

**Psychiatric Solutions, Inc.**

(PSYS:NASDAQ)

**Strong Buy 1****EQUITY  
RESEARCH**

March 7, 2006

Alternate Site Healthcare  
Providers  
Company Brief

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Headquartered in Franklin, Tennessee, Psychiatric Solutions is the largest pure-play inpatient behavioral health care provider in the United States. The company operates 58 owned or leased freestanding psychiatric inpatient facilities with more than 6,500 beds and provides a variety of behavioral health services and programs to children, adolescents, and adults. Psychiatric Solutions also manages freestanding psychiatric inpatient facilities for government agencies and psychiatric inpatient units within general acute care hospitals.

|                 |                              |            |         |
|-----------------|------------------------------|------------|---------|
| Current Price   | \$30.15 (3/7/2006 3:15 p.m.) | 10-day ADV | 576,153 |
| 52-Week Range   | \$34.78-\$18.01              | Div. Yield | 0.0%    |
| Mkt. Cap (mil.) | \$1574                       | BV (12/05) | \$10.33 |

## EPS:

|        |       |        |             |                 |     |
|--------|-------|--------|-------------|-----------------|-----|
| FY=Dec | 2005A | \$0.87 | P/E Ratios  | Suitability     | AG  |
|        | 2006E | 1.05   | 2006E 28.7x | Debt/Total Cap. | 47% |
|        | 2007E | 1.25   | 2007E 24.1x | ROE             | 11% |

**PSYS: Shares Weak on Facility-Specific Incident; Sell-Off Appears Overdone**

- ◆ Shares of Psychiatric Solutions have traded ~10% weaker since Friday on a report that one of its facilities in Virginia faces the threat of losing its license, as the state investigates allegations of patient abuse. Although details are still forthcoming, we understand that the state mental health commissioner is seeking to revoke the license at the Whisper Ridge Behavioral Health System in Charlottesville, VA, in response to allegations of assault on its adolescent patients. The 55-bed residential treatment facility was first owned by the Brown Schools of Virginia before the company acquired it in 2003.
- ◆ We understand that the facility is in the process of appealing the state's recommendation for license revocation. For our part, we note that the downside risks are limited to the facility's shutdown, which places to question less than 1% of total beds and approximately 0.7% of net revenue. We also contend that events such as this are isolated issues that tend to serve as short-term drags on PSYS shares and ultimately represent attractive buying opportunities. In 2005, shares of PSYS had come under similar pressure on media reports of patient abuse at a managed facility in Florida - an issue that the company had addressed years prior to the report. With respect to Whisper Ridge, we point out that the facility had been investigated for other incidents that occurred before Psychiatric Solutions purchased it, and has since taken a number of corrective measures to ensure that it meets appropriate regulations. We also point out that the company's risk management profile is healthy, its professional liability insurance coverage is appropriate, and that its operated facilities appropriately meet necessary compliance standards.
- ◆ Earlier today, the company's EVP-Finance & Administration, Brent Turner, presented at our annual Institutional Investors' Conference. Mr. Turner reiterated the company's 2006 guidance, which calls for EPS of \$1.14-1.17 before \$0.09-0.11 in stock options expense. The company's 7-9% same-facility growth outlook also remains intact, as does its view that longer-term industry growth amidst limited capacity will drive strength in market share. As such, we believe that near-term, more bearish investors will amplify concerns over the fate of this facility and put to question the company's own compliance measures as this issue remains in the news; however, we believe that ultimately, any immediate pressure on PSYS shares will be mitigated by the company's stronger near-term financial performance and confidence that its assets are appropriately accredited.
- ◆ We maintain our **Strong Buy** rating on shares of Psychiatric Solutions.

**Please read disclosure/risk information on page 2 and Analyst Certification on page 4.**

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## Important Investor Disclosures

The common stock of Psychiatric Solutions, Inc. currently has a **Strong Buy** rating within our four-tiered rating system. Definitions of our ratings follow:

- Strong Buy (SB1)** ..... Expected to appreciate and produce a total return of at least 15% and outperform the S&P 500 over the next six months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.
- Outperform (MO2)** ..... Expected to appreciate and outperform the S&P 500 over the next 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12 months.
- Market Perform (MP3)** ..... Expected to perform generally in line with the S&P 500 over the next 12 months and is potentially a source of funds for more highly rated securities.
- Underperform (MU4)** ..... Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

Out of approximately 606 rated stocks in the Raymond James coverage universe, 55% have Strong Buy or Outperform ratings (Buy), 37% are rated Market Perform (Hold) and 9% are rated Underperform (Sell). Within those rating categories, 36% of the Strong Buy- or Outperform (Buy) rated companies either currently are or have been Raymond James Investment Banking clients within the past three years; 20% of the Market Perform (Hold) rated companies are or have been clients and 12% of the Underperform (Sell) rated companies are or have been clients.

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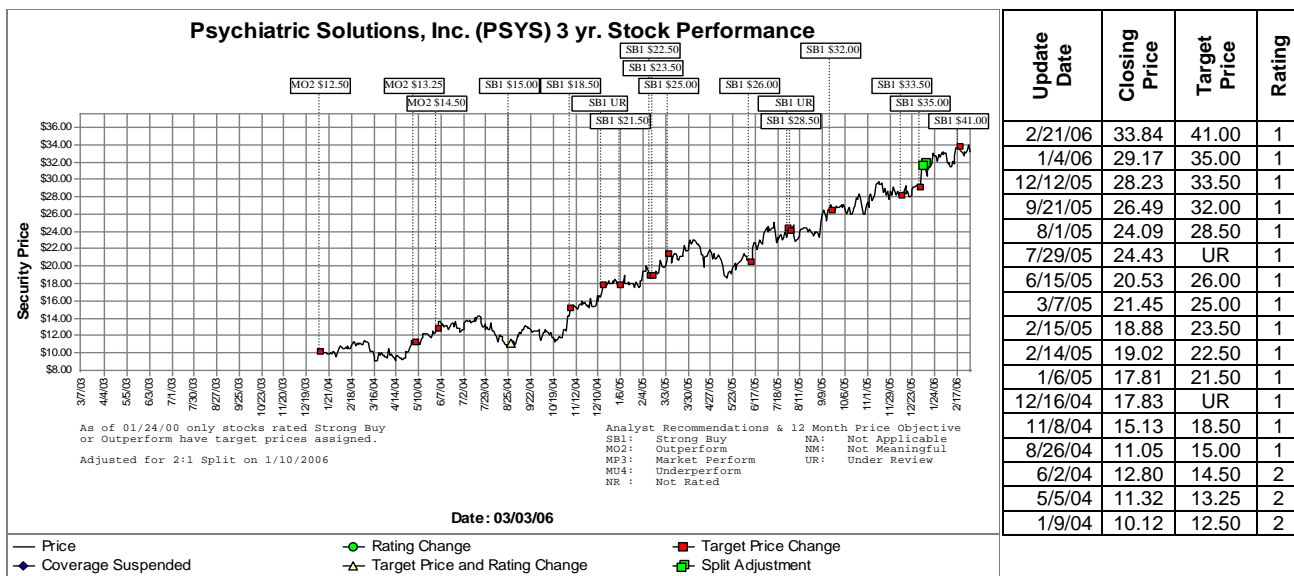
- Total Return (TR)** ..... More conservative investments with dividend yields of 2.5% or more and favorable appreciation prospects.
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| Company Name                | Disclosure   |
|-----------------------------|--|
| Psychiatric Solutions, Inc. | Raymond James & Associates co-managed follow-on offerings of PSYS shares in December 2003 and December 2004, and a follow-on offering of 4.0 million PSYS shares at \$50.24 per share in September 2005.<br>Raymond James & Associates makes a NASDAQ market in shares of PSYS.<br>Raymond James & Associates received non-investment banking securities-related compensation from PSYS within the past 12 months. |

**Target Prices:** The information below indicates our target price and rating changes for PSYS stock over the past three years.



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**General Risk Factors:** Following are some general risk factors that pertain to the projected 12-month target prices included on our research for stocks rated Strong Buy or Outperform: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects.

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**Risks Related to Psychiatric Solutions**

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