any claim related to any period or time at or prior to the Effective Time from an insurance carrier with the same or better credit rating as Pioneer s current insurance carrier with respect to directors and officers liability insurance and fiduciary liability insurance (the D&O Insurance) with terms, conditions, retentions and limits of liability that are at least as favorable as the coverage provided under Pioneer s existing policy with respect to any matter claimed against a director or officer of Pioneer or any of its Subsidiaries by reason of him or her serving in such capacity that existed or occurred at or prior to the Effective Time (including in connection with this Agreement or the transactions or actions contemplated hereby).

(c) In the event Acadia, the Surviving Company or any of their respective successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving company or entity of such consolidation or merger, or (ii) transfers all or substantially all of its properties and assets to any Person, then, and in each such case, proper provision shall be made so that the successors and assigns of Acadia or the Surviving Company, as the case may be, shall succeed to the obligations set forth in this Section 6.05.

(d) The provisions of this Section 6.05 are intended to be for the benefit of, and shall be enforceable by, each of the Indemnified Parties and their heirs and legal representatives.

Section 6.06 *Employee Benefits Matters*.

(a) Prior to the Effective Time, Pioneer and Acadia shall cooperate to conduct a review of Acadia s and Pioneer s respective employee benefit and compensation plans and programs in order to (i) coordinate the provision of benefits and compensation to the employees of Pioneer and Acadia and their respective Subsidiaries after the Effective Time, (ii) eliminate duplicative benefits, and (iii) in all material respects, treat similarly situated employees of Pioneer, Acadia and their respective Subsidiaries on a substantially similar basis, taking into account all relevant factors, including duties, geographic location, tenure, qualifications and abilities.

(b) Nothing contained herein shall be construed as requiring Pioneer, Acadia or any of their respective Subsidiaries to continue the employment of any specific Person. Furthermore, no provision of this Agreement shall be construed as prohibiting or limiting the ability of Pioneer, Acadia or any of their respective Subsidiaries to amend, modify or terminate any plans, programs, policies, arrangements, agreements or understandings of Pioneer or Acadia or any of their respective Subsidiaries (including all Pioneer Plans and all Acadia Plans) in accordance with their terms. Nothing in this Section 6.06 shall confer any rights or remedies of any kind upon any employee or any other Person other than the parties hereto and their respective successors and assigns.

Section 6.07 *Further Action*.

(a) Subject to the terms and conditions of this Agreement, including Section 6.04, each party shall use reasonable best efforts to (i) obtain promptly all authorizations, consents, orders, approvals, licenses, permits and waivers of all

Governmental Authorities and officials that may be or become necessary for its execution and delivery of, and the performance of its obligations pursuant to, this Agreement, (ii) cooperate fully with the other parties in promptly seeking to obtain all such authorizations, consents, orders, approvals, licenses, permits and waivers, (iii) provide such other information to any Governmental Authority as such Governmental Authority may reasonably request in connection herewith, (iv) obtain all necessary consents, approvals or waivers from third parties under such party s respective Contracts, and (v) from and after the Effective Time, execute and deliver any additional instruments necessary to consummate the Transactions and to fully carry out the purposes of this

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Agreement. For the avoidance of doubt, (i) Pioneer shall use reasonable best efforts to obtain as promptly as practicable after the date of this Agreement any consent, approval or waiver required in connection with the Transactions under a Pioneer Material Contract, and (ii) Acadia shall use reasonable best efforts to obtain as promptly as practicable after the date of this Agreement any consent, approval or waiver required in connection with the Transactions under an Acadia Material Contract. Each party hereto agrees that if at any time after the date of this Agreement a filing pursuant to the HSR Act is necessary with respect to the Transactions to cooperate with the other party to make such filing as soon as practicable and to use commercially reasonable efforts to supply to the appropriate Governmental Authorities as promptly as possible any additional information and documentary material that may be requested pursuant to the HSR Act.

(b) Each party promptly shall notify each other party hereto of any material communication it or any of its Affiliates receives from any Governmental Authority relating to the matters that are the subject of this Agreement. Subject to any applicable preexisting confidentiality agreement (so long as such party has taken all reasonable steps to permit access or disclosure) and applicable attorney-client privilege, each party shall be entitled to review in advance any proposed substantive communication by any other party to any Governmental Authority in connection with the Transactions, and each party shall make any revisions thereto reasonably requested by the other party. None of the parties to this Agreement shall agree to participate in any meeting with any Governmental Authority in respect of any filings, investigation (including any settlement of the investigation), litigation or other inquiry relating to the matters that are the subject of this Agreement unless it consults with the other party in advance and, to the extent not prohibited by such Governmental Authority, gives the other party the opportunity to attend and participate at such meeting. The parties to this Agreement will coordinate and cooperate fully with each other in exchanging such information and providing such assistance as each other party may reasonably request in connection with the foregoing, subject to any applicable preexisting confidentiality agreements (so long as such party has taken all reasonable steps to permit access or disclosure) and applicable attorney-client privilege. The parties to this Agreement will provide each other with copies of all material correspondence, filings or communications between them or any of their Representatives, on the one hand, and any Governmental Authority or members of its staff, on the other hand, with respect to this Agreement and the Transactions; *provided* that, each party may redact materials as necessary to address required confidentially (so long as such party has taken all reasonable steps to permit access or disclosure) or reasonable attorney-client privilege concerns. In furtherance of the foregoing, all information exchanged between or among the parties under this Section 6.07 shall be kept confidential in accordance with the Confidentiality Agreement.

(c) In the event that any administrative or judicial Action is instituted (or threatened to be instituted) by a Governmental Authority or private party challenging the Merger or any other transaction contemplated by this Agreement, or any other agreement contemplated hereby, each of Acadia, Pioneer and Merger Sub shall cooperate in all respects and shall use its commercially reasonable efforts to contest and resist any such Action and to have vacated, lifted, reversed or overturned any order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts consummation of the Transactions.

(d) Notwithstanding anything to the contrary set forth in this Agreement, none of Pioneer, Acadia nor any of their respective Subsidiaries shall be required to, and Pioneer, Merger Sub and Acadia may not, without the prior written consent of the other party, become subject to, consent to, or offer or agree to, or otherwise take any action with respect to, any requirement, condition, limitation, understanding, agreement or order to (i) sell, license, assign, transfer, divest, hold separate or otherwise dispose of any assets, business or portion of business of Pioneer, Acadia, Merger Sub, the Surviving Company or any of their respective Subsidiaries, (ii) conduct, restrict, operate, invest or otherwise change the assets, business or portion of business of Pioneer, Acadia, Merger Sub, the Surviving Company or any of their respective Subsidiaries in any manner, or (iii) impose any restriction, requirement or limitation on the operation of the business or portion of the business of Pioneer, Acadia, Merger Sub, the Surviving Company or any of their respective Subsidiaries.

(e) With respect to any shareholder litigation against Pioneer and/or its directors relating to the Transactions, Pioneer shall (i) promptly notify Acadia of the initiation of any such litigation, (ii) promptly notify Acadia of any material communication or development with respect to such litigation and (iii) consult in good faith with Acadia with respect to any material decisions and Pioneer s general strategy regarding such litigation and otherwise give Acadia the opportunity to participate in the defense, settlement and/or prosecution of any such litigation; provided,

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that neither Pioneer nor any of its Subsidiaries or Representatives shall compromise, settle, come to an arrangement regarding or agree to compromise, settle or come to an arrangement regarding any such litigation or consent to the same unless Acadia shall have consented in writing; provided, further, that after receipt of the Pioneer Shareholder Approval, Pioneer shall cooperate with Acadia and, if requested by Acadia, use its reasonable best efforts to settle any unresolved shareholder litigation against Pioneer and/or its directors relating to the Transactions in accordance with Acadia s direction.

Section 6.08 *Update Disclosure; Breaches*.

(a) From and after the date of this Agreement until the Effective Time, each party hereto promptly shall notify the other party hereto by written update to its Disclosure Schedule of (i) the occurrence, or non-occurrence, of any event that, individually or in the aggregate, would reasonably be expected to cause any condition to the obligations of any party to effect the Transactions not to be satisfied, (ii) any Action commenced or, to any party s knowledge, threatened against, such party or any of its Subsidiaries or Affiliates or otherwise relating to, involving or affecting such party or any of its Subsidiaries or Affiliates, in each case in connection with, arising from or otherwise relating to the Transactions, or (iii) the failure of such party to comply with or satisfy any covenant, condition or agreement to be complied with by it pursuant to this Agreement which, individually or in the aggregate, would reasonably be likely to result in any condition to the obligations of any party to effect the Transactions not to be satisfied; provided, however, that the delivery of any notice pursuant to this Section 6.08 shall not cure any breach of any representation or warranty requiring disclosure of such matter prior to the date of this Agreement or otherwise limit or affect the remedies available hereunder to the party receiving such notice. The failure to deliver any such notice shall not affect any of the conditions set forth in Article VII.

(b) Promptly following the closing pursuant to the MeadowWood Asset Purchase Agreement, but no later than ten (10) Business Days prior to the Closing Date, Pioneer shall deliver to Acadia and Merger Sub a supplement to the Pioneer Disclosure Schedule (the MeadowWood Schedule Supplement) containing any additions, revisions or modifications to the Pioneer Disclosure Schedule that are required as a result of Pioneer s acquisition of the assets of MeadowWood Behavioral Health System pursuant to the MeadowWood Asset Purchase Agreement (it being understood and agreed that the MeadowWood Schedule Supplement will include all matters which would have been included on the Pioneer Disclosure Schedules if the closing pursuant to the MeadowWood Asset Purchase Agreement had been consummated prior to the date hereof). The MeadowWood Schedule Supplement shall automatically be deemed incorporated into the Pioneer Disclosure Schedule effective as of the date of the closing pursuant to the MeadowWood Asset Purchase Agreement, and any reference herein to the Pioneer Disclosure Schedule shall be thereafter be deemed to refer to the Pioneer Disclosure Schedule as amended and revised by the MeadowWood Schedule Supplement, unless the additions, revisions and modifications set forth on the MeadowWood Schedule Supplement disclose events or circumstances that, together with any other events, circumstances and/or other matters would cause the condition in Section 7.02(a) to not be satisfied as of the date of delivery of the MeadowWood Schedule Supplement, in which case Acadia shall have ten (10) Business Days after Pioneer s delivery of the MeadowWood Schedule Supplement to terminate this Agreement by delivery of written notice to Pioneer.

Section 6.09 *Stock Exchange Listing*. Each of Acadia and Pioneer shall cooperate with the other and use its reasonable best efforts to cause the shares of Acadia Common Stock to be issued in connection with the Merger to be listed on Nasdaq, subject to official notice of issuance, prior to the Effective Time. If such listing on Nasdaq is not possible, each of Acadia and Pioneer shall cooperate with the other and use its reasonable best efforts to cause the shares of Acadia Common Stock to be issued in connection with the Merger to be listed on to be listed on AMEX or another national securities exchange, subject to official notice of issuance, prior to the Effective Time. If such listing is not possible, each of Acadia and Pioneer shall cooperate with the other and use its reasonable best efforts to cause the shares of Acadia Common Stock to become eligible for trading on the over the counter bulletin board (OTCBB) prior to the Effective Time; provided that, in such case, Acadia shall use its reasonable best efforts after the Effective

Time to cause the shares of Acadia Common Stock to listed on Nasdaq or another national securities exchange. Acadia and Pioneer shall bear 75% and 25%, respectively, of the listing fee incurred in obtaining (or attempting to obtain) such listing(s) and/or trading eligibility.

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Section 6.10 *Section 16 Matters*. Prior to the Effective Time, Pioneer and Acadia shall take all steps necessary to cause the Transactions, including any acquisition of Acadia Common Stock in connection with this Agreement, by each individual who is or will be subject to the reporting requirements under Section 16(a) of the Exchange Act with respect to Acadia, to be exempt under Rule 16b-3 promulgated under the Exchange Act.

Section 6.11 *Takeover Statutes*. If any control share acquisition, fair price, moratorium or other anti-takeover law becomes or is deemed to be applicable to Acadia, Pioneer, Merger Sub, the Merger or any other transaction contemplated by this Agreement, then each of Acadia, Pioneer, Merger Sub, and their respective boards of directors or managers shall grant all such approvals and take all such actions as are necessary so that the Transactions may be consummated as promptly as practicable on the terms contemplated hereby and otherwise act to render such anti-takeover law inapplicable to this Agreement and the Transactions.

Section 6.12 *Deregistration*. Pioneer shall use its reasonable best efforts to cause its shares of Pioneer Class A Common Stock to no longer be quoted on the AMEX and to be de-registered under the Exchange Act as soon as practicable following the Effective Time.

Section 6.13 *Tax Free Reorganization Treatment*.

(a) Acadia, Merger Sub, and Pioneer intend that the Merger be treated for federal income tax purposes as a reorganization under Section 368(a) of the Code (to which each of Acadia and Pioneer are to be parties under Section 368(b) of the Code) in which Pioneer is to be treated as merging directly with and into Acadia, with the Pioneer Class A Common Stock and Pioneer Class B Common Stock converted in such merger into the right to receive the consideration provided for hereunder, and each shall file all Tax Returns consistent with, and take no position inconsistent with, such treatment. The parties to this Agreement agree to make such reasonable representations as requested by counsel for the purpose of rendering the opinions described in Section 7.02(h) and Section 7.03(f), including representations in the Pioneer Tax Certificate (in the case of Pioneer) and in the Acadia Tax Certificate (in the case of Acadia).

(b) Acadia, Merger Sub, and Pioneer hereby adopt this Agreement as a plan of reorganization within the meaning of Sections 1.368-2(g) and 1.368-3(a) of the Regulations.

(c) None of Acadia, Merger Sub, or Pioneer shall, nor shall they permit their Subsidiaries (including the Surviving Company after the Effective Time) to, take any action before or after the Effective Time that would prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code. For avoidance of doubt, Acadia (on its behalf and on behalf of its Subsidiaries), Merger Sub and Pioneer shall elect, pursuant to Notice 2010-25 to apply Proposed Treasury Regulation section 1.368-1(e)(2), the text of which was set forth in Treasury Regulation section 1.368-1T(e)(2).

(d) Prior to Closing, (i) neither Acadia nor Merger Sub shall take, or cause its Subsidiaries to take, any action that would adversely impact the ability of counsel to provide the opinions pursuant to Section 7.02(h) and Section 7.03(f) or the ability of Acadia to deliver the Acadia Tax Certificate, and (ii) Pioneer shall not take, and shall cause its Subsidiaries not to take, any action that would adversely impact the ability of counsel to provide the opinions pursuant to Section 7.02(h) and Section 7.03(f) or the ability of Pioneer to deliver the Pioneer Tax Certificate. For avoidance of doubt, neither Acadia nor Merger Sub shall make or permit to be taken any action that would cause Merger Sub to, at any time from the date of this Agreement to and through the end of the day which includes the Effective Time, be other than a disregarded entity as defined in Treasury Regulation section 1.368-2(b)(1)(i)(A) and other than disregarded as an entity separate form Acadia for federal income Tax purposes.

Section 6.14 *Public Announcements*.

(a) The initial press release relating to this Agreement shall be a joint press release the text of which has been agreed to by each of Acadia and Pioneer. Thereafter, each of Acadia and Pioneer shall consult with each other before issuing any press release or otherwise making any public statements (including conference calls with investors and analysts) with respect to this Agreement or any of the Transactions. No party shall issue any such press release or make any such public statement with respect to this Agreement or any of the Transactions prior to such consultation, except to the extent public disclosure is required by applicable law or the requirements of the AMEX or Nasdaq, as

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applicable, in which case the issuing party shall use its reasonable best efforts to consult with the other party before issuing any such press release or making any such public statements.

(b) Upon Acadia s request, (i) Pioneer and Acadia shall promptly prepare a mutually acceptable joint written presentation to RiskMetrics Group recommending this Agreement and the Transactions, including the Merger and (ii) Pioneer shall request a meeting with RiskMetrics Group for purposes of obtaining its recommendation of the adoption of this Agreement by the Pioneer Shareholders.

(c) Before any Merger Communication of Pioneer or any of its participants (as defined in Item 4 of Schedule 14A of the Exchange Act) is (i) disseminated to any investor, analyst, member of the media, employee, client, customer or other third party or otherwise made accessible on the website of Pioneer or such participant (whether in written, video or oral form via webcast, hyperlink or otherwise), or (ii) utilized by any executive officer, key employee or advisor of Pioneer or any such participant, as a script in discussions or meetings with any such third parties, Pioneer shall (or shall cause any such participant to) cooperate in good faith with respect to any such Merger Communication for purposes of, among other things, determining whether the foregoing is required to be filed under the Exchange Act or Securities Act. Pioneer shall (or shall cause any such participant to) give reasonable and good faith consideration to any comments made by Acadia and its counsel on any such Merger Communication.

Section 6.15 *Transfer Taxes*. Acadia and Pioneer shall cooperate in the preparation, execution and filing of all returns, questionnaires, applications or other documents regarding any sales, transfer, stamp, stock transfer, value added, use, real property transfer or gains and any similar Taxes that become payable in connection with the Transactions. Notwithstanding anything to the contrary herein, from and after the Effective Time, the Surviving Company agrees to assume liability for and pay any sales, transfer, stamp, stock transfer, value added, use, real property transfer or gains and any similar Taxes of Pioneer, Acadia or any of their respective Subsidiaries, as well as any transfer, recording, registration and other fees that may be imposed upon, payable by or incurred by Pioneer, Acadia or any of their respective Subsidiaries in connection with this Agreement and the Transactions.

Section 6.16 *Other Actions*. From the date of this Agreement until the earlier to occur of the Effective Time or the termination of this Agreement in accordance with the terms set forth in Article VIII, Acadia and Pioneer shall not, and shall not permit any of their respective Subsidiaries to, take, or agree or commit to take, any action that would reasonably be expected to, individually or in the aggregate, prevent, materially delay or materially impede the consummation of the Transactions.

Section 6.17 *Financing*.

(a) Each of Pioneer and Acadia shall cooperate with the other and use its reasonable best efforts to arrange the debt financing on the terms and conditions to those described in the commitment letter dated as of the date hereof among Acadia and Jefferies Finance LLC, together with the related fee letter and that certain engagement letter dated as of the date hereof by and among Acadia and Jefferies & Company, Inc. (together, the Debt Commitment Letters), including using its commercially reasonable efforts to (i) negotiate definitive agreements with respect thereto and (ii) satisfy on a timely basis all conditions in such definitive agreements that are within its control; provided that nothing contained in this Agreement shall require Acadia to pay any fees in excess of those contemplated by the Debt Commitment Letters (whether to secure waiver of any conditions contained therein or otherwise).

(b) Each of Pioneer and Acadia agrees to provide, and shall cause its Subsidiaries and its and their Representatives and advisors, including legal and accounting advisors, to provide, all reasonable assistance and cooperation (including with respect to timeliness) in connection with the arrangement of the Financing as may be reasonably requested by the other party, including (i) participation in meetings, presentations (including management presentations), drafting sessions and due diligence sessions, (ii) furnishing financial and other pertinent information as may be reasonably

requested by the other party, including projections, pro forma statements, financial statements and other financial data and other pertinent information of the type required by Regulation S-X and Regulation S-K under the Securities Act, (iii) assisting in the preparation of (A) an offering document and other customary marketing materials for any part of the Financing and (B) materials for rating agency presentations, (iv) reasonably cooperating with the consummation of the Financing and the syndication and marketing efforts for any part of the Financing, including obtaining any rating agency confirmations or approvals for the Financing,

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(v) providing and executing documents as may be reasonably requested by the other party, including a certificate of the chief financial officer with respect to solvency matters, and documents required in connection with obtaining consents of accountants for use of their reports in any materials relating to the Financing, (vi) reasonably facilitating any necessary pledging of collateral, (vii) using commercially reasonable efforts to obtain accountants comfort letters, accountants consents, legal opinions, surveys and title insurance, as reasonably requested by the other party, and (viii) taking all actions reasonably necessary for the Surviving Company to become a borrower or guarantor under the Financing simultaneously with the Closing. Pioneer hereby consents to the use of its and its Subsidiaries logos in connection with the Financing.

Section 6.18 *Pioneer Stock Purchase Plans*. Except as set forth on Section 6.18 of the Pioneer Disclosure Schedule, Pioneer shall take all actions necessary to (i) suspend any and all offering or grants during the offering periods currently in effect under the Pioneer Stock Purchase Plans effective as of the date of this Agreement (such that no shares of Pioneer capital stock can be issued pursuant thereto) and (ii) take all actions necessary to terminate the Pioneer Stock Purchase Plans prior to the Effective Time.

Section 6.19 *Obligations of Acadia and Merger Sub*. Acadia shall take all action necessary to cause Merger Sub to perform its obligations under this Agreement and to consummate the Transactions on the terms and subject to the conditions set forth in this Agreement.

Section 6.20 *Fees and Expenses*. Each of Pioneer and Acadia will not (and will cause each of their respective Subsidiaries not to), incur or agree to pay (i) Pioneer Expenses in an aggregate amount in excess of the Estimated Pioneer Expenses or (ii) Acadia Expenses in an aggregate amount in excess of the Estimated Acadia Expenses, respectively, without the prior written consent of the other party.

Section 6.21 *Peabody Office*. Acadia will keep Pioneer s Peabody, Massachusetts office open for as long as reasonably required to effect necessary transition matters, which the parties anticipate will take from three (3) to six (6) months following the Effective Time.

Section 6.22 *Company Name*. For a period of two (2) years following the effective time of the Merger, Acadia will file a dba in Delaware and such other jurisdictions as it deems necessary to enable it to conduct business as Pioneer Behavioral Health, and Acadia shall conduct business under such dba, including by using corporate stationary bearing such name and by answering the telephone in the corporate offices under such name. Acadia anticipates that each of Pioneer s Subsidiaries will retain their current names from and after the Effective Time.

ARTICLE VII

CONDITIONS TO THE MERGER

Section 7.01 *Conditions to the Obligations of Each Party*. The obligations of Acadia, Pioneer and Merger Sub to consummate the Merger are subject to the satisfaction or waiver (where permissible) of the following conditions:

(a) *Effectiveness of the Form S-4*. The Form S-4 shall have been declared effective by the SEC under the Securities Act. No stop order suspending the effectiveness of the Form S-4 shall have been issued by the SEC and no proceedings for that purpose shall be pending before the SEC.

(b) *Pioneer Shareholder Approval*. The Pioneer Shareholder Approval shall have been obtained in accordance with Massachusetts Law.

(c) *No Order or Restraint*. No Order (whether temporary, preliminary or permanent in nature) issued by any court of competent jurisdiction or other restraint or prohibition of any Governmental Authority shall be in effect, and no Law shall have been enacted, entered, promulgated, enforced or deemed applicable by any Governmental Authority that, in any case, prohibits or makes illegal the consummation of the Merger.

(d) *U.S. Antitrust Approvals and Waiting Periods*. Any waiting period (and any extension thereof) applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of

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1976, as amended, and any other antitrust, competition, or trade regulation law, as applicable, shall have expired or been terminated.

(e) *Financing/Solvency*. (i) Acadia shall have obtained debt financing in the amounts described in, and on the terms and conditions set forth in, the Debt Commitment Letters, (ii) Acadia shall have received an opinion that Acadia s and its Subsidiaries total consolidated liabilities will not exceed their total consolidated assets immediately after giving effect to the Merger and the other Transactions, including the dividend pursuant to Section 2.06(c), (iii) the Net Proceeds shall be equal to or greater than $80,000,000 (and as a result, the Deficit Note(s) shall not exceed $10,000,000).

(f) *Listing*. The Acadia Common Stock (i) held by the Acadia Stockholders and (ii) issuable to the Pioneer Shareholders pursuant to the Merger shall be listed or approved for listing upon issuance upon a national securities exchange or eligible for trading on the over the counter bulletin board (OTCBB).

(g) *Professional Services Agreement*. The Professional Services Agreement shall have been terminated pursuant to the terms of a termination agreement and the PSA Amount shall have been paid to Waud Capital Partners, LLC in connection therewith.

Section 7.02 *Conditions to the Obligations of Acadia*. The obligations of Acadia to consummate the Merger are subject to the satisfaction or waiver (where permissible) of the following additional conditions:

(a) (i) the representations and warranties of Pioneer and set forth in Section 4.01 (Organization, Standing and Power; Subsidiaries), Section 4.03 (Capitalization), Section 4.04 (Authority Relative to This Agreement), Section 4.09(a) (Absence of Certain Changes or Events) and Section 4.19 (Pioneer Board Approval; Vote Required) shall be true and correct in all respects as of the date of this Agreement and as of the Closing Date as if made at and as of the Closing Date (except to the extent that any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date), (ii) other than the representations and warranties in Section 4.01 (Organization, Standing and Power; Subsidiaries), Section 4.03 (Capitalization), Section 4.04 (Authority Relative to This Agreement), Section 4.07(f) (SEC Filings; Undisclosed Liabilities), Section 4.09(a) (Absence of Certain Changes or Events) and Section 4.19 (Pioneer Board Approval; Vote Required), the representations and warranties of Pioneer set forth in this Agreement shall be true and correct (disregarding all qualifications or limitations as to materiality and Pioneer Material Adverse Effect set forth therein) as of the date of this Agreement and as of the Closing Date as if made at and as of the Closing Date (except to the extent that any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date), except for such failures to be true and correct which, individually or in the aggregate, have not and would not have a Pioneer Material Adverse Effect, and (iii) the representations and warranties of Pioneer set forth in Section 4.07(f) (SEC Filings; Undisclosed Liabilities) shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as if made at and as of the Closing Date.

(b) *Agreements and Covenants*. Pioneer shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by them on or prior to the Closing.

(c) *Pioneer Material Adverse Effect*. Since the date of this Agreement, there shall not have been or occurred any Pioneer Material Adverse Effect.

(d) *Officers Certificate*. Acadia will have received a certificate, signed by the chief executive officer or chief financial officer of Pioneer, certifying as to the matters set forth in Section 7.02(a), Section 7.02(b) and Section 7.02(c) hereof.

(e) *Third Party Consents*. Acadia shall have been furnished with evidence satisfactory to it of the consent or approval of those persons whose consent or approval shall be required in connection with the Merger under the Pioneer Material Contracts set forth in Section 4.16 of the Pioneer Disclosure Schedule .

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(f) *Resignation of Directors and Officers*. The directors and officers of Pioneer set forth in Schedule 7.02(f) shall have resigned as directors and officers, as applicable, of Pioneer effective as of the Effective Time.

(g) *Governmental Approvals*. Acadia and Pioneer and their respective Subsidiaries shall have timely obtained from each Governmental Authority all approvals, waivers and consents, if any, necessary for the consummation of or in connection with the Transactions, free of any condition that reasonably would be expected to have a Pioneer Material Adverse Effect, an Acadia Material Adverse Effect, or a material adverse effect on the parties ability to consummate the Transactions.

(h) *Tax Opinion*. Acadia shall have received the opinion of Kirkland & Ellis LLP, counsel to Acadia, in form and substance reasonably satisfactory to Acadia, dated the Closing Date, substantially to the effect that on the basis of facts, representations and assumptions set forth in such opinion which are consistent with the state of facts existing as of the Effective Time, for federal income tax purposes: (i) the Merger will constitute a reorganization within the meaning of Section 368(a) of the Code and (ii) Acadia and Pioneer will each be a party to that reorganization within the meaning of Section 368(b) of the Code. In rendering such opinion, Kirkland & Ellis LLP may rely upon representations contained herein and may receive and rely upon representations from Acadia, Pioneer and others, including representations from Acadia in the Acadia Tax Certificate and representations from Pioneer in the Pioneer Tax Certificate.

(i) *Opinion of Special Counsel*. Pioneer shall have received the opinion of Pepper Hamilton LLP, special counsel to Pioneer, substantially in the form attached hereto as Exhibit D.

(j) *Acquisition*. Pioneer shall have consummated its acquisition of the assets of MeadowWood Behavioral Health System pursuant to the MeadowWood Asset Purchase Agreement.

(k) *Stockholders Agreement*. Acadia and certain of its stockholders shall have entered into the Stockholders Agreement, substantially in the form attached hereto as Exhibit E.

Section 7.03 *Conditions to the Obligations of Pioneer*. The obligations of Pioneer to consummate the Merger are subject to the satisfaction or waiver (where permissible) of the following additional conditions:

(a) *Representations and Warranties* (i) The representations and warranties of Acadia set forth in Section 3.01 (Organization, Standing and Power; Subsidiaries), Section 3.03 (Capitalization), Section 3.04 (Authority Relative to This Agreement), Section 3.09(a) (Absence of Certain Changes or Events) and Section 3.19 (Acadia Board Approval; Vote Required) shall be true and correct in all respects as of the date of this Agreement and as of the Closing Date as if made at and as of the Closing Date (except to the extent that any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date), (ii) other than the representations and warranties in Section 3.01 (Organization, Standing and Power; Subsidiaries), Section 3.03 (Capitalization), in Section 3.04 (Authority Relative to This Agreement), Section 3.07(f) (Financial Statements), Section 3.09(a) (Absence of Certain Changes or Events) and Section 3.19 (Acadia Board Approval; Vote Required), the representations and warranties of Acadia set forth in this Agreement shall be true and correct (disregarding all qualifications or limitations as to materiality and Acadia Material Adverse Effect set forth therein) as of the date of this Agreement and as of the Closing Date as if made at and as of the Closing Date (except to the extent that any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date), except for such failures to be true and correct which, individually or in the aggregate, have not and would not have a Acadia Material Adverse Effect, and (iii) the representations and warranties of Acadia set forth in Section 4.07(f) (Financial Statements) shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as if made at and as of the Closing

Date.

(b) *Agreements and Covenants*. Acadia shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by Acadia on or prior to the Closing.

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(c) *Acadia Material Adverse Effect*. Since the date of this Agreement, there shall not have been or occurred any Acadia Material Adverse Effect.

(d) *Officers Certificate*. Pioneer will have received a certificate, signed by the chief executive officer or chief financial officer of Acadia, certifying as to the matters set forth in Section 7.03(a), Section 7.03(b) and Section 7.03(c) hereof.

(e) *Third Party Consents*. Pioneer shall have been furnished with evidence satisfactory to it of the consent or approval of those persons whose consent or approval shall be required in connection with the Merger under the Acadia Material Contracts set forth in Section 3.16 of the Acadia Disclosure Schedule.

(f) *Tax Opinion*. Pioneer shall have received an opinion of Arent Fox LLP, in form and substance reasonably satisfactory to Pioneer, dated the Closing Date, substantially to the effect that on the basis of facts, representations and assumptions set forth in such opinion which are consistent with the state of facts existing as of the Effective Time, for federal income tax purposes: (i) the Merger will constitute a reorganization within the meaning of Section 368(a) of the Code and (ii) Acadia and Pioneer will each be a party to that reorganization within the meaning of Section 368(b) of the Code. In rendering such opinion, Arent Fox LLP may rely upon representations contained herein and may receive and rely upon representations from Acadia, Pioneer and others, including representations from Acadia in the Acadia Tax Certificate and representations from Pioneer in the Pioneer Tax Certificate.

Section 7.04 *Reliance on Article VII*. None of Acadia, Pioneer or Merger Sub may rely on the failure of any condition set forth in Article VII to be satisfied if such failure was caused by such Party s failure to act in good faith to comply with this Agreement and consummate the transactions provided for herein.

ARTICLE VIII

TERMINATION, AMENDMENT AND WAIVER

Section 8.01 *Termination*. This Agreement may be terminated, and the Merger contemplated hereby may be abandoned, at any time prior to the Effective Time, by action taken or authorized by the Board of Directors of the terminating party or parties as set forth below.

(a) *Termination by Mutual Consent*. This Agreement may be terminated by the mutual written consent of Acadia and Pioneer;

(b) *Termination by Acadia or Pioneer*. This Agreement may be terminated by either Acadia or Pioneer (if, in the case of Pioneer, it has not breached Section 6.04):

(i) if the Merger shall not have been consummated by 11:59 p.m., New York City Time, on December 15, 2011 (the End Date); provided, however, that the right to terminate this Agreement under this Section 8.01(b)(i) shall not be available to Pioneer if, at the time of any such intended termination by Pioneer, either Pioneer or Acadia shall be entitled to terminate this Agreement pursuant to Section 8.01(b)(iii); provided further, that any purported termination this Agreement pursuant to this Section 8.01(b)(i) shall be deemed a termination under Section 8.01(c)(i) or Section 8.01(d)(i), as applicable, if, at the time of any such intended termination, Acadia or Pioneer is entitled to terminate this Agreement pursuant to Section 8.01(c)(i) or Section 8.01(d)(i), as applicable; provided further, that that any purported termination of this Agreement pursuant to this Section 8.01(b)(i) shall be deemed a termination under Section 8.01(b)(iii) if, at the time of any such intended termination, Acadia is entitled to terminate this Agreement pursuant to Section 8.01(b)(iii);

(ii) if (x) an Order of any Governmental Authority having competent jurisdiction is entered enjoining Pioneer, Acadia or Merger Sub from consummating the Merger and such Order has become final and nonappealable, or (y) there shall be any law that makes consummation of the Merger illegal or otherwise prohibited (unless the consummation of the Merger in violation of such law would not have a Pioneer Material Adverse Effect); provided, however, that the right to terminate this Agreement pursuant to this Section 8.01(b)(ii) shall not be available to any party whose breach of any provision of this Agreement

results in the imposition of any such Order or the failure of such Order to be resisted, resolved or lifted, as applicable; or

(iii) if the Pioneer Stockholder Approval is not obtained at the Pioneer Shareholders Meeting or any adjournment thereof at which this Agreement has been voted upon;

(c) *Termination by Pioneer*. This Agreement may be terminated by Pioneer:

(i) if (x) Acadia or Merger Sub shall have breached any of the covenants or agreements contained in this Agreement to be complied with by Acadia or Merger Sub such that the closing condition set forth in Section 7.03(b) would not be satisfied or (y) there exists a breach of any representation or warranty of Acadia or Merger Sub contained in this Agreement such that the closing condition set forth in Section 7.03(a) would not be satisfied, and, in the case of either (x) or (y), such breach is incapable of being cured by the End Date or is not cured within thirty (30) calendar days after Acadia receives written notice of such breach from Pioneer; provided that Pioneer shall not have the right to terminate this Agreement pursuant to this Section 8.01(c)(i) if, at the time of such termination, there exists a breach of any representation, warranty, covenant or agreement of Pioneer or Merger Sub contained in this Agreement that would result in the closing conditions set forth in Section 7.02(a) or Section 7.02(b), as applicable, not being satisfied; or

(ii) if, prior to the obtaining of the Pioneer Stockholder Approval, the Pioneer Board or any committee thereof shall have effected a Pioneer Board Adverse Recommendation Change.

(d) *Termination by Acadia*. This Agreement may be terminated by Acadia:

(i) if (x) Pioneer shall have breached any of the covenants or agreements contained in this Agreement to be complied with by Pioneer such that the closing condition set forth in Section 7.02(b) would not be satisfied or (y) there exists a breach of any representation or warranty of Pioneer contained in this Agreement such that the closing condition set forth in Section 7.02(a)) would not be satisfied, and, in the case of either (x) or (y), such breach is incapable of being cured by the End Date or is not cured by Pioneer within thirty (30) calendar days after Pioneer receives written notice of such breach from Acadia; provided that Acadia shall not have the right to terminate this Agreement pursuant to this Section 8.01(d)(i) if, at the time of such termination, there exists a breach of any representation, warranty, covenant or agreement of Acadia contained in this Agreement that would result in the closing conditions set forth in Section 7.03(a) or Section 7.03(b), as applicable, not being satisfied;

(ii) if, prior to the obtaining of the Pioneer Stockholder Approval, the Pioneer Board or any committee thereof shall have effected a Pioneer Board Adverse Recommendation Change; or

(iii) pursuant to Section 6.08.

(e) *Notice of Termination*. The party desiring to terminate this Agreement pursuant to this Section 8.01 shall give written notice of such termination to the other parties specifying the provision or provisions of this Section 8.01 pursuant to which such termination is purportedly effected.

Section 8.02 *Effect of Termination; Termination Fee and Expense Reimbursement*.

(a) *Effect of Termination Generally*. Except as otherwise set forth in this Section 8.02, in the event of a termination of this Agreement by either Pioneer or Acadia as provided in Section 8.01, this Agreement shall forthwith become void and there shall be no liability or obligation on the part of Acadia, Pioneer or Merger Sub or their respective officers or directors; provided, however, that the provisions of this Section 8.02, Article IX and the Confidentiality Agreement shall remain in full force and effect and survive any termination of this Agreement; provided, further, that no party

shall be relieved or released from any liabilities or damages arising out of its willful breach of any provision of this Agreement (including the failure by any party to pay any amounts due pursuant to this Section 8.02)), which the parties acknowledge and agree shall not be limited to reimbursement of expenses or out-of-pocket costs, and may include to the extent proved the benefit of the bargain lost by a party s stockholders (taking into consideration relevant matters), which shall be deemed in such event to be damages of such party. Notwithstanding anything to the contrary in this Agreement, in no event shall any party be liable for (i) punitive damages (unless awarded to a third party) or (ii) any amount in excess of the Termination Fee in the event such fee is

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actually paid by such party. The Lenders and each Indemnified Party (as defined in the Debt Commitment Letters) are express third-party beneficiaries of clause (i) of the preceding sentence with respect to punitive damages.

(b) *Termination Fee*.

(i) In the event this Agreement is terminated (x) by Pioneer pursuant to Section 8.01(c)(ii) or (y) by Acadia pursuant to Section 8.01(d)(ii), Pioneer shall pay the Termination Fee to Acadia promptly, but in any event within two (2) Business Days after the date of such termination, by wire transfer of same day funds to one or more accounts designated by Acadia.

(ii) In the event that (x) this Agreement is terminated (A) by either Acadia or Pioneer pursuant to Section 8.01(b)(i) or Section 8.01(b)(iii) or (B) by Acadia pursuant to Section 8.01(d)(i) or Section 8.01(d)(iii) and (y) after the date of this Agreement and prior to the twelve (12) month anniversary of the termination of this Agreement, Pioneer consummates an Acquisition Proposal, enters into any letter of intent, agreement in principle, acquisition agreement or other similar agreement related to an Acquisition Proposal, or Pioneer files a Solicitation/ Recommendation Statement on Schedule 14D-9 that includes the Pioneer Board s recommendation of any Acquisition Proposal to Pioneer s stockholders, then Pioneer shall, on the date an Acquisition Proposal is consummated, any such letter is executed or agreement is entered into or any such statement is filed with the SEC, pay the Termination Fee (less the amount of any Acadia Reimbursed Expenses previously paid to Acadia pursuant to Section 8.02(c), if any) to Acadia by wire transfer of same day funds to one or more accounts designated by Acadia; provided, that for purposes of this Section 8.02(b)(ii), all percentages in the definition of Acquisition Proposal shall be replaced with 50%.

(iii) For the avoidance of doubt, in no event shall either Pioneer or Acadia be obligated to pay, or cause to be paid, the Termination Fee on more than one occasion.

(c) *Expense Reimbursement*.

(i) In the event this Agreement is terminated by Pioneer pursuant to Section 8.01(c)(i), then Acadia shall, following receipt of an invoice therefor, pay all of Pioneer s reasonably documented out-of-pocket fees and expenses (including reasonable legal fees and expenses) actually incurred by Pioneer and its Affiliates on or prior to the termination of this Agreement in connection with the transactions contemplated by this Agreement (including the Financing), which amount shall in no event exceed $1,000,000 in the aggregate, in four annual installments (with the first such payment made within two (2) Business Days of such termination, and the remaining payments being made on the first, second and third anniversary of such termination date).

(ii) In the event this Agreement is terminated by Acadia pursuant to Section 8.01(d)(i) or Section 8.01(d)(iii), under circumstances in which the Termination Fee is not then payable pursuant to Section 8.02(b), then Pioneer shall, following receipt of an invoice therefor, pay all of Acadia s reasonably documented out-of-pocket fees and expenses (including reasonable legal fees and expenses) actually incurred by Acadia and its Affiliates on or prior to the termination of this Agreement in connection with the transactions contemplated by this Agreement (including the Financing) (the Acadia Reimbursed Expenses), which amount shall in no event exceed $1,000,000 in the aggregate, in four annual installments (with the first such payment made within two (2) Business Days of such termination, and the remaining payments being made on the first, second and third anniversary of such termination date), to one or more accounts designated by Acadia; provided, that (x) the existence of circumstances which could require the Termination Fee to become subsequently payable by Pioneer pursuant to Section 8.02(b) shall not relieve Pioneer of its obligations to pay the Acadia Reimbursed Expenses pursuant to this Section 8.02(c); (y) that the payment by Pioneer of the Acadia Reimbursed Expenses pursuant to this Section 8.02(c); shall not relieve Pioneer of any subsequent obligation to pay the Termination Fee pursuant to Section 8.02(b) except to the extent indicated in Section 8.02(b), and (z) that any unpaid expense reimbursement payments shall be due on the same date as any subsequent obligation to pay the

Termination Fee pursuant to Section 8.02(b).

(d) *Acknowledgement*. Each of Pioneer and Acadia acknowledges that (i) the agreements contained in this Section 8.02 are an integral part of the transactions contemplated in this Agreement, (ii) the damages resulting from termination of this Agreement under circumstances where a Termination Fee is payable are uncertain and incapable of accurate calculation and therefore, the amounts payable pursuant to Section 8.02(b) are not a penalty but rather constitute liquidated damages in a reasonable amount that will compensate Acadia or Pioneer, as applicable, for the

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efforts and resources expended and opportunities foregone while negotiating this Agreement and in reliance on this Agreement and on the expectation of the consummation of the transactions contemplated hereby, and (iii) without the agreements contained in this Section 8.02, neither Pioneer nor Acadia would have entered into this Agreement. Accordingly, if either Pioneer or Acadia (as applicable, the Non-Paying Party) fails to promptly pay any amount due pursuant to Section 8.02(b) and, in order to obtain such payment, the party seeking such payment commences a suit that results in a judgment against the Non-Paying Party for the applicable amount set forth in Section 8.02(b) or Section 8.02(c) or any portion thereof, the Non-Paying Party shall pay to the party seeking such payment all costs and expenses (including attorneys fees) incurred by such party and its Affiliates in connection with such suit, together with interest on the amount of such amount or portion thereof at the prime rate of Citibank N.A. in effect on the date such payment was required to be made through the date of payment.

Section 8.03 *Extension; Waiver*. At any time prior to the Effective Time, the parties may, to the extent permitted by applicable law and, subject to Section 8.04, (i) extend the time for the performance of any of the obligations or other acts of the other parties, (ii) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto or (iii) waive compliance with any of the agreements or conditions contained herein; provided, however, that after any approval of this Agreement by the Pioneer s stockholders, there may not be any extension or waiver of this Agreement which decreases the Merger Consideration or which adversely affects the rights of Pioneer s stockholders hereunder without the approval of such stockholders. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party. The failure of any party to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of those rights.

Section 8.04 *Amendment*. This Agreement may be amended by the parties by action taken by or on behalf of their respective Boards of Directors at any time prior to the Effective Time; and provided, that after approval of the Agreement by the stockholders of Pioneer, no amendment that, by law or in accordance with the rules of any relevant stock exchange, requires further approval by such stockholders may be made without further stockholder approval. This Agreement may not be amended except by an instrument in writing signed by Acadia and Pioneer.

ARTICLE IX

GENERAL PROVISIONS

Section 9.01 *Certain Definitions*. For purposes of this Agreement:

Acadia Balance Sheet Date means December 31, 2010.

Acadia Expenses means all of Acadia s reasonably documented out-of-pocket fees and expenses (including reasonable legal and advisory fees and expenses) actually incurred by Acadia and its Affiliates in connection with the Transactions contemplated by this Agreement, which shall not include the Financing Expenses or Acadia s portion of the Shared Expenses.

Acadia Health Care Facility means any hospital, residential treatment center, pharmacy, laboratory, facility or ancillary department that is leased or owned, and operated, by or for the benefit of Acadia or any of its Subsidiaries.

Acadia Material Adverse Effect means any event, change, condition or effect that, individually or in the aggregate, is, or is reasonably likely to be, materially adverse to the condition (financial or otherwise), properties, assets, liabilities, business, operations or results of operations of Acadia and its Subsidiaries, taken as a whole, other than any event, change, condition or effect relating to (i) the Transactions or the announcement thereof, (ii) compliance with the terms of this Agreement or the taking of any action consented to or requested by Pioneer or Merger Sub, (iii) any change in

accounting requirements or principles required by GAAP, or any interpretations thereof, (iv) the United States economy in general, or (v) the behavioral healthcare industry in general; *provided* that, an Acadia Material Adverse Effect shall include any change in or effect on the business of Acadia and its Subsidiaries that, individually or in the aggregate, is, or is reasonably likely to be, materially adverse to the condition (financial or otherwise), properties, assets, liabilities, business, operations or results of operations of Acadia and its Subsidiaries taken as a whole, if such change or effect is

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significantly more adverse to Acadia and its Subsidiaries, taken as a whole, than to the behavioral healthcare industry in general.

Acadia Related Party means (i) each individual who is, or who has at any time since the inception of Acadia been, an equityholder, director, limited liability company manager, officer, employee or independent contractor of Acadia or any of its Subsidiaries, (ii) each immediate family member of the individuals described in clause (i) above, and (iii) each Person (other than Acadia and its Subsidiaries) in which any Person described in clause (i) or clause (ii) above holds, beneficially or otherwise, a material voting, proprietary or financial interest.

Acadia Tax Certificate shall mean a certificate substantially to the effect of the form of the Acadia Tax Certificate attached hereto as Exhibit F.

Acadia Third Party Intellectual Property Rights means all material licenses, sublicenses and other agreements as to which Acadia or any Subsidiary of Acadia is a party and is authorized to use any Intellectual Property Rights of any third parties (except for click-through, shrink-wrap and other off-the-shelf licenses for commercially available software that are either licensed for a one-time fee less than $5,000 or licensed for annual license fees in the aggregate equal to $25,000 or less).

Acceptable Confidentiality Agreement means a confidentiality agreement on terms that are identical in all material respects to the confidentiality agreement executed by Acadia.

Acquisition Proposal shall mean any inquiry, proposal or offer relating to (i) the acquisition of fifteen (15) percent or more of the Pioneer Common Stock (by vote or by value) by any Third Party, (ii) any merger, consolidation, business combination, reorganization, share exchange, sale of assets, recapitalization, equity investment, joint venture, liquidation, dissolution or other transaction which would result in any Third Party acquiring assets (including capital stock of or interest in any Subsidiary or Affiliate of Pioneer) representing, directly or indirectly, fifteen (15) percent or more of the net revenues, net income or assets of Pioneer and its Subsidiaries, taken as a whole, (iii) the acquisition (whether by merger, consolidation, equity investment, share exchange, joint venture or otherwise) by any Third Party, directly or indirectly, of any Capital Stock in any entity that holds assets representing, directly or indirectly, fifteen (15) percent or more of the net revenues, net income or assets of Pioneer and its Subsidiaries, taken as a whole, (iv) any tender offer or exchange offer, as such terms are defined under the Exchange Act, that, if consummated, would result in any Third Party beneficially owning fifteen (15) percent or more of the outstanding shares of Pioneer Common Stock and any other voting securities of Pioneer, or (v) any combination of the foregoing.

Affiliate means, with respect to any Person, any other Person who, directly or indirectly, controls, is controlled by, or is under common control with, such specified person.

Business Day means any day on which the principal offices of the SEC in Washington, D.C. are open to accept filings, or, in the case of determining a date when any payment is due, any day on which commercial banks in New York, New York are not required by applicable law or authorized to close.

Cash on Hand means with respect to any Person at any date, the sum of all unrestricted cash, marketable securities and short term investments of such person and its Subsidiaries, as recorded in the books and records of such Person and its Subsidiaries in accordance with GAAP.

Contract means any contract, agreement, lease, license, sales order, purchase order, instrument or other commitment that is binding on any person or any part of its property under applicable law.

Deficit Note means one or more Promissory Notes with an aggregate principal face amount equal to the Net Proceeds Deficit, substantially in form attached hereto as Exhibit G or such other form required by Acadia s lenders.

Existing Acadia Credit Agreement shall mean that certain Credit Agreement, dated as of April 1, 2011 among Acadia Healthcare Company, LLC, a Delaware limited liability company, the Guarantors (as defined therein), the Lenders (as defined therein) and BANK OF AMERICA, N.A., as Administrative Agent, Swing

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Line Lender and L/C Issuer, as amended, amended and restated, supplemented, modified, renewed or extended from time to time.

Expenses means all reasonable out-of-pocket expenses (including all fees and expenses of counsel, accountants, investment bankers, experts and consultants to a party hereto and its Affiliates) incurred by a party or on its behalf in connection with or related to the authorization, preparation, negotiation, execution and performance of this Agreement and the Transactions.

Financing Expenses means the aggregate amount of any costs and expenses incurred by Acadia and its Affiliates under or pursuant to the Debt Commitment or otherwise in connection with obtaining the financing under the Debt Commitment Letters, including without limitation any original issue discount.

Fully Diluted Shares means the sum of (i) the Pre-Merger Acadia Stock, plus (ii) the aggregate number of shares of Acadia Common Stock into which shares of Pioneer Common Stock are converted into (including any fractional shares) pursuant to Section 2.01(a), plus (iii) the number of shares of Acadia Common Stock (after giving effect to Section 2.05(b) and Section 2.05(c) and including any fractional shares) issuable pursuant to Pioneer Stock Options and Pioneer Warrants which had an exercise price (prior to giving effect to Section 2.05(b) and Section 2.05(c)) equal to or less than the average per share closing prices of Pioneer Class A Common Stock as reported on AMEX (as reported in the Midwest Edition of The Wall Street Journal or, if not reported thereby, another authoritative source) for ten full trading days ending one (1) Business Days prior to the date of this Agreement.

Health Care Laws means all relevant state and federal civil or criminal health care laws applicable to any Company Health Care Business, including Medicaid, Medicare, the federal Anti-kickback Statute (42 U.S.C. § 1320a-7b(b)), the Stark Law (42 U.S.C. § 1395nn), the civil False Claims Act (31 U.S.C. § 3729 et seq.), the administrative False Claims Law (42 U.S.C. § 1320a-7b(a)), the Civil Money Penalties Law (42 U.S.C. § 1320a-7a; 42 U.S.C. § 1320c-8(a)), the Health Insurance Portability and Accountability Act of 1996 (42 U.S.C. § 1320d et seq.), the exclusion Laws (42 U.S.C. § 1320a-7), any law with respect to licensing a Company Health Care Business, or the regulations promulgated pursuant to such laws, and comparable state laws, and all statutes and regulations related to the education of, housing of, or care for youth.

Indebtedness means with respect to any Person at any date, without duplication, (i) all obligations of such Person for borrowed money or in respect of loans or advances, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments or debt securities, (iii) all obligations in respect of letters of credit and bankers acceptances issued for the account of such Person, (iv) all obligations arising from cash/book overdrafts, (v) all obligations arising from deferred compensation arrangements and all obligations under severance plans or arrangements, bonus plans, transaction bonuses, change of control bonuses or similar arrangements payable as a result of the consummation of the Transactions contemplated hereby, (vi) all obligations of such Person secured by a Lien, (vii) all guaranties of such Person in connection with any of the foregoing, (viii) all indebtedness for the deferred purchase price of property or services with respect to which a Person is liable, contingently or otherwise, as obligor or otherwise (other than trade payables incurred in the ordinary course of business which are not more than 90 days past due), (ix) all other liabilities required to be classified as non-current liabilities in accordance with GAAP as of the date of determination of such Indebtedness, and (x) all accrued interest, prepayment premiums or the like or penalties related to any of the foregoing.

Intellectual Property Rights means any and all of the following: (i) patents, patent applications and patent disclosures; (ii) trademarks, trade names, service marks, corporate names, together with all goodwill associated with any of the foregoing; (iii) copyrights, maskworks and copyrightable works; (iv) proprietary lists, schematics, technology, know-how, trade secrets, inventions, algorithms, processes; (v) Software; (vi) Internet domain names; and (vii) other proprietary, intellectual property and industrial rights recognized under applicable law in any jurisdiction.

IT Assets means all of the following: all computers, computer systems, severs, hardware, Software, firmware, middleware, servers, workstations, routers, hubs, switches, data communication equipment and lines, telecommunications equipment and line 124s, co-location facilities and equipment and all other

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information technology equipment, including any outsourced systems and processes (*e.g.* hosting locations) and all associated documentation.

knowledge of Acadia or *Acadia s knowledge* means the actual knowledge (after reasonable inquiry) of Acadia s executive officers.

knowledge of Pioneer or *Pioneer s knowledge* means the actual knowledge (after reasonable inquiry) of Pioneer s executive officers.

Lenders shall mean the Lenders (as defined in the Debt Commit Letter) and the Arranger (as defined in the Debt Commit Letter).

Lien means with respect to any asset, any mortgage, pledge, lien, charge, security interest or encumbrance of any kind in respect of such asset. For avoidance of doubt, the term Lien shall not include licenses of Intellectual Property Rights.

MeadowWood Asset Purchase Agreement means the Asset Purchase Agreement dated as of March 15, 2011, between Universal Health Services, Inc., a Delaware corporation, and Pioneer.

Medicaid means the medical assistance program established by Title XIX of the Social Security Act (42 U.S.C. Sections 1396 et seq., as amended) and any statute succeeding thereto.

Medicare means the health insurance program for the aged and disabled established by Title XVIII of the Social Security Act (42 U.S.C. Sections 1395 et seq., as amended) and any statute succeeding thereto.

Merger Communication shall mean, with respect to Pioneer, any document or other written communication prepared by or on behalf of Pioneer or any of its Subsidiaries, or any document or other material or information posted or made accessible on the website of Pioneer (whether in written, video or oral form via webcast, hyperlink or otherwise), that is related to any of the transactions contemplated by this Agreement and, if reviewed by a stockholder of Pioneer, could reasonably be deemed to constitute a solicitation of proxies (in each case, as defined in Rule 14a-1 of the Exchange Act) with respect to the Merger.

Net Debt means with respect to any Person at any date, such Person s aggregate Indebtedness minus such Person s Cash on Hand.

Net Proceeds means the lesser of (i) $90,000,000 and (ii) the sum of (A) the gross cash proceeds received by Acadia and its Subsidiaries (including Pioneer and its Subsidiaries) from any and all debt financing incurred in connection with the Transactions contemplated by this Agreement, plus (B) Pioneer s Cash on Hand as of the Effective Time, plus (C) Acadia s Cash on Hand as of the Effective Time, minus (D) the amount of the Pioneer Class B Cash Consideration, minus (E) the aggregate amount of Acadia s Indebtedness actually repaid or payable in connection with the Transactions contemplated by this Agreement, minus (F) the aggregate amount of Pioneer s Indebtedness actually repaid or payable in connection with the Transactions contemplated by this Agreement, minus (G) the Pioneer Expenses, minus (H) the Acadia Expenses, minus (I) the Shared Expenses, minus (J) the Financing Expenses.

Net Proceeds Condition means the Net Proceeds being equal to or greater than $90,000,000.

Net Proceeds Deficit means the greater of (i) $0.00 and (ii) the difference of (i) $90,000,000 minus (ii) the Net Proceeds.

Permitted Lien means (a) statutory Liens for current Taxes, special assessments or other governmental charges not yet due and payable or the amount or validity of which is being contested in good faith by appropriate proceedings and for which appropriate reserves have been established in accordance with GAAP, (b) mechanics , materialmen s, carriers , workers , repairers and similar statutory liens arising or incurred in the ordinary course of business, (c) zoning, entitlement, building and other land use regulations imposed by any Governmental Authority having jurisdiction over any owned real property which are not violated in any material respect by the current use and operation of such property, (d) covenants, conditions, restrictions, easements, encumbrances and other similar matters of record affecting title to, but not adversely affecting current occupancy or use of any owned real property in any material respect, (e) restrictions on the transfer of

securities arising under federal and state securities laws, (f) any Liens caused by state statutes and/or principles of common law and specific agreements within some leases providing for landlord liens with respect to tenant s personal property, fixtures and/or leasehold improvements at the subject premises, and (h) Liens securing debt that is reflected in the Acadia Balance Sheet or the Pioneer Balance Sheet, as applicable.

Person means an individual, corporation, partnership, limited partnership, limited liability company, syndicate, person (including a person as defined in Section 13(d)(3) of the Exchange Act), trust, association or entity or government, political subdivision, agency or instrumentality of a Governmental Authority.

Pioneer Balance Sheet Date means June 30, 2010.

Pioneer Class B Cash Consideration means $5,000,000.

Pioneer Common Stock means the Pioneer Class A Common Stock and the Pioneer Class B Common Stock.

Pioneer Expenses means all of Pioneer s reasonably documented out-of-pocket fees and expenses (including reasonable legal and advisory fees and expenses) actually incurred by Pioneer and its Affiliates in connection with the Transactions contemplated by this Agreement, which shall not include Pioneer s portion of the Shared Expenses.

Pioneer Health Care Facility means any hospital, residential treatment center, pharmacy, laboratory, facility or ancillary department that is leased or owned, and operated, by or for the benefit of Pioneer or any of its Subsidiaries.

Pioneer Material Adverse Effect means any event, change, condition or effect that, individually or in the aggregate, is, or is reasonably likely to be, materially adverse to the condition (financial or otherwise), properties, assets, liabilities, business, value, operations or results of operations of Pioneer and its Subsidiaries, taken as a whole, other than any event, change, condition or effect relating to (i) the Transactions or the announcement thereof, (ii) compliance with the terms of this Agreement or the taking of any action consented to or requested by Pioneer, (iii) any change in accounting requirements or principles required by GAAP, or any interpretations thereof, (iv) the United States economy in general, or (v) the behavioral healthcare industry in general; *provided* that, a Pioneer Material Adverse Effect shall include any change in or effect on the business of Pioneer and its Subsidiaries that, individually or in the aggregate, is, or is reasonably likely to be, materially adverse to the condition (financial or otherwise), properties, assets, liabilities, business, operations or results of operations of Pioneer and its Subsidiaries taken as a whole, if such change or effect is significantly more adverse to Pioneer and its Subsidiaries, taken as a whole, than to the behavioral healthcare industry in general.

Pioneer Per Share Class B Cash Consideration means the result of (i) the Pioneer Class B Cash Consideration, divided by (ii) the aggregate number of issued and outstanding shares of Pioneer Class B Common Stock immediately prior to the Effective Time (other than (i) any shares of Pioneer Class B Common Stock to be cancelled pursuant to Section 2.01(b) and (ii) any share of Pioneer Class B Common Stock owned by any Pioneer Subsidiary).

Pioneer Related Party means (i) each individual who is, or who has at any time since the inception of Pioneer been, an equityholder, director, limited liability company manager, officer, employee or independent contractor of Pioneer or any of its Subsidiaries, (ii) each immediate family member of the individuals described in clause (i) above, and (iii) each Person (other than Pioneer and its Subsidiaries) in which any Person described in clause (i) or clause (ii) above holds, beneficially or otherwise, a material voting, proprietary or financial interest.

Pioneer Shareholder Approval means the affirmative vote of the holders of at least (i) two-thirds of the outstanding Pioneer Class A Common Stock and Pioneer Class B Common Stock entitled to vote, voting together as a single class, with the holders of Pioneer Class A Common Stock having one vote per share and the holders of the Pioneer Class B

Common Stock having five votes per share, (ii) two-thirds of the outstanding Pioneer Class A Common Stock entitled to vote, voting as a single class and (iii) two-thirds of the outstanding Pioneer Class B Common Stock entitled to vote, voting as a single class, the approval of this Agreement.

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Pioneer Stock Plans means, collectively, the (i) 1995 Non-Employee Director Stock Option Plan, as amended December 2002, (ii) 1995 Employee Stock Purchase Plan, as amended December 2002, (iii) 1993 Stock Purchase and Option Plan, as amended December 2002, (iv) 2004 Non-Employee Director Stock Option Plan, (v) 2005 Employee Stock Purchase Plan and (vi) 2003 Stock Purchase and Option Plan, as amended December 2007.

Pioneer Stock Purchase Plans means, collectively, the (i) 1995 Employee Stock Purchase Plan, as amended December 2002 and (ii) 2005 Employee Stock Purchase Plan.

Pioneer Tax Certificate shall mean a certificate substantially to the effect of the form of the Pioneer Tax Certificate attached hereto as Exhibit H.

Pioneer Third Party Intellectual Property Rights means all material licenses, sublicenses and other agreements as to which Pioneer or any Subsidiary of Pioneer is a party and is authorized to use any Intellectual Property Rights of any third parties (except for click-through, shrink-wrap and other off-the-shelf licenses for commercially available software that are either licensed for a one-time fee less than $5,000 or licensed for annual license fees in the aggregate equal to $25,000 or less).

Professional Services Agreement means that Professional Services Agreement, dated as of April 1, 2011 between Waud Capital Partners, LLC and Acadia Healthcare Company, LLC.

PSA Amount means $20,559,000.

PSA Termination Amount means $15,559,000.

Representatives means, with respect to any Person, any of such Person s officers, directors, employees, accountants, consultants, legal counsel, agents and other representatives.

SEC means the Securities and Exchange Commission.

Shared Expenses means (i) the aggregate filing, Edgarizing, printing, mailing and similar out of pocket fees and expenses (but not legal or accounting fees and expenses) relating to the Proxy Statement, the Form S-4 and any other necessary filings with respect to the Transactions under the Securities Act, the Exchange Act and applicable state blue sky laws and the rules and regulations promulgated thereunder and (ii) the listing fee(s) incurred in obtaining (or attempting to obtain) the stock exchange listing(s) or trading eligibility pursuant to Section 6.09.

Software means, in any form or format, any and all (i) computer programs, whether in source code, interpreted code, or object code, (ii) related databases and compilations, including any and all data and collections of data, whether machine readable or otherwise, (iii) related descriptions, flow charts and other work product used to design, plan, organize and develop any of the foregoing and (iv) related programmer and user documentation, including user manuals and training materials, related to any of the foregoing.

Subsidiary means, with respect to any Person, any Person directly or indirectly controlled by such Person, and, without limiting the foregoing, includes any Person, in respect of which, such Person, directly or indirectly, beneficially owns 50% or more of the voting securities or equity.

Superior Proposal shall mean a bona fide written Acquisition Proposal (with all of the percentages included in the definition of Acquisition Proposal increased to 662/3%) and not solicited in violation of Section 6.04 which the Pioneer Board determines in good faith, after consultation with independent financial advisor and outside legal

counsel, and taking into consideration, among other things, all of the terms, conditions, impact and all legal, financial, regulatory and other aspects of such Acquisition Proposal and this Agreement (in each case taking into account any revisions to this Agreement made or proposed in writing by Acadia prior to the time of determination), including financing, regulatory approvals, stockholder litigation, identity of the Person or group making the Acquisition Proposal, breakup fee and expense reimbursement provisions and other events or circumstances beyond the control of the Party invoking the condition, (a) is reasonably likely to be consummated in accordance with its terms and (b) would result in a transaction more favorable to the stockholders of Pioneer from a financial point of view than the transactions provided for in this Agreement (after taking into account the expected timing and risk and likelihood of consummation).

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Takeover Statutes means any takeover, anti-takeover, moratorium, fair price , control share or other similar law enacted under any law applicable to Pioneer, including Mass. Gen Laws Ann. Ch. 156D.

Tax means any and all federal, state, local and foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other similar tax (together with any and all interest, penalties and additions to tax imposed with respect thereto) imposed by any governmental or Tax authority.

Tax Returns means any and all returns, declarations, claims for refund, or information returns or statements, reports and forms relating to Taxes, including any schedule or attachment thereto and amendment thereof.

Termination Fee means $3,000,000.

Warrants means, collectively, the (a) warrants to purchase up to 250,000 shares of Pioneer Class A Common Stock at an exercise price of $3.09 per share (subject to certain adjustments) that were issued by Pioneer on June 13, 2007 and (b) warrants to purchase up to 93,000 shares of Pioneer Class A Common Stock at an exercise price of $3.50 per share (subject to certain adjustments) that were issued by Pioneer on various dates between September 1, 2007 and February 1, 2009.

Section 9.02 *Non-Survival of Representations, Warranties and Agreements.* The representations, warranties, covenants and agreements in this Agreement, and in any certificate delivered pursuant hereto, shall not survive the Effective Time; *provided* that, this Section 9.02 shall not limit any covenant or agreement of the parties that, by its terms, contemplates performance after the Effective Time.

Section 9.03 *Notices.* All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly given upon receipt) by delivery in person, by a nationally recognized next day courier service, registered or certified mail (postage prepaid, return receipt requested) or by facsimile transmission. All notices hereunder shall be delivered to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 9.03):

if to Acadia or Merger Sub:

Acadia Healthcare Company, Inc.
725 Cool Springs Blvd., Suite 600
Franklin, TN 37067
Facsimile No:
Attention: Chris Howard

with a copy to:

Acadia Healthcare Holdings, LLC
c/o Waud Capital Partners,

Reeve B. Waud
Charles E. Edwards

LLC
300 North
LaSalle
Street
Suite 4900
Chicago,
Illinois
60654
Attention:

with a copy to:

Kirkland & Ellis LLP
300 North
LaSalle Street
Chicago, Illinois
60654
Facsimile No:
(312) 862-2000
Attention: Richard W. Porter, P.C.
Carol Anne Huff

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if to Pioneer:

PHC, Inc.
200 Lake Street, Suite 102
Peabody, MA 01960
Facsimile No: (978) 536-2677
Attention: Bruce A. Shear

with a copy to:

Arent Fox LLP
1050 Connecticut Avenue, NW
Washington, DC 20036-5339
Facsimile No: (202)857-6395
Attention: Steven A. Cohen

Section 9.04 *Interpretation*. When a reference is made in this Agreement to Sections, Schedules or Exhibits, such reference is to a Section, Schedule or Exhibit of this Agreement, respectively, unless otherwise indicated. Whenever the words include, includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation. The phrases the parties, the parties hereto, and words of similar import mean the parties to this Agreement. The phrase made available when used in this Agreement means that the information referred to (i) has been delivered to the requesting party in hard or electronic copy prior to the date hereof or (ii) currently is, and has been for a minimum of three Business Days prior to the date hereof, available for review and download by the requesting party in the electronic data room maintained for purposes of the Transactions by Acadia or Pioneer, as applicable. The phrases the date of this Agreement, the date hereof, and words of similar import, unless the context otherwise requires, shall be deemed to refer to May 23, 2011. The words hereof, herein and hereunder and words of similar import when used in this Agreement refer to this Agreement as a whole and not any particular provision of this Agreement. The term or is not exclusive. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms. References to a Person are also to its permitted successors and assigns. Whenever the context may require, any pronoun used herein includes the corresponding masculine, feminine and neuter forms.

Section 9.05 *Disclosure Schedules*. Any reference in a particular Section of either the Acadia Disclosure Schedule or the Pioneer Disclosure Schedule, as applicable, shall only be deemed to be an exception to (or, as applicable, a disclosure for purposes of) (i) the representations and warranties (or covenants, as applicable) of the relevant party that are contained in the corresponding Section of this Agreement, and (ii) any other representations and warranties of such party that are contained in this Agreement, but only in each case if the relevance of that reference as an exception to (or a disclosure for purposes of) such representations and warranties would be readily apparent on its face to a reasonable person who has read that reference and such representations and warranties, without any independent knowledge on the part of the reader regarding the matter(s) so disclosed. The mere inclusion of an item in either the Acadia Disclosure Schedule or the Pioneer Disclosure Schedule as an exception to a representation or warranty shall not be deemed an admission that such item represents a material exception or material fact, event or circumstance or that such item has had or will have an Acadia Material Adverse Effect or a Pioneer Material Adverse Effect, as applicable.

Section 9.06 *Severability*. If any term or other provision of this Agreement is deemed invalid, illegal or incapable of being enforced by any rule of law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the Transactions is not

affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the Transactions be consummated as originally contemplated to the fullest extent possible.

Section 9.07 *Disclaimer of Other Representations and Warranties*. Each of the parties hereto acknowledges and agrees that, except for the representations and warranties expressly set forth in this Agreement, (a) no party makes, and has not made, any representations or warranties relating to itself or its businesses or otherwise in

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connection with the Transactions, (b) no Person has been authorized by any party to make any representation or warranty relating to such party or its businesses or otherwise in connection with the Transactions and, if made, such representation or warranty must not be relied upon as having been authorized by such party, and (c) any estimates, projections, predictions, data, financial information, memoranda, presentations or any other materials or information provided or addressed to any party or any of its Representatives are not and shall not be deemed to be or to include representations or warranties unless any such materials or information is the subject of any representation or warranty set forth in this Agreement.

Section 9.08 *Entire Agreement; Assignment.*

(a) This Agreement, the Confidentiality Agreement and the Exhibits and Schedules hereto constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof and supersede all prior agreements and undertakings, both written and oral, among the parties with respect to the subject matter hereof and thereof. No party may assign, delegate or otherwise transfer (whether pursuant to a merger, by operation of law or otherwise) any of its rights or obligations under this Agreement without the prior written consent of each other party hereto.

(b) Notwithstanding any provision herein to the contrary (but without modifying the provisions of the Debt Commitment Letters as they relate to Acadia), each of the parties hereto agrees that with respect to any action or proceeding against any of the Lenders or any affiliate thereof arising out of or relating to this Agreement, the Debt Commitment Letters or the Financing or the performance of any services thereunder (i) such action or proceeding shall be subject to the exclusive jurisdiction of any court of the State of Delaware or the State of New York sitting in the City of New York, New York, or of the United States located in Delaware or sitting in the City of New York, New York, (ii) such party will not, and it will not permit any of its affiliates to, bring or support anyone else in bringing such action or proceeding in any other court, (iii) the Lenders (and their respective affiliates) are express third-party beneficiaries of this Section 9.08(b) reflecting the foregoing agreements.

Section 9.09 *Parties in Interest.* This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement, other than Section 6.05 (which is intended to be for the benefit of the persons covered thereby and may be enforced by such persons) and as provided in Section 8.02(a), Section 9.08(b), Section 9.10 and Section 9.12.

Section 9.10 *Remedies.* The remedies provided in Section 8.02 shall be the sole and exclusive remedies conferred herein or by law or equity to each party to this Agreement; provided that in the event any party acts fraudulently, with intentional misconduct or otherwise willfully breaches this Agreement, the non-breaching party shall be entitled to any other remedy at law or in equity and any and all remedies conferred upon such party in Section 8.02 will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy. The Lenders and each Indemnified Party (as defined in the Debt Commitment Letters) are express third-party beneficiaries of this Section 9.10.

Section 9.11 *Governing Law; Jurisdiction.* This Agreement shall be governed by, and construed in accordance with, the Laws of the State of Delaware applicable to contracts executed in and to be performed in that State. The parties hereby (a) submit to the exclusive jurisdiction of the Delaware Court of Chancery (or any proper appellate court thereof) for the purpose of any Action arising out of or relating to this Agreement brought by any party hereto, and (b) irrevocably waive, and agree not to assert by way of motion, defense, or otherwise, in any such Action, any claim that it is not subject personally to the jurisdiction of the courts described above, that its property is exempt or immune from attachment or execution, that the Action is brought in an inconvenient forum, that the venue of the Action is

improper, or that this Agreement or the Transactions may not be enforced in or by the courts described above.

Section 9.12 *WAIVER OF JURY TRIAL*. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO A TRIAL BY JURY WITH RESPECT TO ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT

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OR THE TRANSACTIONS. The Lenders and each Indemnified Party (as defined in the Debt Commitment Letters) are express third-party beneficiaries of this Section 9.12.

Section 9.13 *Headings*. The descriptive headings contained in this Agreement are included for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 9.14 *Counterparts*. This Agreement may be executed and delivered (including by facsimile transmission) in two or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

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IN WITNESS WHEREOF, each of Pioneer, Acadia and Merger Sub have caused this Agreement and Plan of Merger to be executed as of the date first written above by their respective officers thereunto duly authorized.

PHC, INC.

By /s/ Bruce A. Shear
Name: Bruce A. Shear
Title: President and Chief Executive Officer

ACADIA HEALTHCARE COMPANY, INC.

By /s/ Joey Jacobs
Name: Joey Jacobs
Title: Chief Executive Officer

ACADIA MERGER SUB, LLC

By /s/ Joey Jacobs
Name: Joey Jacobs
Title: Chief Executive Officer

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Schedule A
Pioneer Stockholders Party to Voting Agreements

Bruce A. Shear
Robert H. Boswell
Paula C. Wurts
Howard W. Phillips
Donald E. Robar
William F. Grieco
David E. Dangerfield
Douglas J. Smith

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Annex B

MASSACHUSETTS BUSINESS CORPORATIONS ACT
(Massachusetts General Laws, Chapter 156D)

Article 13.

Subdivision A. Right to Dissent and Obtain Payment for Shares

§ 13.01. *Definitions.*

In this Part the following words shall have the following meanings unless the context requires otherwise:

Affiliate , any person that directly or indirectly through one or more intermediaries controls, is controlled by, or is under common control of or with another person.

Beneficial shareholder , the person who is a beneficial owner of shares held in a voting trust or by a nominee as the record shareholder.

Corporation , the issuer of the shares held by a shareholder demanding appraisal and, for matters covered in sections 13.22 to 13.31, inclusive, includes the surviving entity in a merger.

Fair value , with respect to shares being appraised, the value of the shares immediately before the effective date of the corporate action to which the shareholder demanding appraisal objects, excluding any element of value arising from the expectation or accomplishment of the proposed corporate action unless exclusion would be inequitable.

Interest , interest from the effective date of the corporate action until the date of payment, at the average rate currently paid by the corporation on its principal bank loans or, if none, at a rate that is fair and equitable under all the circumstances.

Marketable securities , securities held of record by, or by financial intermediaries or depositories on behalf of, at least 1,000 persons and which were

(a) listed on a national securities exchange,

(b) designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc., or

(c) listed on a regional securities exchange or traded in an interdealer quotation system or other trading system and had at least 250,000 outstanding shares, exclusive of shares held by officers, directors and affiliates, which have a market value of at least $5,000,000.

Officer , the chief executive officer, president, chief operating officer, chief financial officer, and any vice president in charge of a principal business unit or function of the issuer.

Person , any individual, corporation, partnership, unincorporated association or other entity.

Record shareholder , the person in whose name shares are registered in the records of a corporation or the beneficial owner of shares to the extent of the rights granted by a nominee certificate on file with a corporation.

Shareholder , the record shareholder or the beneficial shareholder.

§ 13.02. *Right to Appraisal.*

(a) A shareholder is entitled to appraisal rights, and obtain payment of the fair value of his shares in the event of, any of the following corporate or other actions:

(1) consummation of a plan of merger to which the corporation is a party if shareholder approval is required for the merger by section 11.04 or the articles of organization or if the corporation is a subsidiary that is merged with its parent under section 11.05, unless, in either case, (A) all shareholders are to receive only

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cash for their shares in amounts equal to what they would receive upon a dissolution of the corporation or, in the case of shareholders already holding marketable securities in the merging corporation, only marketable securities of the surviving corporation and/or cash and (B) no director, officer or controlling shareholder has a direct or indirect material financial interest in the merger other than in his capacity as (i) a shareholder of the corporation, (ii) a director, officer, employee or consultant of either the merging or the surviving corporation or of any affiliate of the surviving corporation if his financial interest is pursuant to bona fide arrangements with either corporation or any such affiliate, or (iii) in any other capacity so long as the shareholder owns not more than five percent of the voting shares of all classes and series of the corporation in the aggregate;

(2) consummation of a plan of share exchange in which his shares are included unless: (A) both his existing shares and the shares, obligations or other securities to be acquired are marketable securities; and (B) no director, officer or controlling shareholder has a direct or indirect material financial interest in the share exchange other than in his capacity as (i) a shareholder of the corporation whose shares are to be exchanged, (ii) a director, officer, employee or consultant of either the corporation whose shares are to be exchanged or the acquiring corporation or of any affiliate of the acquiring corporation if his financial interest is pursuant to bona fide arrangements with either corporation or any such affiliate, or (iii) in any other capacity so long as the shareholder owns not more than five percent of the voting shares of all classes and series of the corporation whose shares are to be exchanged in the aggregate;

(3) consummation of a sale or exchange of all, or substantially all, of the property of the corporation if the sale or exchange is subject to section 12.02, or a sale or exchange of all, or substantially all, of the property of a corporation in dissolution, unless:

(i) his shares are then redeemable by the corporation at a price not greater than the cash to be received in exchange for his shares; or

(ii) the sale or exchange is pursuant to court order; or

(iii) in the case of a sale or exchange of all or substantially all the property of the corporation subject to section 12.02, approval of shareholders for the sale or exchange is conditioned upon the dissolution of the corporation and the distribution in cash or, if his shares are marketable securities, in marketable securities and/or cash, of substantially all of its net assets, in excess of a reasonable amount reserved to meet unknown claims under section 14.07, to the shareholders in accordance with their respective interests within one year after the sale or exchange and no director, officer or controlling shareholder has a direct or indirect material financial interest in the sale or exchange other than in his capacity as (i) a shareholder of the corporation, (ii) a director, officer, employee or consultant of either the corporation or the acquiring corporation or of any affiliate of the acquiring corporation if his financial interest is pursuant to bona fide arrangements with either corporation or any such affiliate, or (iii) in any other capacity so long as the shareholder owns not more than five percent of the voting shares of all classes and series of the corporation in the aggregate;

(4) an amendment of the articles of organization that materially and adversely affects rights in respect of a shareholder s shares because it:

(i) creates, alters or abolishes the stated rights or preferences of the shares with respect to distributions or to dissolution, including making non-cumulative in whole or in part a dividend theretofore stated as cumulative;

(ii) creates, alters or abolishes a stated right in respect of conversion or redemption, including any provision relating to any sinking fund or purchase, of the shares;

(iii) alters or abolishes a preemptive right of the holder of the shares to acquire shares or other securities;

(iv) excludes or limits the right of the holder of the shares to vote on any matter, or to cumulate votes, except as such right may be limited by voting rights given to new shares then being authorized of an existing or new class; or

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(v) reduces the number of shares owned by the shareholder to a fraction of a share if the fractional share so created is to be acquired for cash under section 6.04;

(5) an amendment of the articles of organization or of the bylaws or the entering into by the corporation of any agreement to which the shareholder is not a party that adds restrictions on the transfer or registration or any outstanding shares held by the shareholder or amends any pre-existing restrictions on the transfer or registration of his shares in a manner which is materially adverse to the ability of the shareholder to transfer his shares;

(6) any corporate action taken pursuant to a shareholder vote to the extent the articles of organization, bylaws or a resolution of the board of directors provides that voting or nonvoting shareholders are entitled to appraisal;

(7) consummation of a conversion of the corporation to nonprofit status pursuant to subdivision B of Part 9; or

(8) consummation of a conversion of the corporation into a form of other entity pursuant to subdivision D of Part 9.

(b) Except as otherwise provided in subsection (a) of section 13.03, in the event of corporate action specified in clauses (1), (2), (3), (7) or (8) of subsection (a), a shareholder may assert appraisal rights only if he seeks them with respect to all of his shares of whatever class or series.

(c) Except as otherwise provided in subsection (a) of section 13.03, in the event of an amendment to the articles of organization specified in clause (4) of subsection (a) or in the event of an amendment of the articles of organization or the bylaws or an agreement to which the shareholder is not a party specified in clause (5) of subsection (a), a shareholder may assert appraisal rights with respect to those shares adversely affected by the amendment or agreement only if he seeks them as to all of such shares and, in the case of an amendment to the articles of organization or the bylaws, has not voted any of his shares of any class or series in favor of the proposed amendment.

(d) The shareholder s right to obtain payment of the fair value of his shares shall terminate upon the occurrence of any of the following events:

(i) the proposed action is abandoned or rescinded; or

(ii) a court having jurisdiction permanently enjoins or sets aside the action; or

(iii) the shareholder s demand for payment is withdrawn with the written consent of the corporation.

(e) A shareholder entitled to appraisal rights under this chapter may not challenge the action creating his entitlement unless the action is unlawful or fraudulent with respect to the shareholder or the corporation.

§ 13.03. *Assertion of Rights by Nominees and Beneficial Owners.*

(a) A record shareholder may assert appraisal rights as to fewer than all the shares registered in the record shareholder s name but owned by a beneficial shareholder only if the record shareholder objects with respect to all shares of the class or series owned by the beneficial shareholder and notifies the corporation in writing of the name and address of each beneficial shareholder on whose behalf appraisal rights are being asserted. The rights of a record shareholder who asserts appraisal rights for only part of the shares held of record in the record shareholder s name under this subsection shall be determined as if the shares as to which the record shareholder objects and the record shareholder s other shares were registered in the names of different record shareholders.

(b) A beneficial shareholder may assert appraisal rights as to shares of any class or series held on behalf of the shareholder only if such shareholder:

(1) submits to the corporation the record shareholder s written consent to the assertion of such rights no later than the date referred to in subclause (ii) of clause (2) of subsection (b) of section 13.22; and

(2) does so with respect to all shares of the class or series that are beneficially owned by the beneficial shareholder.

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Subdivision B. Procedure for Exercise of Appraisal Rights

§ 13.20. *Notice of Appraisal Rights.*

(a) If proposed corporate action described in subsection (a) of section 13.02 is to be submitted to a vote at a shareholders meeting or through the solicitation of written consents, the meeting notice or solicitation of consents shall state that the corporation has concluded that shareholders are, are not or may be entitled to assert appraisal rights under this chapter and refer to the necessity of the shareholder delivering, before the vote is taken, written notice of his intent to demand payment and to the requirement that he not vote his shares in favor of the proposed action. If the corporation concludes that appraisal rights are or may be available, a copy of this chapter shall accompany the meeting notice sent to those record shareholders entitled to exercise appraisal rights.

(b) In a merger pursuant to section 11.05, the parent corporation shall notify in writing all record shareholders of the subsidiary who are entitled to assert appraisal rights that the corporate action became effective. Such notice shall be sent within 10 days after the corporate action became effective and include the materials described in section 13.22.

§ 13.21. *Notice of Intent to Demand Payment.*

(a) If proposed corporate action requiring appraisal rights under section 13.02 is submitted to vote at a shareholders meeting, a shareholder who wishes to assert appraisal rights with respect to any class or series of shares:

(1) shall deliver to the corporation before the vote is taken written notice of the shareholder s intent to demand payment if the proposed action is effectuated; and

(2) shall not vote, or cause or permit to be voted, any shares of such class or series in favor of the proposed action.

(b) A shareholder who does not satisfy the requirements of subsection (a) is not entitled to payment under this chapter.

§ 13.22. *Appraisal Notice and Form.*

(a) If proposed corporate action requiring appraisal rights under subsection (a) of section 13.02 becomes effective, the corporation shall deliver a written appraisal notice and form required by clause (1) of subsection (b) to all shareholders who satisfied the requirements of section 13.21 or, if the action was taken by written consent, did not consent. In the case of a merger under section 11.05, the parent shall deliver a written appraisal notice and form to all record shareholders who may be entitled to assert appraisal rights.

(b) The appraisal notice shall be sent no earlier than the date the corporate action became effective and no later than 10 days after such date and must:

(1) supply a form that specifies the date of the first announcement to shareholders of the principal terms of the proposed corporate action and requires the shareholder asserting appraisal rights to certify (A) whether or not beneficial ownership of those shares for which appraisal rights are asserted was acquired before that date and (B) that the shareholder did not vote for the transaction;

(2) state:

(i) where the form shall be sent and where certificates for certificated shares shall be deposited and the date by which those certificates shall be deposited, which date may not be earlier than the date for receiving the required form under subclause (ii);

(ii) a date by which the corporation shall receive the form which date may not be fewer than 40 nor more than 60 days after the date the subsection (a) appraisal notice and form are sent, and state that the shareholder shall have waived the right to demand appraisal with respect to the shares unless the form is received by the corporation by such specified date;

(iii) the corporation s estimate of the fair value of the shares;

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(iv) that, if requested in writing, the corporation will provide, to the shareholder so requesting, within 10 days after the date specified in clause (ii) the number of shareholders who return the forms by the specified date and the total number of shares owned by them; and

(v) the date by which the notice to withdraw under section 13.23 shall be received, which date shall be within 20 days after the date specified in subclause (ii) of this subsection; and

(3) be accompanied by a copy of this chapter.

§ 13.23. *Perfection of Rights; Right to Withdraw.*

(a) A shareholder who receives notice pursuant to section 13.22 and who wishes to exercise appraisal rights shall certify on the form sent by the corporation whether the beneficial owner of the shares acquired beneficial ownership of the shares before the date required to be set forth in the notice pursuant to clause (1) of subsection (b) of section 13.22. If a shareholder fails to make this certification, the corporation may elect to treat the shareholder s shares as after-acquired shares under section 13.25. In addition, a shareholder who wishes to exercise appraisal rights shall execute and return the form and, in the case of certificated shares, deposit the shareholder s certificates in accordance with the terms of the notice by the date referred to in the notice pursuant to subclause (ii) of clause (2) of subsection (b) of section 13.22. Once a shareholder deposits that shareholder s certificates or, in the case of uncertificated shares, returns the executed forms, that shareholder loses all rights as a shareholder, unless the shareholder withdraws pursuant to said subsection (b).

(b) A shareholder who has complied with subsection (a) may nevertheless decline to exercise appraisal rights and withdraw from the appraisal process by so notifying the corporation in writing by the date set forth in the appraisal notice pursuant to subclause (v) of clause (2) of subsection (b) of section 13.22. A shareholder who fails to so withdraw from the appraisal process may not thereafter withdraw without the corporation s written consent.

(c) A shareholder who does not execute and return the form and, in the case of certificated shares, deposit that shareholder s share certificates where required, each by the date set forth in the notice described in subsection (b) of section 13.22, shall not be entitled to payment under this chapter.

§ 13.24. *Payment.*

(a) Except as provided in section 13.25, within 30 days after the form required by subclause (ii) of clause (2) of subsection (b) of section 13.22 is due, the corporation shall pay in cash to those shareholders who complied with subsection (a) of section 13.23 the amount the corporation estimates to be the fair value of their shares, plus interest.

(b) The payment to each shareholder pursuant to subsection (a) shall be accompanied by:

(1) financial statements of the corporation that issued the shares to be appraised, consisting of a balance sheet as of the end of a fiscal year ending not more than 16 months before the date of payment, an income statement for that year, a statement of changes in shareholders equity for that year, and the latest available interim financial statements, if any;

(2) a statement of the corporation s estimate of the fair value of the shares, which estimate shall equal or exceed the corporation s estimate given pursuant to subclause (iii) of clause (2) of subsection (b) of section 13.22; and

(3) a statement that shareholders described in subsection (a) have the right to demand further payment under section 13.26 and that if any such shareholder does not do so within the time period specified therein, such shareholder shall be deemed to have accepted the payment in full satisfaction of the corporation s obligations under

this chapter.

§ 13.25. *After-Acquired Shares.*

(a) A corporation may elect to withhold payment required by section 13.24 from any shareholder who did not certify that beneficial ownership of all of the shareholder s shares for which appraisal rights are asserted was acquired before the date set forth in the appraisal notice sent pursuant to clause (1) of subsection (b) of section 13.22.

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(b) If the corporation elected to withhold payment under subsection (a) it must, within 30 days after the form required by subclause (ii) of clause (2) of subsection (b) of section 13.22 is due, notify all shareholders who are described in subsection (a):

(1) of the information required by clause (1) of subsection (b) of section 13.24:

(2) of the corporation s estimate of fair value pursuant to clause (2) of subsection (b) of said section 13.24;

(3) that they may accept the corporation s estimate of fair value, plus interest, in full satisfaction of their demands or demand appraisal under section 13.26;

(4) that those shareholders who wish to accept the offer shall so notify the corporation of their acceptance of the corporation s offer within 30 days after receiving the offer; and

(5) that those shareholders who do not satisfy the requirements for demanding appraisal under section 13.26 shall be deemed to have accepted the corporation s offer.

(c) Within 10 days after receiving the shareholder s acceptance pursuant to subsection(b), the corporation shall pay in cash the amount it offered under clause (2) of subsection (b) to each shareholder who agreed to accept the corporation s offer in full satisfaction of the shareholder s demand.

(d) Within 40 days after sending the notice described in subsection (b), the corporation must pay in cash the amount if offered to pay under clause (2) of subsection (b) to each shareholder deserved in clause (5) of subsection (b).

§ 13.26. *Procedure if Shareholder Dissatisfied With Payment or Offer.*

(a) A shareholder paid pursuant to section 13.24 who is dissatisfied with the amount of the payment shall notify the corporation in writing of that shareholder s estimate of the fair value of the shares and demand payment of that estimate plus interest, less any payment under section 13.24. A shareholder offered payment under section 13.25 who is dissatisfied with that offer shall reject the offer and demand payment of the shareholder s stated estimate of the fair value of the shares plus interest.

(b) A shareholder who fails to notify the corporation in writing of that shareholder s demand to be paid the shareholder s stated estimate of the fair value plus interest under subsection (a) within 30 days after receiving the corporation s payment or offer of payment under section 13.24 or section 13.25, respectively, waives the right to demand payment under this section and shall be entitled only to the payment made or offered pursuant to those respective sections.

Subdivision C. Judicial Appraisal of Shares

§ 13.30. *Court Action.*

(a) If a shareholder makes demand for payment under section 13.26 which remains unsettled, the corporation shall commence an equitable proceeding within 60 days after receiving the payment demand and petition the court to determine the fair value of the shares and accrued interest. If the corporation does not commence the proceeding within the 60-day period, it shall pay in cash to each shareholder the amount the shareholder demanded pursuant to section 13.26 plus interest.

(b) The corporation shall commence the proceeding in the appropriate court of the county where the corporation s principal office, or, if none, its registered office, in the commonwealth is located. If the corporation is a foreign corporation without a registered office in the commonwealth, it shall commence the proceeding in the county in the commonwealth where the principal office or registered office of the domestic corporation merged with the foreign corporation was located at the time of the transaction.

(c) The corporation shall make all shareholders, whether or not residents of the commonwealth, whose demands remain unsettled parties to the proceeding as an action against their shares, and all parties shall be served

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with a copy of the petition. Nonresidents may be served by registered or certified mail or by publication as provided by law or otherwise as ordered by the court.

(d) The jurisdiction of the court in which the proceeding is commenced under subsection (b) is plenary and exclusive. The court may appoint 1 or more persons as appraisers to receive evidence and recommend a decision on the question of fair value. The appraisers shall have the powers described in the order appointing them, or in any amendment to it. The shareholders demanding appraisal rights are entitled to the same discovery rights as parties in other civil proceedings.

(e) Each shareholder made a party to the proceeding is entitled to judgment (i) for the amount, if any, by which the court finds the fair value of the shareholder s shares, plus interest, exceeds the amount paid by the corporation to the shareholder for such shares or (ii) for the fair value, plus interest, of the shareholder s shares for which the corporation elected to withhold payment under section 13.25.

§ 13.31. *Court Costs and Counsel Fees.*

(a) The court in an appraisal proceeding commenced under section 13.30 shall determine all costs of the proceeding, including the reasonable compensation and expenses of appraisers appointed by the court. The court shall assess the costs against the corporation, except that the court may assess cost against all or some of the shareholders demanding appraisal, in amounts the court finds equitable, to the extent the court finds such shareholders acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by this chapter.

(b) The court in an appraisal proceeding may also assess the fees and expenses of counsel and experts for the respective parties, in amounts the court finds equitable:

(1) against the corporation and in favor of any or all shareholders demanding appraisal if the court finds the corporation did not substantially comply with the requirements of sections 13.20, 13.22, 13.24 or 13.25; or

(2) against either the corporation or a shareholder demanding appraisal, in favor of any other party, if the court finds that the party against whom the fees and expenses are assessed acted arbitrarily, vexatiously, or not in good faith with respect to the rights provided by this chapter.

(c) If the court in an appraisal proceeding finds that the services of counsel for any shareholder were of substantial benefit to other shareholders similarly situated, and that the fees for those services should not be assessed against the corporation, the court may award to such counsel reasonable fees to be paid out of the amounts awarded the shareholders who were benefited.

(d) To the extent the corporation fails to make a required payment pursuant to sections 13.24, 13.25, or 13.26, the shareholder may sue directly for the amount owed and, to the extent successful, shall be entitled to recover from the corporation all costs and expenses of the suit, including counsel fees.

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Annex C

May 19, 2011

Board of Directors
PHC, Inc.
c/o Mr. William Grieco
Lead Independent Director
200 Lake Street, Suite 102
Peabody, MA 01960

Dear Members of the Board of Directors:

We understand that PHC, Inc. (PHC or the Company), Acadia Healthcare Company, Inc. (Acadia) and a wholly-owned subsidiary of Acadia (Merger Sub) are considering entering into an Agreement and Plan of Merger (the Merger Agreement) pursuant to which among other things PHC will merge with and into Merger Sub, with Merger Sub continuing as the surviving company (the Transaction) and that, in connection with the Transaction, each issued and outstanding share of PHC Class A common stock shall be converted into 1/4 share of Acadia common stock (the Class A Consideration) and each issued and outstanding share of PHC Class B common stock shall be converted into 1/4 share of Acadia common stock and its pro rata share of $5 million in cash (the Class B Consideration , and together with the Class A Consideration, in the aggregate, the Merger Consideration) such that following the consummation of the Transaction, the aggregate shareholders of PHC (including in-the-money option and warrant holders calculated on a treasury method basis) in the aggregate will own 22.5% of the fully-diluted common shares of Acadia. We further understand that Acadia currently is a wholly owned subsidiary of Acadia Healthcare Holdings, LLC (Holdings) and that in connection with the Transaction, Acadia will become the corporate successor to Holdings. All information provided to us or reviewed by us with respect to Acadia and Holdings has been at the Holdings level and we have been informed, and assumed, that there is no difference between the management, operating results, financial position and other aspects of Acadia and Holdings in any respect material to our analyses.

The Board of Directors (the Board) of PHC has requested that Stout Risius Ross, Inc. (SRR) render an opinion (the Opinion) to the Board with respect to the fairness, from a financial point of view, as of the date hereof, (i) to the holders of shares of PHC Class A common stock, of the Class A Consideration to be received by them (in the aggregate), and (ii) to the holders of shares of PHC common stock, of the Merger Consideration to be received them (in the aggregate), in each case pursuant to the Transaction.

We have not been requested to opine as to, and our Opinion does not in any manner address: (i) the Company s underlying business decision to proceed with or effect the Transaction, (ii) the amount of the Class B Consideration, any distribution paid to Acadia shareholders, the allocation of the Merger Consideration among the PHC shareholders or the amount per share of the Merger Consideration, the amount of the Class A Consideration relative to the Class B Consideration or the Merger Consideration, or any other term or condition of any agreement or document related to, or the form or any other portion or aspect of, the Transaction, except as stated in the final paragraph of this letter, or (iii) the solvency, creditworthiness or fair value of the Company, Acadia or any other participant in the Transaction under any applicable laws relating to bankruptcy, insolvency or similar matters. Further, we were not requested to consider, and our Opinion does not address, the merits of the Transaction relative to any alternative business strategies that may have existed for the Company or the effect of any other transactions in which the Company might have engaged, nor do we offer any opinion as to the terms of the Transaction. Moreover, we were not engaged to

recommend, and we did not recommend, a Transaction price or exchange ratio, or participate in, and we did not participate in, the Transaction negotiations. Furthermore, no opinion, counsel or interpretation is intended in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. This Opinion does not constitute, and we have not made, a recommendation to the Board or any

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security holder of PHC or any other person as to how to act or vote with respect to the Transaction or otherwise. We have also assumed, with your consent, that the final executed form of the Merger Agreement will not differ from the draft of the Merger Agreement that we have examined, that the conditions to the Transaction as set forth in the Merger Agreement will be satisfied, and that the Transaction will be consummated on a timely basis in the manner contemplated by the Merger Agreement, without any limitations, restrictions, or conditions, regulatory or otherwise.

Our Opinion is intended to be utilized by the Board as only one input to consider in its process of analyzing the Transaction.

In connection with our Opinion, we have made such reviews, analyses, and inquiries as we have deemed necessary and appropriate under the circumstances. The sources of information used in performing our analysis included, but were not limited to:

PHC s 10-K filings for the fiscal years ended June 30, 2006 through 2010;

PHC s 10-Q filing for the quarter ended March 31, 2011;

Holdings audited financial statements for the years ending December 31, 2006 though 2010;

Youth and Family Centered Services (YFCS) audited financial statements for the years ending December 31, 2006 through 2010;

Holdings internally prepared unaudited financial statements for the three-month periods ended March 31, 2010 and 2011;

YFCS internally prepared unaudited financial statements for the three-month periods ended March 31, 2010 and 2011;

Draft of the Merger Agreement, dated May 19, 2011;

PHC s five-year financial forecast for the fiscal years ending December 31, 2011 through 2015 and subsequent growth rates prepared by PHC management;

Holdings five-year financial forecast (including YFCS) for the fiscal years ending December 31, 2011 through 2015 and subsequent growth rates prepared by Holdings management;

Combined (both PHC and Holdings) five-year financial forecast for the fiscal years ending December 31, 2011 through 2015 and subsequent growth rates prepared by PHC and Holdings management;

A review of publicly available financial data of certain publicly traded companies that we deemed relevant;

A review of publicly available information regarding certain publicly available merger and acquisition transactions that we deemed relevant;

A review of other financial and other information for PHC and Holdings that was publicly available or provided to us by management of PHC or Holdings;

Discussions with PHC and Holdings management concerning their business, industry, history, and prospects;

Discussions with PHC s financial advisors, Jefferies & Company, Inc.; and

An analysis of other facts and data resulting in our conclusions.

We have assumed that the assets, liabilities, financial condition, and prospects of PHC and Acadia as of the date of this letter have not changed materially since the date of the most recent financial information made available to us. We also have assumed and relied upon the accuracy and completeness of all financial and other information that was publicly available, furnished by PHC or Acadia, or otherwise reviewed by or discussed with us, and of the representations and warranties of PHC and Acadia contained in the draft Merger Agreement, in each case without independent verification of such information. We have assumed, without independent verification, that the financial forecasts and projections, as well as the synergy estimates, provided to us have been reasonably prepared and reflect the

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best currently available estimates of the future financial results of the Company, Acadia and the combined company, and represent reasonable estimates, and we have relied upon such forecasts, projections and estimates in arriving at our Opinion. We have not been engaged to assess the reasonableness or achievability of such forecasts, projections and estimates or the assumptions upon which they were based, and we express no view as to the forecasts, projections, estimates, or assumptions. We have assumed that the Transaction will be consummated on the terms described in the Merger Agreement, without any waiver of any material terms or conditions by PHC or Acadia.

We have not conducted any physical inspection, evaluation or appraisal of PHC s or Holdings facilities, assets or liabilities. Our Opinion is necessarily based on business, economic, market, and other conditions as they exist and can be evaluated by us at the date of this letter. It should be noted that although subsequent developments may affect this Opinion, we do not have any obligation to update, revise, or reaffirm our Opinion. We reserve the right, however, to withdraw, revise, or modify our Opinion based upon additional information that may be provided to or obtained by us after the issuance of the Opinion that suggests, in our judgment, a material change in the assumptions upon which our Opinion is based.

SRR conducted its analyses at the request of the Board to provide a particular perspective of the Transaction. In so doing, SRR did not form a conclusion as to whether any individual analysis, when considered independently of the other analyses conducted by SRR, supported or failed to support our Opinion. SRR does not specifically rely or place any specific weight on any individual analysis. Rather, SRR deems that the analyses, taken as a whole, support our Opinion. Accordingly, SRR believes that the analyses must be considered in their entirety, and that selecting portions of the analyses or the factors we considered, without considering all analyses and factors together, could create an imperfect view of the processes underlying the analyses performed by SRR in connection with the preparation of the Opinion.

Our Opinion is furnished for the use and benefit of the Board in connection with its evaluation of the Transaction and is not intended to be used, and may not be used, for any other purpose, without our express, prior written consent. We have acted as a financial advisor to the Board and will receive a fee for our services, however our compensation for providing services to the Board is neither based upon nor contingent on the results of our engagement or the consummation of the proposed Transaction. In addition, PHC has agreed to indemnify us for certain liabilities arising out of our engagement. We have not previously provided financial advisory services to PHC, Holdings or Acadia. We have not been requested to opine to, and this Opinion does not address, the fairness of the amount or nature of the compensation to any of PHC s officers, directors or employees, or class of such persons, relative to the compensation to PHC s public shareholders. The issuance of this Opinion has been approved by a committee of SRR authorized to approve opinions of this nature.

This Opinion was prepared at the request of the Board for its confidential use and may not be reproduced, disseminated, quoted, or referred to at any time in any manner or for any purpose without our prior written consent. Notwithstanding the foregoing, the Company may reproduce this letter in its entirety in any filing with the Securities and Exchange Commission required to be made by the Company in respect of the Transaction pursuant to the Securities Act of 1933 or the Securities Exchange Act of 1934, provided that any description of or reference to us or summary of this Opinion or our analyses therein is in a form acceptable to us.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, that (i) the Merger Consideration to be received by the holders of outstanding shares of PHC s common stock (in the aggregate) is fair, from a financial point of view, to such holders, and (ii) the Class A Consideration to be received by the holders of the outstanding shares of PHC s Class A common stock (in the aggregate) is fair, from a financial point of view, to such holders.

Yours very truly,

/s/ Stout Risius Ross, Inc.
STOUT RISIUS ROSS, INC.

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Annex D

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

ACADIA HEALTHCARE COMPANY, INC.

* * * * *

Adopted in accordance with the provisions
of §§242 and 245 of the General Corporation Law
of the State of Delaware

* * * * *

Acadia Healthcare Company, Inc., a corporation duly organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the Corporation), does hereby certify as follows:

That the Certificate of Incorporation of the Corporation was originally filed on May 13, 2011. That the Certificate of Incorporation be, and hereby is, amended and restated in its entirety to read as follows as set forth in the attached Exhibit A.

That the Board of Directors of the Corporation approved the Amended and Restated Certificate of Incorporation by unanimous written consent pursuant to the provisions of Section 141(f) and 242 of the General Corporation Law of the State of Delaware and directed that such amendment be submitted to the stockholders of the Corporation entitled to vote thereon for their consideration, approval and adoption thereof.

That the stockholders entitled to vote thereon approved the Amended and Restated Certificate of Incorporation by written consent in accordance with Section 228, 242 and 245 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the undersigned does hereby certify under penalties of perjury that this Amended and Restated Certificate of Incorporation is the act and deed of the undersigned and the facts stated herein are true and accordingly has hereunto set his hand this day of , 2011.

ACADIA HEALTHCARE COMPANY, INC.

By: /s/ Joey Jacobs

Joey Jacobs

Its: Chief Executive Officer

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EXHIBIT A

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

ACADIA HEALTHCARE COMPANY, INC.

ARTICLE ONE

The name of the Corporation is Acadia Healthcare Company, Inc. (the Corporation).

ARTICLE TWO

The address of the Corporation s registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle, 19801. The name of its registered agent at such address is The Corporation Trust Company. Subject to the applicable filing requirements of the General Corporation Law of the State of Delaware (the DGCL), the registered office and/or registered agent of the Corporation may be changed from time to time by resolution of the Board of Directors of the Corporation (the Board of Directors).

ARTICLE THREE

The nature of the business of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the DGCL.

ARTICLE FOUR

PART A. AUTHORIZED SHARES

The total number of shares of all classes of capital stock which the Corporation shall have authority to issue is 100,000,000 shares, consisting of:

1. 10,000,000 shares of Preferred Stock, par value $0.01 per share (the Preferred Stock); and

2. 90,000,000 shares of Common Stock, par value $0.01 per share (the Common Stock).

The Preferred Stock and the Common Stock shall have the rights, preferences and limitations set forth below.

PART B. PREFERRED STOCK

The Board of Directors is authorized, subject to limitations prescribed by law, to provide by resolution or resolutions for the issuance of shares of Preferred Stock in one or more series, and by filing a certificate pursuant to the DGCL, to establish the number of shares to be included in each such series, and to fix the voting powers (if any), designations, powers, preferences, and relative, participating, optional or other rights, if any, of the shares of each such series, and any qualifications, limitations or restrictions thereof. Within the limitations or restrictions stated in any series of Preferred Stock, the Board of Directors may increase or decrease (but not below the number of shares of any such series of Preferred Stock then outstanding) by resolution the number of shares of any such series of Preferred Stock. The number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority in voting power of the outstanding

shares of capital stock of the Corporation entitled to vote thereon, without the separate vote of the holders of the Preferred Stock as a class irrespective of the provisions of Section 242(b)(2) of the DGCL, unless a vote of any such holders is required pursuant to the terms of any Preferred Stock designation.

PART C. COMMON STOCK

Except as otherwise provided by the DGCL or this Amended and Restated Certificate of Incorporation (this Certificate of Incorporation) and subject to the terms of any series of Preferred Stock, all of the voting power of the

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stockholders of the Corporation shall be vested in the holders of the Common Stock. Each share of Common Stock shall entitle the holder thereof to one vote for each share held by such holder on all matters voted upon by the stockholders of the Corporation; provided, however, that, except as otherwise required by the terms of any series of Preferred Stock, holders of Common Stock, as such, shall not be entitled to vote on any amendment to this Certificate of Incorporation (including any certificate of designations relating to any series of Preferred Stock) that relates solely to the terms of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together with the holders of one or more other such series, to vote thereon pursuant to this Certificate of Incorporation (including any certificate of designations relating to any series of Preferred Stock).

ARTICLE FIVE

The Corporation is to have perpetual existence.

ARTICLE SIX

Section 1. *Board of Directors*. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to the powers and authority expressly conferred upon them by statute or by this Certificate of Incorporation or the Bylaws of the Corporation, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation.

Section 2. *Number of Directors*. Subject to any rights of the holders of any class or series of Preferred Stock to elect additional directors under specified circumstances, the number of directors which shall constitute the Board of Directors shall be fixed exclusively from time to time by resolution adopted by the affirmative vote of a majority of the directors then in office.

Section 3. *Classes of Directors*. Beginning immediately following the effective time of the merger of PHC, Inc. with and into a wholly-owned subsidiary of the Corporation (the Effective Time), the directors of the Corporation, other than those who may be elected by the holders of any series of Preferred Stock under specified circumstances, shall be divided into three classes, hereby designated Class I, Class II and Class III (each a Class).

Section 4. *Term of Office*. Subject to the terms of any series of Preferred Stock, the directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote in the election of directors; provided that, whenever the holders of one or more classes or series of capital stock of the Corporation are entitled to elect, separated as a class, one or more directors pursuant to the provisions of this Certificate of Incorporation (including, but not limited to, any duly authorized certificate of designation), such directors shall be elected by a plurality of the votes of such classes or series present in person or represented by proxy at the meeting and entitled to vote in the election of such directors. The term of office of the initial Class I directors shall expire at the first succeeding annual meeting of stockholders after the Effective Time, the term of office of the initial Class II directors shall expire at the second succeeding annual meeting of stockholders after the Effective Time and the term of office of the initial Class III directors shall expire at the third succeeding annual meeting of the stockholders after the Effective Time. For the purposes hereof, the Board of Directors may assign directors already in office to the initial Class I, Class II and Class III at the Effective Time. At each annual meeting of stockholders after the Effective Time, directors elected to replace those of a Class whose terms expire at such annual meeting shall be elected for a term expiring at the third succeeding annual meeting after their election and shall remain in office until their respective successors shall have been duly elected and qualified. After the Effective Time, each director shall hold office until the annual meeting of stockholders for the year in which such director s term expires and a successor is duly elected and qualified or until his or her earlier death, resignation or removal. Nothing in this Certificate of Incorporation shall preclude a director from serving consecutive terms. Elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

Section 5. *Newly-Created Directorships and Vacancies*. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, disqualification, removal from office or any other cause may be filled only by a majority of the directors then in office, although less than a quorum or by the sole remaining director. Notwithstanding the foregoing, to the fullest extent permitted by law, until

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such date as Waud Capital Partners, L.L.C. and its affiliates (collectively, the WCP Investors) no longer beneficially own at least 17.5% of the outstanding Common Stock of the Corporation, upon any vacancy in the Board of Directors for any reason of a director designated by a person or persons in accordance with the terms of the Stockholders Agreement to be entered into by and between the Corporation and the Stockholders party thereto on or about the Effective Time (as amended or restated from time to time, the Stockholders Agreement), the resulting vacancy on the Board of Directors shall be filled by a representative designated by the person(s) entitled to designate such director pursuant to the Stockholders Agreement. Prior to the Effective Time, a director chosen to fill a vacancy or a position resulting from an increase in the number of directors shall hold office until his or her successor is elected and qualified, or until his or her earlier death, resignation or removal. After the Effective Time, a director elected to fill a vacancy shall be elected for the unexpired term of his or her predecessor in office and until his or her successor is elected and qualified, or until his or her earlier death, resignation or removal. After the Effective Time, a director chosen to fill a position resulting from an increase in the number of directors shall hold office until the next election of the class for which such director shall have been chosen and until his or her successor is elected and qualified, or until his or her earlier death, resignation or removal. No decrease in the authorized number of directors shall shorten the term of any incumbent director.

Section 6. *Removal of Directors*. Subject to the rights of the holders of any series of Preferred Stock then outstanding, to the fullest extent permitted by law, (i) until such date as the WCP Investors no longer beneficially own at least 17.5% of the outstanding Common Stock of the Corporation (such date, the Trigger Date), a director may be removed at any time, either for or without cause, only upon either (a) the affirmative vote of the holders of eighty percent (80%) of the voting power of the capital stock of the Corporation outstanding and entitled to vote thereon or (b) if such director is being removed at the request of the person(s) entitled to designate such director in accordance with the Stockholders Agreement, by the affirmative vote of the holders of a majority of the voting power of the stock outstanding and entitled to vote thereon; and (ii) from and after the Trigger Date, a director may be removed from office only for cause and only by the affirmative vote of the holders of at least a majority of the voting power of the capital stock of the Corporation outstanding and entitled to vote thereon.

Section 7. *Bylaws*. In furtherance and not in limitation of the powers conferred upon it by the laws of the State of Delaware, the Board of Directors shall have the power to adopt, amend, alter or repeal the Corporation s Bylaws. In addition to any other vote required by law, the affirmative vote of a majority of the directors then in office shall be required to adopt, amend, alter or repeal the Corporation s Bylaws. The Corporation s Bylaws also may be adopted, amended, altered or repealed by the stockholders; provided, however, that in addition to any vote of the holders of any class or series of stock of the Corporation required by law or by this Certificate of Incorporation, the affirmative vote of the holders of at least a majority of the voting power of all of the then outstanding shares of the capital stock of the Corporation entitled to vote thereon, voting together as a single class shall be required for the stockholders to adopt, amend, alter or repeal any provisions of the Bylaws of the Corporation.

Section 8. *Advance Notice*. Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the Corporation shall be given in the manner provided in the Bylaws of the Corporation.

ARTICLE SEVEN

To the fullest extent permitted by the DGCL as it now exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader rights than permitted prior thereto), no director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages arising from a breach of fiduciary duty as a director. Any repeal or modification of the foregoing sentence shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification with respect to any act, omission or other matter occurring prior to the time of such repeal or

modification.

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ARTICLE EIGHT

Prior to the Effective Time, the stockholders of the Corporation may take any action by written consent in lieu of a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken and bearing the dates of signature of the stockholders who signed the consent or consents, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. On and after the Effective Time and subject to the rights of the holders of any series of Preferred Stock, (i) (A) until such time as WCP Investors no longer beneficially own at least a majority of the outstanding Common Stock of the Corporation, the stockholders of the Corporation may take any action by written consent in lieu of a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken and bearing the dates of signature of the stockholders who signed the consent or consents, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and (B) after such time, the stockholders may not take any action by written consent in lieu of a meeting, and must take any actions at a duly called annual or special meeting of stockholders and the power of stockholders to consent in writing without a meeting is specifically denied; and (ii) special meetings of stockholders of the Corporation may be called only by a resolution adopted by the Board of Directors, by at least the affirmative vote of the majority of the directors then in office.

ARTICLE NINE

Section 1. *Certain Acknowledgments*. In recognition of the fact that the Corporation, on the one hand, and the WCP Group (as defined below), on the other hand, may currently engage in, and may in the future engage in, the same or similar activities or lines of business and have an interest in the same areas and types of corporate opportunities, and in recognition of the benefits to be derived by the Corporation, through its continued corporate and business relations with the WCP Group (including possible service of directors, officers and employees of the WCP Group as directors, officers and employees of the Corporation), the provisions of this ARTICLE NINE are set forth to regulate and define the conduct of certain affairs of the Corporation and its Affiliated Companies, as they may involve the WCP Group, the powers, rights, duties and liabilities of the Corporation and its Affiliated Companies as well as the respective directors, officers, employees and stockholders thereof, and the powers, rights, duties and liabilities of the Corporation and its directors, officers, employees and stockholders in connection therewith.

Section 2. *Renouncement of Certain Corporate Opportunities*. To the fullest extent permitted by law: (i) the Corporation and its Affiliated Companies shall have no interest or expectancy in any corporate opportunity and no expectation that such corporate opportunity be offered to the Corporation or its Affiliated Companies, if such opportunity is one that any member of the WCP Group has acquired knowledge of or is otherwise pursuing, and any such interest or expectancy in any such corporate opportunity is hereby renounced, so that as a result of such renunciation, the corporate opportunity shall belong to the WCP Group; (ii) each member of the WCP Group shall have the right to, and shall have no duty (contractual or otherwise) not to, directly or indirectly: (A) engage in the same, similar or competing business activities or lines of business as the Corporation or its Affiliated Companies, (B) do business with any client or customer of the Corporation or its Affiliated Companies, or (C) make investments in competing businesses of the Corporation or its Affiliated Companies, and such acts shall not be deemed wrongful or improper; (iii) no member of the WCP Group shall be liable to the Corporation, its stockholders or its Affiliated Companies for breach of any duty (contractual or otherwise), including without limitation fiduciary duties, by reason of any such activities or of such Person s participation therein; and (iv) in the event that any member of the WCP Group acquires knowledge of a potential transaction or matter that may be a corporate opportunity for the Corporation or its Affiliated Companies, on the one hand, and any member of the WCP Group, on the other hand, or any other Person, no member of the WCP Group shall have any duty (contractual or otherwise), including without limitation fiduciary duties, to communicate, present or offer such corporate opportunity to the Corporation or its Affiliated

Companies and shall not be liable to the Corporation, its stockholders or its Affiliated Companies for breach of any duty (contractual or otherwise), including without limitation fiduciary duties, by reason of the fact that any member of the WCP Group directly or indirectly pursues or acquires such opportunity for itself, directs,

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sells, assigns or transfers such opportunity to another Person, or does not present or communicate such opportunity to the Corporation or its Affiliated Companies, even though such corporate opportunity may be of a character that, if presented to the Corporation or its Affiliated Companies, could be taken by the Corporation or its Affiliated Companies.

Section 3. *Certain Definitions*. For purposes of this ARTICLE NINE, (i) "WCP Group" means Waud Capital Partners, L.L.C., its affiliates and any of their respective managed investment funds and portfolio companies (other than the Corporation and its Affiliated Companies) and their respective partners, members, directors, employees, stockholders, agents, any successor by operation of law (including by merger) of any such person, and any entity that acquires all or substantially all of the assets of any such person in a single transaction or series of related transactions, in each case, whether or not any of the foregoing are serving as directors or officers of the Corporation or any Affiliated Company; (ii) "Affiliated Company" means any company or entity controlled by the Corporation.

Section 4. *Amendment of this Article*. Notwithstanding anything to the contrary elsewhere contained in this Certificate of Incorporation: (i) the affirmative vote of the holders of at least eighty percent (80%) of the voting power of all shares of Common Stock then outstanding, voting together as a single class, shall be required to alter, amend or repeal, or to adopt any provision inconsistent with, this ARTICLE NINE; (ii) neither the alteration, amendment or repeal of this ARTICLE NINE nor the adoption of any provision of this Amended and Restated Certificate of Incorporation inconsistent with this ARTICLE NINE shall eliminate or reduce the effect of this ARTICLE NINE in respect of any matter occurring, or any cause of action, suit or claim that, but for this ARTICLE NINE, would accrue or arise, prior to such alteration, amendment, repeal or adoption.

Section 5. *Deemed Notice*. Any person or entity purchasing or otherwise acquiring any interest in any shares of the Corporation shall be deemed to have notice of, and to have consented to, the provisions of this ARTICLE NINE.

Section 6. *Exception*. Notwithstanding the foregoing provisions of this ARTICLE NINE, the preceding provisions of this ARTICLE NINE shall not apply to any corporate opportunity which is expressly offered to a member of the WCP Group who is then a director or officer of the Corporation if such corporate opportunity is offered to such person in writing solely in his or her capacity as an officer or director of the Corporation, and the Corporation does not renounce any interest or expectancy in such opportunity.

ARTICLE TEN

Section 1. *Section 203 of the DGCL*. The Corporation expressly elects not to be governed by Section 203 of the DGCL.

Section 2. *Interested Stockholder Transactions*. Notwithstanding any other provision in this Certificate of Incorporation to the contrary, the Corporation shall not, after the Effective Time, engage in any Business Combination (as defined hereinafter) with any Interested Stockholder (as defined hereinafter) for a period of three years following the time that such stockholder became an Interested Stockholder, unless:

(a) prior to such time the Board of Directors approved either the Business Combination or the transaction which resulted in such stockholder becoming an Interested Stockholder;

(b) upon consummation of the transaction which resulted in such stockholder becoming an Interested Stockholder, such stockholder owned at least eighty-five percent (85%) of the Voting Stock (as defined hereinafter) of the Corporation outstanding at the time the transaction commenced, excluding for purposes of determining the Voting Stock outstanding (but not the outstanding Voting Stock owned by such stockholder) those shares owned (i) by Persons (as defined hereinafter) who are directors and also officers of the Corporation and (ii) employee stock plans of

the Corporation in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

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(c) at or subsequent to such time the Business Combination is approved by the Board of Directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least a majority of the outstanding Voting Stock which is not owned by such stockholder.

Section 3. *Exceptions to Prohibition on Interested Stockholder Transactions*. The restrictions contained in this ARTICLE TEN shall not apply if:

(a) a stockholder becomes an Interested Stockholder inadvertently and (i) as soon as practicable divests itself of ownership of sufficient shares so that the stockholder ceases to be an Interested Stockholder; and (ii) would not, at any time within the three-year period immediately prior to a Business Combination between the Corporation and such stockholder, have been an Interested Stockholder but for the inadvertent acquisition of ownership; or

(b) the Business Combination is proposed prior to the consummation or abandonment of and subsequent to the earlier of the public announcement or the notice required hereunder of a proposed transaction which (i) constitutes one of the transactions described in the second sentence of this Section 3(b) of this ARTICLE TEN; (ii) is with or by a Person who either was not an Interested Stockholder during the previous three years or who became an Interested Stockholder with the approval of the Board of Directors; and (iii) is approved or not opposed by a majority of the directors then in office (but not less than one) who were directors prior to any Person becoming an Interested Stockholder during the previous three years or were recommended for election or elected to succeed such directors by a majority of such directors. The proposed transactions referred to in the preceding sentence are limited to (x) a merger or consolidation of the Corporation (except for a merger in respect of which, pursuant to § 251(f) of the DGCL, no vote of the stockholders of the Corporation is required); (y) a sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions), whether as part of a dissolution or otherwise, of assets of the Corporation or of any direct or indirect majority-owned subsidiary of the Corporation (other than to any direct or indirect wholly-owned subsidiary or to the Corporation) having an aggregate market value equal to fifty percent (50%) or more of either that aggregate market value of all of the assets of the Corporation determined on a consolidated basis or the aggregate market value of all the outstanding Stock (as defined hereinafter) of the Corporation; or (z) a proposed tender or exchange offer for fifty percent (50%) or more of the outstanding Voting Stock of the Corporation. The Corporation shall give not less than 20 days notice to all Interested Stockholders prior to the consummation of any of the transactions described in clause (x) or (y) of the second sentence of this Section 3(b) of this ARTICLE TEN.

Section 4. *Definitions*. As used in this ARTICLE TEN only, and unless otherwise provided by the express terms of this ARTICLE TEN, the following terms shall have the meanings ascribed to them as set forth in this Section 4 of this ARTICLE TEN:

(a) *Affiliate* means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, another Person;

(b) *Associate,* when used to indicate a relationship with any Person, means: (i) any corporation, partnership, unincorporated association or other entity of which such Person is a director, officer or partner or is, directly or indirectly, the owner of twenty percent (20%) or more of any class of Voting Stock; (ii) any trust or other estate in which such Person has at least a twenty percent (20%) beneficial interest or as to which such Person serves as trustee or in a similar fiduciary capacity; and (iii) any relative or spouse of such Person, or any relative of such spouse, who has the same residence as such Person;

(c) *Business Combination* means:

(i) any merger or consolidation of the Corporation or any direct or indirect majority-owned subsidiary of the Corporation with (A) the Interested Stockholder, or (B) with any Person if the merger or consolidation is caused by the Interested Stockholder and as a result of such merger or consolidation Section 2 of this ARTICLE TEN is not applicable to the surviving entity;

(ii) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions), except proportionately as a stockholder of the Corporation, to or with the

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Interested Stockholder, whether as part of a dissolution or otherwise, of assets of the Corporation or of any direct or indirect majority-owned subsidiary of the Corporation which assets have an aggregate market value equal to ten percent (10%) or more of either the aggregate market value of all the assets of the Corporation determined on a consolidated basis or the aggregate market value of all the outstanding Stock of the Corporation; or

(iii) any transaction or series of transactions which results in the issuance or transfer by the Corporation or by any direct or indirect majority-owned subsidiary of the Corporation of ten percent (10%) or more of any class or series of Stock of the Corporation or of such subsidiary to the Interested Stockholder, except: (A) pursuant to the exercise, exchange or conversion of securities exercisable for, exchangeable for or convertible into Stock of the Corporation or any such subsidiary which securities were outstanding prior to the time that the Interested Stockholder became such; (B) pursuant to a merger under § 251(g) or § 253 of the DGCL; (C) pursuant to a dividend or distribution paid or made, or the exercise, exchange or conversion of securities exercisable for, exchangeable for or convertible into Stock of the Corporation or any such subsidiary which security is distributed, pro rata to all holders of a class or series of Stock of the Corporation subsequent to the time the Interested Stockholder became such; or (D) pursuant to an exchange offer by the Corporation to purchase Stock made on the same terms to all holders of such Stock;

(d) *Control,* including the terms controlling, controlled by and under common control with, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of stock or other equity interests, by contract or otherwise. A Person who is the owner of twenty percent (20%) or more of the outstanding Voting Stock of any corporation, partnership, unincorporated association or other entity shall be presumed to have control of such entity, in the absence of proof by a preponderance of the evidence to the contrary; notwithstanding the foregoing, a presumption of control shall not apply where such Person holds Voting Stock, in good faith and not for the purpose of circumventing this ARTICLE TEN, as an agent, bank, broker, nominee, custodian or trustee for one or more owners who do not individually or as a group have control of such entity;

(e) *Interested Stockholder* means any Person (other than the Corporation and any direct or indirect majority-owned subsidiary of the Corporation) that (i) is the owner of fifteen percent (15%) or more of the outstanding Voting Stock of the Corporation, or (ii) is an Affiliate or Associate of the Corporation and was the owner of fifteen percent (15%) or more of the outstanding Voting Stock of the Corporation at any time within the three-year period immediately prior to the date on which it is sought to be determined whether such Person is an Interested Stockholder, and the Affiliates and Associates of such Person. Notwithstanding anything in this ARTICLE TEN to the contrary, the term Interested Stockholder shall not include: (x) Waud Capital Partners, L.L.C. or any investment fund managed by Waud Capital Partners, L.L.C. or any of their respective Affiliates or Associates from time to time and any other person or entity with whom any of the foregoing are acting as a group or in concert for the purpose of acquiring, holding, voting or disposing of shares of stock of the Corporation; (y) any Person who would otherwise be an Interested Stockholder because of a transfer, sale, assignment, conveyance, hypothecation, encumbrance, or other disposition of five percent (5%) or more of the outstanding Voting Stock of the Corporation (in one transaction or a series of transactions) by any party specified in the immediately preceding clause (x) to such Person; provided, however, that such Person was not an Interested Stockholder prior to such transfer, sale, assignment, conveyance, hypothecation, encumbrance, or other disposition; or (z) any Person whose ownership of shares in excess of the fifteen percent (15%) limitation set forth herein is the result of action taken solely by the Corporation, provided that, for purposes of this clause (z), such Person shall be an Interested Stockholder if thereafter such Person acquires additional shares of Voting Stock of the Corporation, except as a result of further action by the Corporation not caused, directly or indirectly, by such Person;

(f) *Owner,* including the terms own and owned, when used with respect to any Stock, means a Person that individually or with or through any of its Affiliates or Associates beneficially owns such Stock, directly or indirectly; or has (A) the right to acquire such Stock (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, exchange rights,

warrants or options, or otherwise; provided, however, that a

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Person shall not be deemed the owner of Stock tendered pursuant to a tender or exchange offer made by such Person or any of such Person s Affiliates or Associates until such tendered Stock is accepted for purchase or exchange; or (B) the right to vote such Stock pursuant to any agreement, arrangement or understanding; provided, however, that a Person shall not be deemed the owner of any Stock because of such Person s right to vote such Stock if the agreement, arrangement or understanding to vote such Stock arises solely from a revocable proxy or consent given in response to a proxy or consent solicitation made to ten (10) or more Persons; or has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting (except voting pursuant to a revocable proxy or consent as described in (B) of this Section 4(f) of ARTICLE TEN), or disposing of such Stock with any other Person that beneficially owns, or whose Affiliates or Associates beneficially own, directly or indirectly, such Stock; provided, that, for the purpose of determining whether a Person is an Interested Stockholder, the Voting Stock of the Corporation deemed to be outstanding shall include Stock deemed to be owned by the Person through application of this definition of owned but shall not include any other unissued Stock of the Corporation which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise;

(g) *Person* means any individual, corporation, partnership, unincorporated association or other entity;

(h) *Stock* means, with respect to any corporation, capital stock and, with respect to any other entity, any equity interest; and

(i) *Voting Stock* means, with respect to any corporation, Stock of any class or series entitled to vote generally in the election of directors and, with respect to any entity that is not a corporation, any equity interest entitled to vote generally in the election of the governing body of such entity. Every reference to a percentage of Voting Stock shall refer to such percentage of the votes of such Voting Stock.

ARTICLE ELEVEN

On or before the third anniversary of the Effective Date, neither the Corporation nor any of its direct or indirect subsidiaries shall adopt or otherwise implement any poison pill stockholder rights plan, or issue, sell or otherwise distribute any rights or securities to any person pursuant to such a plan, without first obtaining the approval of the holders of a majority of the voting power of the capital stock of the Corporation then outstanding. Any action taken in contravention of the preceding sentence shall be null and void.

ARTICLE TWELVE

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed herein and by the laws of the State of Delaware, and all rights conferred upon stockholders herein are granted subject to this reservation. Notwithstanding any other provision of this Certificate of Incorporation or the Bylaws of the Corporation, and notwithstanding the fact that a lesser percentage or separate class vote may be specified by law or otherwise, but in addition to any affirmative vote of the holders of any particular class or series of the capital stock required by law or otherwise, the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of capital stock of the Corporation entitled to vote thereon, other than shares owned by any Interested Stockholder, shall, voting together as a single class, be required to adopt any provision inconsistent with, to amend, alter, change or repeal any provision of ARTICLE SIX, SEVEN, EIGHT, TEN, ELEVEN, TWELVE, THIRTEEN or FOURTEEN of this Certificate of Incorporation.

ARTICLE THIRTEEN

Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the

Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director or officer of the Corporation to the Corporation or the Corporation s stockholders, (iii) any action asserting a claim

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against the Corporation arising pursuant to any provision of the Delaware General Corporation Law or the Corporation s Certificate of Incorporation or by-laws or (iv) any action asserting a claim against the Corporation governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this ARTICLE THIRTEEN.

ARTICLE FOURTEEN

To the extent that any provision of this Certificate of Incorporation is found to be invalid or unenforceable, such invalidity or unenforceability shall not affect the validity or enforceability of any other provision of this Certificate of Incorporation, and following any determination by a court of competent jurisdiction that any provision of this Certificate of Incorporation is invalid or unenforceable, this Certificate of Incorporation shall contain only such provisions (i) as were in effect immediately prior to such determination and (ii) were not so determined to be invalid or unenforceable.

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Annex E

AMENDED AND RESTATED BYLAWS
OF
ACADIA HEALTHCARE COMPANY, INC.

A Delaware corporation
(Adopted as of , 2011)

ARTICLE I

OFFICES

Section 1. *Offices*. Acadia Healthcare Company, Inc. (the Corporation) may have an office or offices other than its registered office at such place or places, either within or outside the State of Delaware, as the Board of Directors of the Corporation (the Board of Directors) may from time to time determine or the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. *Place of Meetings*. The Board of Directors may designate a place, if any, either within or outside the State of Delaware, as the place of meeting for any annual meeting or for any special meeting.

Section 2. *Annual Meeting*. An annual meeting of the stockholders shall be held each year at such time as is specified by the Board of Directors. At the annual meeting, stockholders shall elect directors to succeed those whose terms expire and transact such other business as properly may be brought before the annual meeting pursuant to Section 11 of ARTICLE II.

Section 3. *Special Meetings*. Special meetings of the stockholders may only be called in the manner provided in the Corporation s certificate of incorporation as then in effect (the Certificate of Incorporation). Business transacted at any special meeting of stockholders shall be limited to business brought by or at the direction of the Board of Directors. The Board of Directors may postpone or reschedule any previously scheduled special meeting.

Section 4. *Notice of Meetings*. Notice of the place, if any, date, and time of all meetings of the stockholders, the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting, and the record date for determining the stockholders entitled to vote at the meeting, if such date is different from the record date for determining stockholders entitled to notice of the meeting, shall be given, not less than 10 nor more than 60 days before the date on which the meeting is to be held, to each stockholder entitled to vote at such meeting as of the record date for determining the stockholders entitled to notice of the meeting, except as otherwise provided herein or required by law (meaning, here and hereinafter, as required from time to time by the General Corporation Law of the State of Delaware (the DGCL) or the Certificate of Incorporation).

(a) *Form of Notice*. All such notices shall be delivered in writing or by a form of electronic transmission if receipt thereof has been consented to by the stockholder to whom the notice is given. If mailed, such notice shall be deemed given when deposited in the United States mail, postage prepaid, addressed to the stockholder at his, her or its address

as the same appears on the records of the Corporation. If given by facsimile telecommunication, such notice shall be deemed given when directed to a number at which the stockholder has consented to receive notice by facsimile. Subject to the limitations of Section 4(c) of this ARTICLE II, if given by electronic transmission, such notice shall be deemed to be delivered: (i) by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (ii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (x) such posting and (y) the giving of such separate notice; and (iii) if by any other form of electronic transmission, when directed to the stockholder. An affidavit of the secretary or an assistant secretary of the Corporation, the transfer agent of the Corporation or any

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other agent of the Corporation that the notice has been given shall, in the absence of fraud, be *prima facie* evidence of the facts stated therein.

(b) *Waiver of Notice*. Whenever notice is required to be given under any provisions of the DGCL, the Certificate of Incorporation or these Amended and Restated Bylaws (these Bylaws), a written waiver thereof, signed by the stockholder entitled to notice, or a waiver by electronic transmission by the person or entity entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Neither the business to be transacted at, nor the purpose of, any meeting of the stockholders of the Corporation need be specified in any waiver of notice of such meeting. Attendance of a stockholder of the Corporation at a meeting of such stockholders shall constitute a waiver of notice of such meeting, except when the stockholder attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened.

(c) *Notice by Electronic Delivery*. Without limiting the manner by which notice otherwise may be given effectively to stockholders of the Corporation pursuant to the DGCL, the Certificate of Incorporation or these Bylaws, any notice to stockholders of the Corporation given by the Corporation under any provision of the DGCL, the Certificate of Incorporation or these Bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder of the Corporation to whom the notice is given. Any such consent shall be deemed revoked if: (i) the Corporation is unable to deliver by electronic transmission two (2) consecutive notices given by the Corporation in accordance with such consent; and (ii) such inability becomes known to the secretary or an assistant secretary of the Corporation or to the transfer agent or other person responsible for the giving of notice. However, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action. For purposes of these Bylaws, except as otherwise limited by applicable law, the term electronic transmission means any form of communication not directly involving the physical transmission of paper that creates a record that may be retained, retrieved and reviewed by a recipient thereof and that may be directly reproduced in paper form by such recipient through an automated process.

Section 5. *List of Stockholders*. The officer who has charge of the stock ledger of the Corporation shall prepare and make available, at least 10 days before each meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting; provided, however, that if the record date for determining the stockholders entitled to vote is less than 10 days before the meeting date, the list shall reflect the stockholders entitled to vote as of the 10th day before the meeting date, arranged in alphabetical order and showing the address of each such stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting: (a) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (b) during ordinary business hours, at the principal place of business of the Corporation. In the event the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. The list shall also be produced and kept at the time and place, if any, of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 6. *Quorum*. The holders of a majority of the outstanding voting power of all shares of capital stock entitled to vote, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for all purposes, unless or except to the extent that the presence of a larger number may be required by the DGCL, the Certificate of Incorporation or the rules of any stock exchange upon which the Corporation s securities are listed. If a quorum is not present, the chairman of the meeting or the holders of a majority of the voting power present in person or represented by proxy at the meeting and entitled to vote at the meeting may adjourn the meeting to another time and/or place. When a specified item of business requires a separate vote by a class or series (if the Corporation shall then have outstanding shares of more than one class or series) voting as a class or series, the holders of a majority of the voting power of such class or series shall constitute a quorum (as to such class or series) for the transaction of such

item of business.

Section 7. *Adjourned Meetings*. When a meeting is adjourned to another time and place, notice need not be given of the adjourned meeting if the time and place, if any, thereof and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such adjourned

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meeting are announced at the meeting at which the adjournment is taken; provided, however, that if the adjournment is for more than 30 days, a notice of the place, if any, date and time of the adjourned meeting and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. If after the adjournment a new record date for stockholders entitled to vote is fixed for the adjourned meeting, the Board of Directors shall fix a new record date for notice of such adjourned meeting, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors and, except as otherwise required by law, shall not be more than 60 days nor less than 10 days before the date of such adjourned meeting, and shall give notice of the adjourned meeting to each stockholder of record entitled to vote at such adjourned meeting as of the record date fixed for notice of such adjourned meeting. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting.

Section 8. *Vote Required*. When a quorum is present, the affirmative vote of the majority of voting power of capital stock present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders, unless by express provisions of an applicable law, the rules of any stock exchange upon which the Corporation s securities are listed, or the Certificate of Incorporation a different vote is required, in which case such express provision shall govern and control the decision of such question.

Section 9. *Voting Rights*. Except as otherwise provided by the DGCL, the Certificate of Incorporation, the certificate of designation relating to any outstanding class or series of preferred stock or these Bylaws, every stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of capital stock held by such stockholder.

Section 10. *Proxies*. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him or her by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally.

Section 11. *Business Brought Before a Meeting of the Stockholders.*

(a) *Annual Meetings*.

(i) At an annual meeting of the stockholders, only such nominations of persons for election to the Board of Directors shall be considered and such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, nominations and other business must be a proper matter for stockholder action under Delaware law and must be (A) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (B) brought before the meeting by or at the direction of the Board of Directors, (C) brought by a party to the Stockholders Agreement to be entered into by and between the Corporation and the stockholders party thereto on or about the date of these Bylaws (as amended or restated from time to time, the Stockholders Agreement) in accordance with the terms of the Stockholders Agreement with respect to such stockholder s rights provided therein or (D) otherwise properly brought before the meeting by a stockholder who (I) is a stockholder of record of the Corporation (and, with respect to any beneficial owner, if different, on whose behalf such business is proposed or such nomination or nominations are made, only if such beneficial owner is the beneficial owner of shares of the Corporation) both at the time the notice provided for in paragraph (a) of this Section 11 of this ARTICLE II is delivered to the secretary of the Corporation and on the record date for the determination of stockholders entitled to vote at the annual meeting of stockholders, (II) is entitled to vote at the meeting, and (III) complies with the notice procedures set forth in paragraph (a) of this Section 11 of this ARTICLE II. For

nominations or other business to be properly brought before an annual meeting by a stockholder, the stockholder must either have the right to nominate a director under the Stockholders Agreement or have given timely notice thereof in writing and in proper form to the secretary of the Corporation. To be timely, a stockholder s notice must be delivered to or mailed and received at the principal executive offices of the Corporation, not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the first anniversary of the preceding year s annual meeting (provided, however, that in the event that the date of the annual meeting is more than thirty (30) days before or more than seventy (70) days

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after such anniversary date, notice by the stockholder must be so delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on which Public Announcement of the date of such meeting is first made by the Corporation). In no event shall any adjournment, deferral or postponement of an annual meeting or the Public Announcement thereof commence a new time period (or extend any time period) for the giving of a stockholder s notice as described above. Notwithstanding anything in this paragraph to the contrary, in the event that the number of directors to be elected to the Board of Directors at an annual meeting is increased and there is no Public Announcement by the Corporation naming the nominees for the additional directorships at least one hundred (100) days prior to the first anniversary of the preceding year s annual meeting, a stockholder s notice required by paragraph (a) of this Section 11 of this ARTICLE II shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the secretary at the principal executive offices of the Corporation not later than the close of business on the tenth (10th) day following the day on which such Public Announcement is first made by the Corporation.

(ii) Other than a nomination of a person pursuant to the terms of the Stockholders Agreement, a stockholder s notice providing for the nomination of a person or persons for election as a director or directors of the Corporation shall set forth (A) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination is made (and for purposes of clauses (II) through (IX) below, including any interests described therein held by any affiliates or associates (each within the meaning of Rule 12b-2 under the Securities Exchange Act of 1934 (the Exchange Act) for purposes of these Bylaws) of such stockholder or beneficial owner or by any member of such stockholder s or beneficial owner s immediate family sharing the same household, in each case as of the date of such stockholder s notice, which information shall be confirmed or updated, if necessary, by such stockholder and beneficial owner as of the record date for determining the stockholders entitled to notice of the meeting of stockholders and as of the date that is ten (10) business days prior to such meeting of the stockholders or any adjournment or postponement thereof, and such confirmation or update shall be received by the Secretary at the principal executive offices of the Corporation not later than the close of business on the fifth business day after the record date for the meeting of stockholders (in the case of the update and supplement required to be made as of the record date), and not later than the close of business on the eighth business day prior to the date for the meeting of stockholders or any adjournment or postponement thereof (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting of stockholders or any adjournment or postponement thereof)) (I) the name and address of such stockholder, as they appear on the Corporation s books, and of such beneficial owner, (II) the class or series and number of shares of capital stock of the Corporation which are, directly or indirectly, beneficially owned (within the meaning of Rule 13d-3 under the Exchange Act) (provided that a person shall in all events be deemed to beneficially own any shares of any class or series and number of shares of capital stock of the Corporation as to which such person has a right to acquire beneficial ownership at any time in the future) and owned of record by such stockholder or beneficial owner, (III) the class or series, if any, and number of options, warrants, puts, calls, convertible securities, stock appreciation rights, or similar rights, obligations or commitments with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares or other securities of the Corporation or with a value derived in whole or in part from the value of any class or series of shares or other securities of the Corporation, whether or not such instrument, right, obligation or commitment shall be subject to settlement in the underlying class or series of shares or other securities of the Corporation (each a Derivative Security), which are, directly or indirectly, beneficially owned by such stockholder or beneficial owner, (IV) any agreement, arrangement, understanding, or relationship, including any repurchase or similar so-called stock borrowing agreement or arrangement, engaged in, directly or indirectly, by such stockholder or beneficial owner, the purpose or effect of which is to mitigate loss to, reduce the economic risk (of ownership or otherwise) of any class or series of capital stock or other securities of the Corporation by, manage the risk of share price changes for, or increase or decrease the voting power of, such stockholder or beneficial owner with respect to any class or series of capital stock or other securities of the Corporation, or that provides, directly or indirectly, the opportunity to profit from any decrease in the price or value of any class or series or capital stock or other securities of the Corporation, (V) a

description of any other direct or indirect opportunity to profit or share in any profit (including any performance-based fees) derived from any increase or decrease in the value of shares or other securities of the Corporation, (VI) any proxy, contract, arrangement, understanding or

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relationship pursuant to which such stockholder or beneficial owner has a right to vote any shares or other securities of the Corporation, (VII) any rights to dividends on the shares of the Corporation owned beneficially by such stockholder or such beneficial owner that are separated or separable from the underlying shares of the Corporation, (VIII) any proportionate interest in shares of the Corporation or Derivative Securities held, directly or indirectly, by a general or limited partnership in which such stockholder or beneficial owner is a general partner or, directly or indirectly, beneficially owns an interest in a general partner, if any, (IX) a description of all agreements, arrangements, and understandings between such stockholder or beneficial owner and any other person(s) (including their name(s)) in connection with or related to the ownership or voting of capital stock of the Corporation or Derivative Securities, (X) any other information relating to such stockholder or beneficial owner that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for the election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder, (XI) a statement as to whether either such stockholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of at least the percentage of the Corporation s voting shares required under applicable law to elect such stockholder s nominees and/or otherwise to solicit proxies from the stockholders in support of such nomination and (XII) a representation that the stockholder is a holder of record of shares of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such nomination, and (B) as to each person whom the stockholder proposes to nominate for election or reelection as a director, (I) all information relating to such person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to the Exchange Act and the rules and regulations promulgated thereunder (including such person s written consent to being named in the proxy statement as a nominee and to serving as a director if elected), (II) a description of all direct and indirect compensation and other material agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such stockholder or beneficial owner, if any, and their respective affiliates and associates, or others acting in concert therewith, on the one hand, and each proposed nominee and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the stockholder making the nomination and any beneficial owner on whose behalf the nomination is made, or any affiliate or associate thereof or person acting in concert therewith, were the registrant for purposes of such rule and the nominee were a director or executive officer of such registrant, (III) a completed and signed questionnaire regarding the background and qualifications of such person to serve as a director, a copy of which may be obtained upon request to the secretary of the Corporation, (IV) all information with respect to such person that would be required to be set forth in a stockholder s notice pursuant to this Section 11 of this ARTICLE II if such person were a stockholder or beneficial owner, on whose behalf the nomination was made, submitting a notice providing for the nomination of a person or persons for election as a director or directors of the Corporation in accordance with this Section 11 of this ARTICLE II, and (V) such additional information that the Corporation may reasonably request to determine the eligibility or qualifications of such person to serve as a director or an independent director of the Corporation, or that could be material to a reasonable stockholder s understanding of the qualifications and/or independence, or lack thereof, of such nominee as a director.

(iii) Other than business proposed to be brought before a meeting of stockholders as contemplated by the Stockholders Agreement or the nomination of persons for election to the Board of Directors, a stockholder s notice regarding business proposed to be brought before a meeting of stockholders shall set forth (A) as to the stockholder giving notice and the beneficial owner, if any, on whose behalf the proposal is made, the information called for by clauses (A)(I) through (A)(IX) of the immediately preceding paragraph (ii) (including any interests described therein held by any affiliates or associates of such stockholder or beneficial owner or by any member of such stockholder s or beneficial owner s immediate family sharing the same household, in each case as of the date of such stockholder s notice, which information shall be confirmed or updated, if necessary, by such stockholder and beneficial owner as of the record date for determining the stockholders entitled to notice of the meeting of stockholders and as of the date that is ten (10) business days prior to such meeting of the stockholders or any adjournment or postponement thereof,

and such confirmation or update shall be received by the Secretary at the principal executive offices of the Corporation not later than the close of business on the fifth business day after the record date for the meeting of stockholders (in the case of the update and supplement required to be made as of the record date), and not later than the close of business on the eighth business day prior to the date for the meeting of

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stockholders or any adjournment or postponement thereof (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting of stockholders or any adjournment or postponement thereof)), (B) a brief description of (I) the business desired to be brought before such meeting, (II) the reasons for conducting such business at the meeting and (III) any material interest of such stockholder or beneficial owner in such business, including a description of all agreements, arrangements and understandings between such stockholder or beneficial owner and any other person(s) (including the name(s) of such other person(s)) in connection with or related to the proposal of such business by the stockholder, (C) as to the stockholder giving notice and the beneficial owner, if any, on whose behalf the nomination is made, (I) a statement as to whether either such stockholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of at least the percentage of the Corporation s voting shares required under applicable law to approve the proposal and/or otherwise to solicit proxies from stockholders in support of such proposal and (II) any other information relating to such stockholder or beneficial owner that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for the election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder, (D) if the matter such stockholder proposes to bring before any meeting of stockholders involves an amendment to the Corporation s Bylaws, the specific wording of such proposed amendment, (E) a representation that the stockholder is a holder of record of shares of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business and (F) such additional information that the Corporation may reasonably request regarding such stockholder or beneficial owner, if any, and/or the business that such stockholder proposes to bring before the meeting. The foregoing notice requirements shall be deemed satisfied by a stockholder if the stockholder has notified the Corporation of his or her intention to present a proposal at an annual meeting in compliance with Rule 14a-8 (or any successor thereof) promulgated under the Exchange Act and such stockholder s proposal has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting.

(iv) The presiding officer of an annual meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not properly made or any business was not properly brought before the meeting, as the case may be, in accordance with the provisions of this Section 11 of this ARTICLE II; if he or she should so determine, he or she shall so declare to the meeting and any such nomination not properly made or any business not properly brought before the meeting, as the case may be, shall not be transacted.

(b) *Special Meetings of Stockholders*. Only such business shall be conducted at a special meeting of stockholders as is a proper matter for stockholder action under Delaware law and as shall have been brought before the meeting by or at the direction of the Board of Directors or as contemplated by the Stockholders Agreement. The notice of such special meeting shall include the purpose for which the meeting is called. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation s notice of meeting (i) by or at the direction of the Board of Directors or (ii) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who (A) is a stockholder of record of the Corporation (and, with respect to any beneficial owner, if different, on whose behalf such nomination or nominations are made, only if such beneficial owner is the beneficial owner of shares of the Corporation) both at the time the notice provided for in paragraph (b) of this Section 11 of this ARTICLE II is delivered to the Corporation s secretary and on the record date for the determination of stockholders entitled to vote at the special meeting, (B) is entitled to vote at the meeting and upon such election, and (C) complies with the notice procedures set forth in the third sentence of paragraph (b) of this Section 11 of this ARTICLE II. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation s notice of meeting, if the stockholder s notice required by paragraph (a)(ii) of this Section 11 of this ARTICLE II shall be delivered to the Corporation s secretary at the principal executive offices of the Corporation not earlier than the close of business on the one hundred twentieth (120th) day prior to such special meeting and not later than the close of business on the later of the ninetieth

(90th) day prior to such special meeting or the tenth (10th) day following the day on which Public Announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall any adjournment,

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deferral or postponement of a special meeting or the public announcement thereof commence a new time period (or extend any time period) for the giving of a stockholder s notice as described above.

(c) *General*.

(i) Only such persons who are nominated in accordance with the procedures set forth in the Stockholders Agreement or this Section 11 of this ARTICLE II shall be eligible to be elected at an annual or special meeting of stockholders of the Corporation to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 11 of this ARTICLE II. Notwithstanding the foregoing provisions of this Section 11 of this ARTICLE II, other than nominations pursuant to the Stockholders Agreement, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the Corporation to present a nomination or business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation.

(ii) For purposes of this section, Public Announcement shall mean disclosure in a press release reported by Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

(iii) Notwithstanding the foregoing provisions of this Section 11 of this ARTICLE II, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations promulgated thereunder with respect to the matters set forth in this Section 11 of this ARTICLE II; provided, however, that any references in these Bylaws to the Exchange Act or the rules and regulations promulgated thereunder are not intended to and shall not limit the requirements applicable to any nomination or other business to be considered pursuant to this Section 11 of this ARTICLE II.

(iv) Nothing in these Bylaws shall be deemed to (A) affect any rights of stockholders to request inclusion of proposals in the Corporation s proxy statement pursuant to Rule 14a-8 under the Exchange Act, (B) confer upon any stockholder a right to have a nominee or any proposed business included in the Corporation s proxy statement, or (C) affect any rights of the holders of any series of preferred stock to elect directors pursuant to any applicable provisions of the Certificate of Incorporation.

Section 12. *Fixing a Record Date for Stockholder Meetings*. In order that the Corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the Board of Directors may fix, except as otherwise required by law, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than 60 days nor less than 10 days before the date of such meeting. If the Board of Directors so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the Board of Directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of and to vote at a meeting of stockholders shall be the close of business on the day next preceding the day on which notice is first given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for determination of stockholders entitled to vote at the adjourned meeting; and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determination of stockholders entitled to vote in accordance with the foregoing provisions of this Section 12 of this ARTICLE II at the adjourned meeting.

Section 13. *Conduct of Meetings*.

(a) *Generally*. Meetings of stockholders shall be presided over by a chairman designated by the Board of Directors. The Secretary shall act as secretary of the meeting, but in the Secretary s absence or disability the chairman of the meeting may appoint any person to act as secretary of the meeting.

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(b) *Rules, Regulations and Procedures*. The Board of Directors may adopt by resolution such rules, regulations and procedures for the conduct of any meeting of stockholders of the Corporation as it shall deem appropriate, including, without limitation, such guidelines and procedures as it may deem appropriate regarding the participation by means of remote communication of stockholders and proxyholders not physically present at a meeting. Except to the extent inconsistent with such rules, regulations and procedures as adopted by the Board of Directors, the chairman of any meeting of stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) rules and procedures for maintaining order at the meeting and the safety of those present; (iii) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as shall be determined; (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (v) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure. The chairman of the meeting shall announce at the meeting when the polls for each matter to be voted upon at the meeting will be opened and closed. After the polls close, no ballots, proxies or votes or any revocations or changes thereto may be accepted. The chairman shall have the power to adjourn the meeting to another place, if any, date and time.

(c) *Inspectors of Elections*. The Corporation may, and to the extent required by law shall, in advance of any meeting of stockholders, appoint one or more inspectors of election to act at the meeting and make a written report thereof. One or more other persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Unless otherwise required by law, inspectors may be officers, employees or agents of the Corporation. Each inspector, before entering upon the discharge of such inspector s duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of such inspector s ability. The inspector shall have the duties prescribed by law and shall take charge of the polls and, when the vote is completed, shall make a certificate of the result of the vote taken and of such other facts as may be required by law.

ARTICLE III

DIRECTORS

Section 1. *General Powers*. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to such powers as are herein and in the Certificate of Incorporation expressly conferred upon it, the Board of Directors shall have and may exercise all the powers of the Corporation, subject to the provisions of the laws of the State of Delaware, the Certificate of Incorporation and these Bylaws.

Section 2. *Election*. Members of the Board of Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote in the election of directors; provided that, whenever the holders of any class or series of capital stock of the Corporation are entitled to elect one or more directors pursuant to the provisions of the Certificate of Incorporation (including, but not limited to, any duly authorized certificate of designation), such directors shall be elected by a plurality of the votes of such class or series present in person or represented by proxy at the meeting and entitled to vote in the election of such directors.

Section 3. *Annual Meetings*. The annual meeting of the Board of Directors shall be held without other notice than this Bylaw immediately after, and at the same place as, the annual meeting of stockholders.

Section 4. *Regular Meetings and Special Meetings*. Regular meetings, other than the annual meeting, of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by resolution of the Board of Directors and publicized among all directors. Special meetings of the Board of Directors may be called by the Chairman of the Board, if any, or upon the written request of at least a majority of the directors then in office.

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Section 5. *Notice of Meetings*. Notice of regular meetings of the Board of Directors need not be given except as otherwise required by law or these Bylaws. Notice of each special meeting of the Board of Directors, and of each regular and annual meeting of the Board of Directors for which notice shall be required, shall be given by the Secretary as hereinafter provided in this Section 5 of this ARTICLE III, in which notice shall be stated the time and place of the meeting. Notice of any special meeting, and of any regular or annual meeting for which notice is required, shall be given to each director at least (a) twenty-four (24) hours before the meeting if by telephone or by being personally delivered or sent by facsimile, telex, telecopy, email or similar means or (b) five (5) days before the meeting if delivered by mail to the director s residence or usual place of business. Such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage prepaid, or when transmitted if sent by telex, telecopy, email or similar means. Neither the business to be transacted at, nor the purpose of, any special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting. Any director may waive notice of any meeting by a writing signed by the director or by electronic transmission from the director entitled to the notice and filed with the minutes or corporate records.

Section 6. *Waiver of Notice and Presumption of Assent*. Any member of the Board of Directors or any committee thereof who is present at a meeting shall be conclusively presumed to have waived notice of such meeting except when such member attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Such right to dissent shall not apply to any member who voted in favor of such action.

Section 7. *Chairman of the Board, Quorum, Required Vote and Adjournment*. The Board of Directors may elect, by the affirmative vote of a majority of the directors then in office, a Chairman of the Board. Subject to the provisions of these Bylaws and the direction of the Board of Directors, he or she shall perform all duties and have all powers which are commonly incident to the position of Chairman of the Board or which are delegated to him or her by the Board of Directors, shall preside at all meetings of the stockholders and Board of Directors at which he or she is present and shall have such powers and perform such duties as the Board of Directors may from time to time prescribe. If the Chairman of the Board is not present at a meeting of the stockholders or the Board of Directors, a majority of the directors present at such meeting shall elect one of the directors present at the meeting to so preside. A majority of the directors then in office shall constitute a quorum for the transaction of business. Unless by express provision of an applicable law, the Certificate of Incorporation or these Bylaws a different vote is required, the affirmative vote of a majority of directors present at a meeting at which a quorum is present shall be the act of the Board of Directors. At any meeting of the Board of Directors, business shall be transacted in such order and manner as the Board of Directors may from time to time determine. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may, to the fullest extent permitted by law, adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 8. *Committees*. The Board of Directors (a) may, by resolution passed by a majority of the directors then in office, designate one or more committees, including an executive committee, consisting of one or more of the directors of the Corporation and (b) shall during such period of time as any securities of the Corporation are listed on any exchange, by resolution passed by a majority of the directors then in office, designate all committees required by the rules and regulations of such exchange. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Except to the extent restricted by applicable law or the Certificate of Incorporation, each such committee, to the extent provided in the resolution creating it, shall have and may exercise all the powers and authority of the Board of Directors. Each such committee shall serve at the pleasure of the Board of Directors as may be determined from time to time by resolution adopted by the Board of Directors or as required by the rules and regulations of such exchange, if applicable. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors upon request.

Section 9. *Committee Rules*. Each committee of the Board of Directors may fix its own rules of procedure and shall hold its meetings as provided by such rules, except as may otherwise be provided by a resolution of the Board of Directors designating such committee or as otherwise provided herein or required by law or the Certificate of Incorporation. Adequate provision shall be made for notice to members of all meetings. Unless otherwise provided in such a resolution, the presence of at least a majority of the members of the committee shall be necessary to constitute a quorum. All matters shall be determined by a majority vote of the members present. Unless otherwise

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provided in such a resolution, in the event that a member and that member s alternate, if alternates are designated by the Board of Directors, of such committee is or are absent or disqualified, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in place of any such absent or disqualified member.

Section 10. *Action by Written Consent*. Unless otherwise restricted by the Certificate of Incorporation, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 11. *Compensation*. Unless otherwise restricted by the Certificate of Incorporation, the Board of Directors shall have the authority to fix the compensation, including fees and reimbursement of expenses, of directors for services to the Corporation in any capacity, including for attendance of meetings of the Board of Directors or participation on any committees. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 12. *Reliance on Books and Records*. A member of the Board of Directors, or a member of any committee designated by the Board of Directors, shall, in the performance of such person s duties, be fully protected in relying in good faith upon records of the Corporation and upon such information, opinions, reports or statements presented to the Corporation by any of the Corporation s officers or employees, or committees of the Board of Directors, or by any other person as to matters the member reasonably believes are within such other person s professional or expert competence and who has been selected with reasonable care by or on behalf of the Corporation.

Section 13. *Telephonic and Other Meetings*. Unless restricted by the Certificate of Incorporation, any one or more members of the Board of Directors or any committee thereof may participate in a meeting of the Board of Directors or such committee by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other. Participation by such means shall constitute presence in person at a meeting.

ARTICLE IV

OFFICERS

Section 1. *Number*. The officers of the Corporation shall be elected by the Board of Directors and shall consist of a Chief Executive Officer, a Vice Chairman, a Chief Operating Officer, one or more Presidents, one or more Vice Presidents, a Secretary, a Chief Financial Officer and such other officers and assistant officers as may be deemed necessary or desirable by the Board of Directors. Any number of offices may be held by the same person. In its discretion, the Board of Directors may choose not to fill any office for any period as it may deem advisable.

Section 2. *Election and Term of Office*. The officers of the Corporation shall be elected annually by the Board of Directors at its first meeting held after each annual meeting of stockholders or as soon thereafter as is convenient. The Chairman of the Board, if any, shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of stockholders or as soon thereafter as is convenient. Vacancies may be filled or new offices created and filled by the Board of Directors. Each officer shall hold office until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

Section 3. *Removal*. Any officer or agent elected by the Board of Directors may be removed by the Board of Directors at its discretion, with or without cause.

Section 4. *Vacancies*. Any vacancy occurring in any office because of death, resignation, removal, disqualification or otherwise may be filled by the Board of Directors.

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Section 5. *Compensation*. Compensation of all executive officers shall be approved by the Board of Directors, a duly authorized committee thereof or by such officers as may be designated by resolution of the Board of Directors, and no officer shall be prevented from receiving such compensation by virtue of his or her also being a director of the Corporation.

Section 6. *Chief Executive Officer*. The Chief Executive Officer shall have the powers and perform the duties incident to that position. Subject to the powers of the Board of Directors and the Chairman of the Board, the Chief Executive Officer shall be in general and active charge of the entire business and affairs of the Corporation, and shall be its chief policy making officer. The Chief Executive Officer shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or provided in these Bylaws. The Chief Executive Officer is authorized to execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation.

Section 7. *Vice Chairman*. The Vice Chairman shall perform such duties and have such powers as the Board of Directors, the Chairman of the Board or these Bylaws may, from time to time, prescribe.

Section 8. *Chief Operating Officer*. The Chief Operating Officer shall, subject to the powers of the Board of Directors, the Chairman of the Board and the Chief Executive Officer, have general charge of the business, affairs and property of the corporation, and control over its officers, agents and employees and shall see that all orders and resolutions of the board of directors and Chief Executive Officer are carried into effect. The Chief Operating Officer is authorized to execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation. The Chief Operating Officer shall have such other powers and perform such other duties as may be prescribed by the Chairman of the Board, the Chief Executive Officer, the Board of Directors or as may be provided in these Bylaws. The Chief Operating Officer shall have the powers and perform the duties incident to that position.

Section 9. *The President*. The President, or if there shall be more than one, the Presidents, in the order determined by the Board of Directors or the Chairman of the Board, shall, subject to the powers of the Board of Directors, the Chairman of the Board and the Chief Executive Officer, have general charge of the business, affairs and property of the Corporation, and control over its officers, agents and employees. The Presidents are authorized to execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation. The Presidents shall have such other powers and perform such other duties as may be prescribed by the Chairman of the Board, the Chief Executive Officer, the Board of Directors or as may be provided in these Bylaws. The Presidents shall have the powers and perform the duties incident to that position.

Section 10. *Vice Presidents*. The Vice President, or if there shall be more than one, the Vice Presidents, in the order determined by the Board of Directors or the Chairman of the Board, shall, in the absence or disability of the President, act with all of the powers and be subject to all the restrictions of the President. The Vice Presidents shall also perform such other duties and have such other powers as the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President or these Bylaws may, from time to time, prescribe. The Vice Presidents may also be designated as Executive Vice Presidents or Senior Vice Presidents, as the Board of Directors may from time to time prescribe. A Vice President shall have the powers and perform the duties incident to that position.

Section 11. *The Secretary and Assistant Secretaries*. The Secretary shall attend all meetings of the Board of Directors (other than executive sessions thereof) and all meetings of the stockholders and record all the proceedings of the meetings in a book or books to be kept for that purpose or shall ensure that his or her designee attends each such meeting to act in such capacity. Under the Board of Directors supervision, the Secretary shall give, or cause to be given, all notices required to be given by these Bylaws or by law; shall have such powers and perform such duties as the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President or these Bylaws may, from time to time, prescribe; and shall have custody of the corporate seal of the Corporation.

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The Secretary, or an Assistant Secretary, shall have authority to affix the corporate seal to any instrument requiring it and when so affixed, it may be attested by his or her signature or by the signature of such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his or her signature. The Assistant Secretary, or if there be more than one, any of the assistant secretaries, shall in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President or the Secretary may, from time to time, prescribe. The Secretary and any Assistant Secretary shall have the powers and perform the duties incident to those positions.

Section 12. *The Chief Financial Officer*. The Chief Financial Officer shall have the custody of the corporate funds and securities; shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation as shall be necessary or desirable in accordance with applicable law or generally accepted accounting principles; shall deposit all monies and other valuable effects in the name and to the credit of the Corporation as may be ordered by the Chairman of the Board or the Board of Directors; shall receive, and give receipts for, moneys due and payable to the Corporation from any source whatsoever; shall cause the funds of the Corporation to be disbursed when such disbursements have been duly authorized, taking proper vouchers for such disbursements; and shall render to the Board of Directors, at its regular meeting or when the Board of Directors so requires, an account of the Corporation; shall have such powers and perform such duties as the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President or these Bylaws may, from time to time, prescribe. The Chief Financial Officer shall have the powers and perform the duties incident to that position.

Section 13. *Other Officers, Assistant Officers and Agents*. Officers, assistant officers and agents, if any, other than those whose duties are provided for in these Bylaws, shall have such authority and perform such duties as may from time to time be prescribed by resolution of the Board of Directors.

Section 14. *Officers Bonds or Other Security*. If required by the Board of Directors, any officer of the Corporation shall give a bond or other security for the faithful performance of his duties, in such amount and with such surety as the Board of Directors may require.

Section 15. *Delegation of Authority*. The Board of Directors may by resolution delegate the powers and duties of such officer to any other officer or to any director, or to any other person whom it may select.

ARTICLE V

CERTIFICATES OF STOCK

Section 1. *Form*. The shares of stock of the Corporation shall be represented by certificates provided that the Board of Directors may provide by resolution that some or all of any or all classes or series of its stock shall be uncertificated shares. If shares are represented by certificates, the certificates shall be in such form as required by applicable law and as determined by the Board of Directors. Each certificate shall certify the number of shares owned by such holder in the Corporation and shall be signed by, or in the name of the Corporation by the Chairman of the Board, or the President or any Vice President and the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Corporation designated by the Board of Directors. Any or all signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed, whose facsimile signature has been used on or who has duly affixed a facsimile signature or signatures to any such certificate or certificates shall cease to be such officer, transfer agent or registrar of the Corporation whether because of death, resignation or otherwise before such certificate or certificates have been issued by the Corporation, such certificate or certificates may nevertheless be issued as though the person or persons who signed such certificate or certificates, whose facsimile signature or signatures have been used thereon or who duly affixed a facsimile signature or signatures thereon had not ceased to be such officer,

transfer agent or registrar of the Corporation. All certificates for shares shall be consecutively numbered or otherwise identified. The Board of Directors may appoint a bank or trust company organized under the laws of the United States or any state thereof to act as its transfer agent or registrar or both in connection with the transfer of any class or series of securities of the Corporation. The Corporation, or its designated transfer agent or other agent, shall keep a book or set of books to be known as the stock transfer books of the Corporation, containing the name of each holder of record, together with such holder s address and the number

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and class or series of shares held by such holder and the date of issue. When shares are represented by certificates, the Corporation shall issue and deliver to each holder to whom such shares have been issued or transferred, certificates representing the shares owned by such holder, and shares of stock of the Corporation shall only be transferred on the books of the Corporation by the holder of record thereof or by such holder s attorney duly authorized in writing, upon surrender to the Corporation or its designated transfer agent or other agent of the certificate or certificates for such shares endorsed by the appropriate person or persons, with such evidence of the authenticity of such endorsement, transfer, authorization and other matters as the Corporation may reasonably require, and accompanied by all necessary stock transfer stamps. In that event, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate or certificates and record the transaction on its books. When shares are not represented by certificates, shares of stock of the Corporation shall only be transferred on the books of the Corporation by the holder of record thereof or by such holder s attorney duly authorized in writing, with such evidence of the authenticity of such transfer, authorization and other matters as the Corporation may reasonably require, and accompanied by all necessary stock transfer stamps, and within a reasonable time after the issuance or transfer of such shares, the Corporation shall send the holder to whom such shares have been issued or transferred a written statement of the information required by applicable law. Unless otherwise provided by applicable law, the Certificate of Incorporation, these Bylaws or any other instrument the rights and obligations of shareholders are identical, whether or not their shares are represented by certificates.

Section 2. *Lost Certificates*. The Corporation may issue or direct a new certificate or certificates or uncertificated shares to be issued in place of any certificate or certificates previously issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates or uncertificated shares, the Corporation may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his or her legal representative, to give the Corporation a bond in such sum as it may direct, sufficient to indemnify the Corporation against any claim that may be made against the Corporation on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

Section 3. *Registered Stockholders*. The Corporation shall be entitled to recognize the exclusive right of a person registered on its records as the owner of shares of stock to receive dividends, to vote, to receive notifications and otherwise to exercise all the rights and powers of an owner. The Corporation shall not be bound to recognize any equitable or other claim to or interest in such share or shares of stock on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise required by the laws of Delaware.

Section 4. *Fixing a Record Date for Purposes Other Than Stockholder Meetings*. In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purposes of any other lawful action (other than stockholder meetings which is expressly governed by Section 12 of ARTICLE II hereof), the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 5. *Regulations*. The issue, transfer, conversion and registration of certificates of stock shall be governed by such other regulations as the Board of Directors may establish.

ARTICLE VI

GENERAL PROVISIONS

Section 1. *Dividends*. Subject to the provisions of statutes and the Certificate of Incorporation, dividends upon the shares of capital stock of the Corporation may be declared by the Board of Directors, in accordance with applicable law. Dividends may be paid in cash, in property or in shares of the capital stock, subject to the provisions of applicable law and the Certificate of Incorporation. Before payment of any dividend, there may be set aside out of

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any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation or for such other purpose as the Board of Directors may think conducive to the interests of the Corporation. The Board of Directors may modify or abolish any such reserves in the manner in which they were created.

Section 2. *Checks, Notes, Drafts, Etc*. All checks, notes, drafts or other orders for the payment of money of the Corporation shall be signed, endorsed or accepted in the name of the Corporation by such officer, officers, person or persons as from time to time may be designated by the Board of Directors or by an officer or officers authorized by the Board of Directors to make such designation.

Section 3. *Contracts*. In addition to the powers otherwise granted to officers pursuant to ARTICLE IV hereof, the Board of Directors may authorize any officer or officers, or any agent or agents, in the name and on behalf of the Corporation to enter into or execute and deliver any and all deeds, bonds, mortgages, contracts and other obligations or instruments, and such authority may be general or confined to specific instances.

Section 4. *Loans*. Subject to compliance with applicable law (including Section 13(k) of the Securities Exchange Act of 1934), the Corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the Corporation or of its subsidiaries, including any officer or employee who is a director of the Corporation or its subsidiaries, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the Corporation. The loan, guaranty or other assistance may be with or without interest, and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the Corporation. Nothing in this section shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the Corporation at common law or under any statute.

Section 5. *Fiscal Year*. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 6. *Corporate Seal*. The Board of Directors may provide a corporate seal which shall be in the form of a circle and shall have inscribed thereon the name of the Corporation and the words Corporate Seal, Delaware. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise. Notwithstanding the foregoing, no seal shall be required by virtue of this Section 6 of this ARTICLE VI.

Section 7. *Voting Securities Owned By Corporation*. The Chairman of the Board, the Chief Executive Officer, the President or the Chief Financial Officer shall have power to vote and otherwise act on behalf of the Corporation, in person or by proxy, at any meeting of stockholders of or with respect to any action of stockholders of any other corporation in which this Corporation may hold securities and otherwise to exercise any and all rights and powers which this Corporation may possess by reason of its ownership of securities in such other corporation, unless the Board of Directors specifically confers authority to vote or act with respect thereto, which authority may be general or confined to specific instances, upon some other person or officer. Any person authorized to vote securities shall have the power to appoint proxies, with general power of substitution.

Section 8. *Facsimile Signatures*. In addition to the provisions for use of facsimile signatures elsewhere specifically authorized in these Bylaws, facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors or a committee thereof.

Section 9. *Inspection of Books and Records*. The Board of Directors shall have power from time to time to determine to what extent and at what times and places and under what conditions and regulations the accounts and books of the Corporation, or any of them, shall be open to the inspection of the stockholders; and no stockholder shall have any right to inspect any account or book or document of the Corporation, except as conferred by the laws of the State of

Delaware, unless and until authorized so to do by resolution of the Board of Directors.

Section 10. *Time Periods*. In applying any provision of these Bylaws which requires that an act be done or not be done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used, the day of the doing of the act shall be excluded and the day of the event shall be included.

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Section 11. *Section Headings*. Section headings in these Bylaws are for convenience of reference only and shall not be given any substantive effect in limiting or otherwise construing any provision herein.

Section 12. *Inconsistent Provisions*. In the event that any provision of these Bylaws is or becomes inconsistent with any provision of the Certificate of Incorporation, the DGCL or any other applicable law, the provision of these Bylaws shall not be given any effect to the extent of such inconsistency but shall otherwise be given full force and effect.

ARTICLE VII

INDEMNIFICATION

Section 1. *Right to Indemnification and Advancement*. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved (including involvement, without limitation, as a witness) in any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding"), by reason of the fact that he or she is or was a director or officer of the Corporation or, while a director or officer of the Corporation, is or was serving at the request of the Corporation as an employee or agent of the Corporation or as a director, officer, partner, member, trustee, administrator, employee or agent of another corporation or of a partnership, joint venture, limited liability company, trust or other enterprise, including service with respect to an employee benefit plan (an "indemnitee"), whether the basis of such proceeding is alleged action in an official capacity as a director or officer or in any other capacity while serving as a director or officer, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the DGCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than permitted prior thereto), against all expense, liability and loss (including attorneys' fees and related disbursements, judgments, fines, excise taxes or penalties under the Employee Retirement Income Security Act of 1974, as amended from time to time ("ERISA"), penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such indemnitee in connection therewith and such indemnification shall continue as to an indemnitee who has ceased to be a director, officer, partner, member, trustee, administrator, employee or agent and shall inure to the benefit of the indemnitee's heirs, executors and administrators; provided, however, that, except as provided in this Section 1 of this ARTICLE VII with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. The right to indemnification conferred in this Section 1 of this ARTICLE VII shall be a contract right. In addition to the right to indemnification conferred herein, an indemnitee shall also have the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition (an "advance of expenses"); provided, however, that if and to the extent that the DGCL requires, an advance of expenses incurred by an indemnitee in his or her capacity as a director or officer (and not in any capacity in which service was or is rendered by such indemnitee, including without limitation, service to an employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking (an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Section 1 of this ARTICLE VII or otherwise. The Corporation may also, by action of its Board of Directors, provide indemnification and advancement of expenses to employees and agents of the Corporation.

Section 2. *Procedure for Indemnification*. Any indemnification of a director or officer of the Corporation or advance of expenses (including attorneys' fees, costs and charges) under this Section 2 of this ARTICLE VII shall be made promptly, and in any event within forty-five days (or, in the case of an advance of expenses, twenty days, provided that the director or officer has delivered the undertaking contemplated by Section 1 of this ARTICLE VII if required), upon the written request of the director or officer. If a determination by the Corporation that the director or officer is

entitled to indemnification pursuant to this ARTICLE VII is required, and the Corporation fails to respond within sixty days to a written request for indemnity, the Corporation shall be deemed to have approved the request. If the Corporation denies a written request for indemnification or advance of expenses, in whole or in part, or if payment in full pursuant to such request is not made within forty-five days (or, in the case of an advance of

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expenses, twenty days, provided that the director or officer has delivered the undertaking contemplated by Section 1 of this ARTICLE VII if required), the right to indemnification or advances as granted by this ARTICLE VII shall be enforceable by the director or officer in any court of competent jurisdiction. Such person s costs and expenses incurred in connection with successfully establishing his or her right to indemnification, in whole or in part, in any such action shall also be indemnified by the Corporation to the fullest extent permitted by Delaware law. It shall be a defense to any such action (other than an action brought to enforce a claim for the advance of expenses where the undertaking required pursuant to Section 1 of this ARTICLE VII, if any, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the DGCL for the Corporation to indemnify the claimant for the amount claimed, but the burden of such defense shall be on the Corporation to the fullest extent permitted by Delaware law. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this ARTICLE VII or otherwise shall be on the Corporation. The procedure for indemnification of other employees and agents for whom indemnification and advancement of expenses is provided pursuant to Section 1 of this ARTICLE VII shall be the same procedure set forth in this Section 2 of this ARTICLE VII for directors or officers, unless otherwise set forth in the action of the Board of Directors providing indemnification and advancement of expenses for such employee or agent.

Section 3. *Insurance*. The Corporation may purchase and maintain insurance on its own behalf and on behalf of any person who is or was or has agreed to become a director, officer, trustee, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, partner, member, trustee, administrator, employee or agent of another corporation or of a partnership, joint venture, limited liability company, trust or other enterprise against any expense, liability or loss asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify such person against such expenses, liability or loss under the DGCL.

Section 4. *Service for Subsidiaries*. Any person serving as a director, officer, partner, member, trustee, administrator, employee or agent of another corporation or of a partnership, joint venture, limited liability company, trust or other enterprise, at least 50% of whose equity interests are owned by the Corporation (a subsidiary for this ARTICLE VII) shall be conclusively presumed to be serving in such capacity at the request of the Corporation.

Section 5. *Reliance*. Persons who after the date of the adoption of this provision become or remain directors or officers of the Corporation or who, while a director or officer of the Corporation, become or remain a director, officer, employee or agent of a subsidiary, shall be conclusively presumed to have relied on the rights to indemnity, advance of expenses and other rights contained in this ARTICLE VII in entering into or continuing such service. The rights to indemnification and to the advance of expenses conferred in this ARTICLE VII shall apply to claims made against an indemnitee arising out of acts or omissions which occurred or occur both prior and subsequent to the adoption hereof. Any amendment, alteration or repeal of this ARTICLE VII that adversely affects any right of an indemnitee or its successors shall be prospective only and shall not limit, eliminate, or impair any such right with respect to any proceeding involving any occurrence or alleged occurrence of any action or omission to act that took place prior to such amendment or repeal.

Section 6. *Non-Exclusivity of Rights; Continuation of Rights to Indemnification*. The rights to indemnification and to the advance of expenses conferred in this ARTICLE VII shall not be exclusive of any other right which any person may have or hereafter acquire under the Certificate of Incorporation or under any statute, bylaw, agreement, vote of stockholders or disinterested directors or otherwise. All rights to indemnification under this ARTICLE VII shall be deemed to be a contract between the Corporation and each director or officer of the Corporation who serves or served in such capacity at any time while this ARTICLE VII is in effect. Any repeal or modification of this ARTICLE VII or any repeal or modification of relevant provisions of the Delaware General

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Corporation Law or any other applicable laws shall not in any way diminish any rights to indemnification and advancement of expenses of such director or officer or the obligations of the Corporation arising hereunder with respect to any proceeding arising out of, or relating to, any actions, transactions or facts occurring prior to the final adoption of such repeal or modification.

Section 7. *Merger or Consolidation*. For purposes of this ARTICLE VII, references to the Corporation shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under this ARTICLE VII with respect to the resulting or surviving corporation as he or she would have with respect to such constituent corporation if its separate existence had continued.

Section 8. *Savings Clause*. If this ARTICLE VII or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify and advance expenses to each person entitled to indemnification under Section 1 of this ARTICLE VII as to all expense, liability and loss (including attorneys fees and related disbursements, judgments, fines, ERISA excise taxes and penalties, penalties and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such person and for which indemnification and advancement of expenses is available to such person pursuant to this ARTICLE VII to the fullest extent permitted by any applicable portion of this ARTICLE VII that shall not have been invalidated and to the fullest extent permitted by applicable law.

ARTICLE VIII

AMENDMENTS

These Bylaws may be amended, altered, changed or repealed or new Bylaws adopted only in accordance with the Certificate of Incorporation.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 20. ***Indemnification of Directors and Officers.***

Delaware Corporations

Section 102 of the Delaware General Corporation Law (DGCL), as amended, allows a corporation to eliminate the personal liability of directors of a corporation to the corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director, except where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware law or obtained an improper personal benefit.

Section 145 of the DGCL provides, among other things, that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, agent or employee of the corporation or is or was serving at the corporation s request as a director, officer, agent, or employee of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys fees, judgment, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding. The power to indemnify applies (a) if such person is successful on the merits or otherwise in defense of any action, suit or proceeding or (b) if such person acted in good faith and in a manner he reasonably believed to be in the best interest, or not opposed to the best interest, of the corporation, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The power to indemnify applies to actions brought by or in the right of the corporation as well, but only to the extent of defense expenses (including attorneys fees but excluding amounts paid in settlement) actually and reasonably incurred and not to any satisfaction of judgment or settlement of the claim itself, and with the further limitation that in such actions no indemnification shall be made in the event of any adjudication of negligence or misconduct in the performance of duties to the corporation, unless the court believes that in light of all the circumstances indemnification should apply.

Section 174 of the DGCL provides, among other things, that a director, who willfully or negligently approves of an unlawful payment of dividends or an unlawful stock purchase or redemption, may be held liable for such actions. A director who was either absent when the unlawful actions were approved or dissented at the time, may avoid liability by causing his or her dissent to such actions to be entered in the books containing the minutes of the meetings of the board of directors at the time such action occurred or immediately after such absent director receives notice of the unlawful acts.

The certificate of incorporation of Acadia provides that, pursuant to Delaware law, the directors of Acadia shall not be liable for monetary damages for breach of the directors fiduciary duty of care to Acadia and its stockholders. This provision in the certificate of incorporation does not eliminate the duty of care, and in appropriate circumstances equitable remedies such as injunctive or other forms of non-monetary relief will remain available under Delaware law. In addition, each director will continue to be subject to liability for breach of the director s duty of loyalty to Acadia or its stockholders, for acts or omissions not in good faith or involving intentional misconduct or knowing violations of law, for actions leading to improper personal benefit to the director and for payment of dividends or approval of stock repurchases or redemptions that are unlawful under Delaware law. The provision also does not affect a director s responsibilities under any other law, such as the federal securities laws or state or federal environmental laws.

The bylaws of Acadia provide that Acadia must indemnify its directors and officers to the fullest extent permitted by Delaware law and require Acadia to advance litigation expenses upon receipt of an undertaking by a director or officer to repay such advances if it is ultimately determined that such director or officer is not entitled to indemnification. The indemnification provisions contained in the bylaws of Acadia are not exclusive of any other rights to which a person may be entitled by law, agreement, vote of stockholders or disinterested directors or otherwise.

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In addition, Acadia has entered into employment agreements with certain of our directors and officers, which provide indemnification in addition to the indemnification provided for in the certificate of incorporation and bylaws. These employment agreements, among other things, indemnify some of our directors and officers for certain expenses (including attorneys fees), judgments, fines and settlement amounts incurred by such person in any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to any action or omission in such director s or officer s capacity.

Item 21. ***Exhibits and Financial Statement Schedules***

Exhibit Number	Description
2.1**	Agreement and Plan of Merger, dated May 23, 2011, by and among Acadia Healthcare Company, Inc., Acadia Merger Sub, LLC and PHC, Inc. (*Incorporated by reference to PHC, Inc. s report on Form 8-K filed on May 25, 2011*).
2.2	Agreement and Plan of Merger, dated February 17, 2011, by and among Acadia Healthcare Company, Inc. (f/k/a Acadia Healthcare Company, LLC), Acadia YFCS Acquisition Company, Inc., Acadia YFCS Holdings, Inc., Youth & Family Centered Services, Inc., each of the stockholders who are signatories thereto, and TA Associates, Inc., solely in the capacity as Stockholders Representative.
2.3	Asset Purchase Agreement by and among Southern Regional Health System, Inc. and Acadia RiverWoods, LLC, d/b/a RiverWoods Behavioral Health System dated August 29, 2008.
2.4	Asset Purchase Agreement, dated as of March 15, 2011, between Universal Health Services, Inc. and PHC, Inc. for the acquisition of MeadowWood Behavioral Health System (*Incorporated by reference to PHC, Inc. s report on Form 8-K filed on March 18, 2011*).
3.1*	Amended and Restated Certificate of Incorporation of the Registrant.
3.2*	Amended and Restated Bylaws of the Registrant.
4.1	Specimen Acadia Healthcare Company, Inc. Common Stock Certificate to be issued to the stockholders party to the Stockholders Agreement.
4.2	Specimen Acadia Healthcare Company, Inc. Common Stock Certificate to be issued to all other holders of Acadia Healthcare Company, Inc. Common Stock
4.3*	Form of Stockholders Agreement.
4.4	Form of Subscription Agreement and Warrant (*Incorporated by reference to PHC, Inc. s report on Form 8-K filed on May 13, 2004*).
4.5	Warrant Agreement issued to CapitalSource Finance, LLC to purchase 250,000 Class A Common shares dated June 13, 2007 (*Incorporated by reference to PHC, Inc. report on Form 10-K filed on September 28, 2007*).
4.6*	Form of Voting Agreement (previously filed by the Registrant as Exhibit 10.1 to the Registration Statement)
5.1*	Form of Opinion of Kirkland & Ellis LLP, regarding legality of the securities to be issued.
8.1*	Form of Opinion of Kirkland & Ellis LLP regarding certain U.S. federal tax aspects of the merger.
8.2*	Form of Opinion of Arent Fox LLP regarding certain U.S. federal tax aspects of the merger.
10.1	Credit Agreement dated July 1, 2011 among PHC, Inc., its subsidiaries named therein, the lenders named therein, 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 (*Incorporated by reference to PHC, Inc. s report on Form 10-K filed on August 18, 2011*).
10.2*	Credit Agreement, dated April 1, 2011, by and between Bank of America, NA (Administrative Agent, Swing Line Lender and L/C Issuer) and Acadia Healthcare Company, Inc. (f/k/a Acadia Healthcare

Company, LLC).

10.3* First Amendment to the Credit Agreement, 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, dated July 12, 2011.

10.4* Second Amendment to the Credit Agreement, 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, dated July 12, 2011.

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Exhibit Number	Description
10.5*	Security and Pledge Agreement, dated April 1, 2011, by and between Bank of America, NA (Administrative Agent, Swing Line Lender and L/C Issuer) and Acadia Healthcare Company, Inc. (f/k/a Acadia Healthcare Company, LLC).
10.6*	Amended and Restated Commitment Letter, dated July 12, 2011, by and between Jefferies Finance LLC and Acadia Healthcare Company, Inc.
10.7*	Employment Agreement, dated as of January 31, 2011, between Acadia Management Company, Inc. and Joey A. Jacobs.
10.8*	Employment Agreement, dated as of January 31, 2011, between Acadia Management Company, Inc. and Jack E. Polson.
10.9*	Employment Agreement, dated as of January 31, 2011, between Acadia Management Company, Inc. and Brent Turner.
10.10*	Employment Agreement, dated as of January 31, 2011, between Acadia Management Company, Inc. and Christopher L. Howard.
10.11*	Employment Agreement, dated as of January 31, 2011, between Acadia Management Company, Inc. and Ronald M Fincher.
10.12*	Employment Agreement, dated as of March 29, 2011, between Acadia Management Company, Inc. and Norman K. Carter, III.
10.13*	Employment Agreement, dated as of May 23, 2011, by and between Acadia Healthcare Company, Inc. and Robert Boswell.
10.14*	Employment Agreement, dated as of May 23, 2011, by and between Acadia Healthcare Company, Inc. and Bruce A. Shear.
10.15*	Incentive Bonus Letter by and between Norman K. Carter, III and Acadia Management Company, Inc. dated January 4, 2010.
10.16	PHC, Inc. s 1993 Stock Purchase and Option Plan, as amended December 2002 (*Incorporated by reference to PHC, Inc. s registration statement on Form S-8 filed on January 8, 2003*).
10.17	PHC, Inc. s 1995 Non-Employee Director Stock Option Plan, as amended December 2002 (*Incorporated by reference to PHC, Inc. s registration statement on Form S-8 filed on January 8, 2003*).
10.18	PHC, Inc. s 1995 Employee Stock Purchase Plan, as amended December 2002 (*Incorporated by reference to PHC, Inc. s registration statement on Form S-8 filed on January 8, 2003*).
10.19	PHC, Inc. s 2004 Non-Employee Director Stock Option Plan (*Incorporated by reference to PHC, Inc. s registration statement on Form S-8 filed with the Securities and Exchange Commission on April 5, 2005*).
10.20	PHC, Inc. s 2005 Employee Stock Purchase Plan (*Incorporated by reference to PHC, Inc. s registration statement on Form S-8 filed with the Securities and Exchange Commission on March 6, 2008*).
10.21	PHC, Inc. s 2003 Stock Purchase and Option Plan, as amended December 2007 (*Incorporated by reference to PHC, Inc. s registration statement on Form S-8 filed with the Securities and Exchange Commission on March 6, 2008*).
10.22	PHC, Inc. s Change-in-Control Supplemental Benefit Plan for Certain Executive Officers (*Incorporated by reference to PHC, Inc. s report on Form 10-Q filed on November 9, 2007*).
10.23	Form of Acadia Healthcare Company, Inc. 2011 Incentive Compensation Plan
10.24*	Professional Services Agreement, dated as of April 1, 2011, between Waud Capital Partners, L.L.C. and Acadia Healthcare Company, Inc. (f/k/a Acadia Healthcare Company, LLC).
10.25*	Engagement Agreement, dated January 7, 2011, between True Partners Consulting LLC and Acadia Healthcare Company, Inc.

10.26	Form of Termination Agreement by and between Waud Capital Partners, L.L.C and Acadia Healthcare Company, Inc.
21.1*	List of Subsidiaries of Acadia.
23.1	Consent of Kirkland & Ellis LLP (*Included in Exhibits 5.1 and 8.1*).
23.2	Consent of Arent Fox LLP (*Included in Exhibit 8.1*).

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Exhibit Number	Description
23.3	Consent of Ernst & Young, LLP, an independent registered public accounting firm, with respect to the audited financials of Acadia Healthcare Company, LLC
23.4	Consent of Ernst & Young, LLP, an independent registered public accounting firm, with respect to the audited financials of Youth & Family Centered Services, Inc.
23.5	Consent of BDO USA, LLP, an independent registered public accounting firm, with respect to the audited financials of PHC, Inc.
23.6	Consent of Ernst & Young, LLP, an independent registered public accounting firm, with respect to the audited financials of MeadowWood Behavioral Health System
24.1*	Powers of Attorney
99.1*	Form of PHC, Inc. Proxy Card for Holders of PHC Class A Common Stock
99.2*	Form of PHC, Inc. Proxy Card for Holders of PHC Class B Common Stock
99.3	Consent of Stout Risius Ross, Inc.
99.4*	Consent of IBIS World Inc.

Indicates compensatory plan or arrangement.

* Previously filed by the Registrant on July 13, 2011.

** Indicates that the exhibits thereto have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant will furnish the omitted exhibits to the SEC upon request by the SEC

Item 22. ***Undertakings.***

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the

offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b)(1) The undersigned registrant hereby undertakes as follows: that prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

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(2) The undersigned registrant hereby undertakes that every prospectus (i) that is filed pursuant to paragraph (b)(1) immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Securities Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that, in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(d) The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of this form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(e) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, Acadia Healthcare Company, Inc., a Delaware corporation, has duly caused this Amendment No. 1 to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Franklin, Tennessee, on August 19, 2011.

ACADIA HEALTHCARE COMPANY, INC.

By: /s/ Joey A. Jacobs

Name: Joey A. Jacobs
Title: Chief Executive Officer and Chairperson

By: /s/ Jack E. Polson

Name: Jack E. Polson
Title: Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to the registration statement have been signed by the following persons in the capacities indicated and on August 19, 2011.

Signature	Title
*	Chief Executive Officer and Chairman of the Board
Joey A. Jacobs	
*	Chief Financial Officer (principal financial officer)
Jack E. Polson	
*	Controller (principal accounting officer)
David Duckworth	
*	Director
Reeve Waud	
*	Director
Charles Edwards	
*	Director
Matthew A. London	
*	Director

Gary Mecklenburg

* The undersigned, by signing his name hereto, signs and executes this Amendment No. 1 to the registration statement pursuant to the Powers of Attorney executed by the above-named signatories and previously filed with the Securities and Exchange Commission on July 13, 2011.

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/s/ Christopher L. Howard

Christopher L. Howard*Attorney-in-fact*

/s/ Reeve Waud

Reeve Waud*Attorney-in-fact*