
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 001-35331

ACADIA HEALTHCARE COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

45-2492228
(I.R.S. Employer
Identification No.)

6100 Tower Circle, Suite 1000
Franklin, Tennessee 37067
(Address, including zip code, of registrant's principal executive offices)

(615) 861-6000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 5, 2015, there were 71,637,097 shares of the registrant’s common stock outstanding.

[Table of Contents](#)

ACADIA HEALTHCARE COMPANY, INC.
QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS

[PART I – FINANCIAL INFORMATION](#)

Item 1.	Financial Statements	1
	Condensed Consolidated Balance Sheets (Unaudited) as of June 30, 2015 and December 31, 2014	1
	Condensed Consolidated Statements of Income (Unaudited) for the Three and Six Months Ended June 30, 2015 and 2014	2
	Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Six Months Ended June 30, 2015 and 2014	3
	Condensed Consolidated Statement of Equity (Unaudited) for the Six Months Ended June 30, 2015	4
	Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2015 and 2014	5
	Notes to Condensed Consolidated Financial Statements (Unaudited)	6
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	39
Item 4.	Controls and Procedures	39

[PART II – OTHER INFORMATION](#)

Item 1.	Legal Proceedings	41
Item 1A.	Risk Factors	41
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	41
Item 6.	Exhibits	41

[SIGNATURES](#)

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Acadia Healthcare Company, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

	June 30, 2015	December 31, 2014
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 34,572	\$ 94,040
Accounts receivable, net of allowance for doubtful accounts of \$26,233 and \$22,449, respectively	182,315	118,378
Deferred tax assets	38,693	20,155
Other current assets	70,325	41,570
Total current assets	<u>325,905</u>	<u>274,143</u>
Property and equipment, net	1,455,390	1,069,700
Goodwill	1,946,028	802,986
Intangible assets, net	58,514	21,636
Deferred tax assets – noncurrent	33,966	13,141
Other assets	106,582	41,984
Total assets	<u>\$ 3,926,385</u>	<u>\$ 2,223,590</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 38,652	\$ 26,965
Accounts payable	58,714	48,696
Accrued salaries and benefits	77,545	59,317
Other accrued liabilities	68,197	30,956
Total current liabilities	<u>243,108</u>	<u>165,934</u>
Long-term debt	1,914,555	1,069,305
Deferred tax liabilities – noncurrent	20,200	63,880
Other liabilities	82,218	43,506
Total liabilities	<u>2,260,081</u>	<u>1,342,625</u>
Equity:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, no shares issued	—	—
Common stock, \$0.01 par value; 90,000,000 shares authorized; 70,596,523 and 59,211,859 issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	706	592
Additional paid-in capital	1,567,304	847,301
Accumulated other comprehensive loss	(51,586)	(68,370)
Retained earnings	149,880	101,442
Total equity	<u>1,666,304</u>	<u>880,965</u>
Total liabilities and equity	<u>\$ 3,926,385</u>	<u>\$ 2,223,590</u>

See accompanying notes.

Acadia Healthcare Company, Inc.
Condensed Consolidated Statements of Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Revenue before provision for doubtful accounts	\$461,798	\$220,664	\$835,956	\$426,783
Provision for doubtful accounts	(8,138)	(6,861)	(16,513)	(11,562)
Revenue	453,660	213,803	819,443	415,221
Salaries, wages and benefits (including equity-based compensation expense of \$5,355, \$2,406, \$9,249 and \$4,170, respectively)	243,302	122,473	449,173	240,048
Professional fees	30,029	10,891	52,456	21,273
Supplies	20,542	10,596	36,796	20,660
Rents and leases	8,211	2,889	14,097	5,658
Other operating expenses	51,128	24,646	91,655	47,756
Depreciation and amortization	14,926	5,935	28,030	11,371
Interest expense, net	28,049	9,730	50,195	19,437
Loss (gain) on foreign currency derivatives	961	(13,735)	908	(13,735)
Transaction-related expenses	7,157	3,016	25,573	4,595
Total expenses	404,305	176,441	748,883	357,063
Income from continuing operations before income taxes	49,355	37,362	70,560	58,158
Provision for income taxes	15,512	14,905	22,125	22,680
Income from continuing operations	33,843	22,457	48,435	35,478
Income (loss) from discontinued operations, net of income taxes	1	(6)	3	31
Net income	<u>\$ 33,844</u>	<u>\$ 22,451</u>	<u>\$ 48,438</u>	<u>\$ 35,509</u>
Basic earnings per share:				
Income from continuing operations	\$ 0.50	\$ 0.43	\$ 0.74	\$ 0.70
Income (loss) from discontinued operations	—	—	—	—
Net income	<u>\$ 0.50</u>	<u>\$ 0.43</u>	<u>\$ 0.74</u>	<u>\$ 0.70</u>
Diluted earnings per share:				
Income from continuing operations	\$ 0.49	\$ 0.43	\$ 0.74	\$ 0.69
Income (loss) from discontinued operations	—	—	—	—
Net income	<u>\$ 0.49</u>	<u>\$ 0.43</u>	<u>\$ 0.74</u>	<u>\$ 0.69</u>
Weighted-average shares outstanding:				
Basic	68,296	51,616	65,429	50,872
Diluted	68,735	51,819	65,782	51,174

See accompanying notes.

Acadia Healthcare Company, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>	<u>2014</u>	<u>June 30,</u>	<u>2014</u>
	<u>2015</u>		<u>2015</u>	<u>2014</u>
	(In thousands)			
Net income	\$33,844	\$22,451	\$48,438	\$35,509
Other comprehensive income:				
Foreign currency translation gain	46,173	—	16,784	—
Other comprehensive income	46,173	—	16,784	—
Comprehensive income	<u>\$80,017</u>	<u>\$22,451</u>	<u>\$65,222</u>	<u>\$35,509</u>

See accompanying notes.

Acadia Healthcare Company, Inc.
Condensed Consolidated Statement of Equity
(Unaudited)

	Common Stock		Additional Paid-in Capital	Other Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount				
Balance at December 31, 2014	59,212	\$ 592	\$ 847,301	\$ (68,370)	\$ 101,442	\$ 880,965
Common stock issued under stock incentive plans	234	2	(2)	—	—	—
Common stock withheld for minimum statutory taxes	—	—	(7,826)	—	—	(7,826)
Equity-based compensation expense	—	—	9,249	—	—	9,249
Excess tax benefit from equity awards	—	—	6,327	—	—	6,327
Issuance of common stock, net	11,150	112	711,628	—	—	711,740
Other comprehensive loss	—	—	—	16,784	—	16,784
Other	—	—	627	—	—	627
Net income	—	—	—	—	48,438	48,438
Balance at June 30, 2015	<u>70,596</u>	<u>\$ 706</u>	<u>\$1,567,304</u>	<u>\$ (51,586)</u>	<u>\$ 149,880</u>	<u>\$1,666,304</u>

See accompanying notes.

Acadia Healthcare Company, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2015	2014
(In thousands)		
Operating activities:		
Net income	\$ 48,438	\$ 35,509
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Depreciation and amortization	28,030	11,371
Amortization of debt issuance costs	3,218	1,334
Equity-based compensation expense	9,249	4,170
Deferred income tax expense	24,682	9,097
Income from discontinued operations, net of taxes	(3)	(31)
Loss (gain) on foreign currency derivatives	908	(13,735)
Other	692	25
Change in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	(10,442)	(15,303)
Other current assets	(13,048)	(4,792)
Other assets	(1,218)	(578)
Accounts payable and other accrued liabilities	(4,313)	(1,300)
Accrued salaries and benefits	(225)	1,782
Other liabilities	4,619	1,701
Net cash provided by continuing operating activities	90,587	29,250
Net cash provided by (used in) discontinued operating activities	554	(11)
Net cash provided by operating activities	91,141	29,239
Investing activities:		
Cash paid for acquisitions, net of cash acquired	(286,734)	(10,000)
Cash paid for capital expenditures	(122,035)	(43,323)
Cash paid for real estate acquisitions	(3,428)	(18,326)
Settlement of foreign currency derivatives	(908)	—
Other	(481)	(439)
Net cash used in investing activities	(413,586)	(72,088)
Financing activities:		
Borrowings on long-term debt	875,000	7,500
Borrowings on revolving credit facility	180,000	59,500
Principal payments revolving credit facility	(180,000)	(113,000)
Principal payments on long-term debt	(15,875)	(3,750)
Repayment of assumed CRC debt	(904,467)	—
Payment of debt issuance costs	(22,775)	(5,810)
Issuance of common stock, net	331,530	374,336
Common stock withheld for minimum statutory taxes, net	(7,826)	(2,981)
Excess tax benefit from equity awards	6,327	3,479
Cash paid for contingent consideration	—	(3,250)
Other	(150)	—
Net cash provided by financing activities	261,764	316,024
Effect of exchange rate changes on cash	1,213	—
Net (decrease) increase in cash and cash equivalents	(59,468)	273,175
Cash and cash equivalents at beginning of the period	94,040	4,569
Cash and cash equivalents at end of the period	\$ 34,572	\$ 277,744
Effect of acquisitions:		
Assets acquired, excluding cash	\$ 1,636,164	\$ 10,500
Liabilities assumed	(1,009,944)	—
Issuance of common stock in connection with acquisition	(380,210)	—
Deposits paid for acquisitions	40,724	—
Prior year deposits paid for acquisitions	—	(500)
Cash paid for acquisitions, net of cash acquired	\$ 286,734	\$ 10,000

See accompanying notes.

Acadia Healthcare Company, Inc.
Notes to Condensed Consolidated Financial Statements
June 30, 2015
(Unaudited)

1. Description of Business and Basis of Presentation

Description of Business

Acadia Healthcare Company, Inc. (the “Company”) develops and operates inpatient psychiatric facilities, residential treatment centers, group homes, substance abuse facilities and facilities providing outpatient behavioral healthcare services to serve the behavioral health and recovery needs of communities throughout the United States, the United Kingdom and Puerto Rico. At June 30, 2015, the Company operated 223 behavioral healthcare facilities with over 9,000 beds in 37 states, the United Kingdom and Puerto Rico.

Basis of Presentation

The business of the Company is conducted through limited liability companies, partnerships and C-corporations, each of which is a direct or indirect wholly-owned subsidiary of the Company. The Company’s consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, all of which are 100% owned. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation of our financial position and results of operations have been included. 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 condensed consolidated balance sheet at December 31, 2014 has been derived from the audited financial statements as of that date. The information contained in these condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto for the fiscal year ended December 31, 2014 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2015. 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.

Certain reclassifications have been made to prior years to conform to the current year presentation.

2. Earnings Per Share

Basic and diluted earnings per share are calculated in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 260, “*Earnings Per Share*,” based on the weighted-average number of shares outstanding in each period and dilutive stock options, unvested shares and warrants, to the extent such securities have a dilutive effect on earnings per share.

Table of Contents

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2015 and 2014 (in thousands except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Numerator:				
Basic and diluted earnings per share:				
Income from continuing operations	\$33,843	\$22,457	\$48,435	\$35,478
Income (loss) from discontinued operations	1	(6)	3	31
Net income	<u>\$33,844</u>	<u>\$22,451</u>	<u>\$48,438</u>	<u>\$35,509</u>
Denominator:				
Weighted average shares outstanding for basic earnings per share	68,296	51,616	65,429	50,872
Effect of dilutive instruments	439	203	353	302
Shares used in computing diluted earnings per common share	<u>68,735</u>	<u>51,819</u>	<u>65,782</u>	<u>51,174</u>
Basic earnings per share:				
Income from continuing operations	\$ 0.50	\$ 0.43	\$ 0.74	\$ 0.70
Income (loss) from discontinued operations	—	—	—	—
Net income	<u>\$ 0.50</u>	<u>\$ 0.43</u>	<u>\$ 0.74</u>	<u>\$ 0.70</u>
Diluted earnings per share:				
Income from continuing operations	\$ 0.49	\$ 0.43	\$ 0.74	\$ 0.69
Income (loss) from discontinued operations	—	—	—	—
Net income	<u>\$ 0.49</u>	<u>\$ 0.43</u>	<u>\$ 0.74</u>	<u>\$ 0.69</u>

Approximately 0.3 million and 0.6 million shares of common stock issuable upon exercise of outstanding stock option awards were excluded from the calculation of diluted earnings per share for the three months ended June 30, 2015 and 2014, respectively, because their effect would have been anti-dilutive. Approximately 0.9 million and 0.5 million shares of common stock issuable upon exercise of outstanding stock option awards were excluded from the calculation of diluted earnings per share for the six months ended June 30, 2015 and 2014, respectively, because their effect would have been anti-dilutive.

3. Acquisitions

UK Acquisitions

On June 1, 2015, the Company completed the acquisitions of (i) one facility from Choice for approximately \$25.9 million and (ii) 15 facilities from Care UK Limited ("Care UK") for approximately \$88.3 million. The inpatient psychiatric facility acquired from Choice has 42 beds and is located in England. The inpatient psychiatric facilities acquired from Care UK have an aggregate of 299 beds and are located in England.

On April 1, 2015, the Company completed the acquisitions of (i) two facilities from Choice Lifestyles ("Choice") for approximately \$37.5 million, (ii) Pastoral Care Group ("Pastoral") for approximately \$34.2 million and (iii) Mildmay Oaks f/k/a Vista Independent Hospital ("Mildmay Oaks") for approximately \$14.9 million. The two inpatient psychiatric facilities acquired from Choice have an aggregate of 48 beds and are located in England. Pastoral operates two inpatient psychiatric facilities with an aggregate of 65 beds located in Wales. Mildmay Oaks is an inpatient psychiatric facility with 67 beds located in England.

QAM

On March 1, 2015, the Company acquired the stock of Quality Addiction Management, Inc. ("QAM") for total consideration of approximately \$54.6 million. QAM operates seven comprehensive treatment centers located in Wisconsin.

[Table of Contents](#)

CRC

On February 11, 2015, the Company completed its acquisition of CRC Health Group, Inc. (“CRC”) for total consideration of approximately \$1.3 billion. As consideration for the acquisition, the Company issued 5,975,326 shares of its common stock to certain holders of CRC common stock and repaid CRC’s outstanding indebtedness of \$904.5 million. CRC is a leading provider of treatment services related to substance abuse and other addiction and behavioral disorders. At the acquisition date, CRC operated 35 inpatient facilities with over 2,400 beds and 81 comprehensive treatment centers located in 30 states.

2014 Acquisitions

On December 1, 2014, the Company acquired the assets of Croxton Warwick Lodge (“Croxton”), an inpatient psychiatric facility with 24 beds located in Melton Mowbray, Leicestershire, England, for cash consideration of \$15.6 million. On December 31, 2014, the Company completed the acquisition of Skyway House (“Skyway”), a substance abuse facility with 28 beds located in Chico, California, for cash consideration of \$0.3 million. On September 3, 2014, the Company completed the acquisition of McCallum Place (“McCallum”), an eating disorder treatment facility with 85 beds offering residential, partial hospitalization and intensive outpatient treatment programs located in St. Louis, Missouri, and Austin, Texas, for total consideration of \$37.4 million. On July 1, 2014, the Company acquired Partnerships in Care for cash consideration of \$661.7 million, which was net of cash acquired of \$12.0 million and the gain on settlement of foreign currency derivatives of \$15.3 million. At the acquisition date, Partnerships in Care was the second largest independent provider of inpatient behavioral healthcare services in the United Kingdom, operating 23 inpatient behavioral healthcare facilities with over 1,200 beds. On January 1, 2014, the Company acquired the assets of Pacific Grove Hospital (“Pacific Grove”), an inpatient psychiatric facility with 68 beds located in Riverside, California, for cash consideration of \$10.5 million.

Summary of Acquisitions

The Company selectively seeks opportunities to expand and diversify its base of operations by acquiring additional facilities. Approximately \$175.5 million of the goodwill associated with domestic acquisitions completed in 2015 and 2014 is deductible for federal income tax purposes. The fair values assigned to certain assets and liabilities assumed by the Company have been estimated on a preliminary basis and are subject to change as new facts and circumstances emerge that were present at the date of acquisition. Specifically, the Company is further assessing the valuation of certain tax matters as well as certain receivables and assumed liabilities of Choice, Care UK, Pastoral, Mildmay Oaks, QAM, CRC and McCallum, the valuation of real property and intangible assets of Choice, Pastoral, Mildmay Oaks, Care UK, QAM and CRC and the valuation of certain tax matters of Partnerships in Care.

The preliminary fair values of assets acquired and liabilities assumed, at the corresponding acquisition dates, during the six months ended June 30, 2015 in connection with the 2015 acquisitions were as follows (in thousands):

	<u>CRC</u>	<u>Other</u>	<u>Total</u>
Cash	\$ 19,600	\$ 4,468	\$ 24,068
Accounts receivable	47,095	6,130	53,225
Prepaid expenses and other current assets	25,522	1,380	26,902
Property and equipment	140,152	138,613	278,765
Goodwill	1,050,620	118,486	1,169,106
Intangible assets	37,000	—	37,000
Deferred tax assets – noncurrent	64,688	—	64,688
Other assets	6,478	—	6,478
Total assets acquired	<u>1,391,155</u>	<u>269,077</u>	<u>1,660,232</u>
Accounts payable	5,301	7,114	12,415
Accrued salaries and benefits	14,860	1,642	16,502
Other accrued expenses	38,703	2,546	41,249
Deferred tax liabilities – noncurrent	—	1,052	1,052
Long-term debt	904,467	—	904,467
Other liabilities	34,248	11	34,259
Total liabilities assumed	<u>997,579</u>	<u>12,365</u>	<u>1,009,944</u>
Net assets acquired	<u>\$ 393,576</u>	<u>\$ 256,712</u>	<u>\$ 650,288</u>

[Table of Contents](#)

The preliminary fair values of assets acquired and liabilities assumed, at the corresponding acquisition dates, during the year ended December 31, 2014 in connection with the 2014 acquisitions were as follows (in thousands):

	<u>Partnerships in Care</u>	<u>Other</u>	<u>Total</u>
Cash	\$ 11,674	\$ —	\$ 11,674
Accounts receivable	7,684	1,849	9,533
Prepaid expenses and other current assets	8,828	169	8,997
Property and equipment	610,477	27,203	637,680
Goodwill	87,047	32,232	119,279
Intangible assets	651	204	855
Other assets	7,037	3,240	10,277
Total assets acquired	<u>733,398</u>	<u>64,897</u>	<u>798,295</u>
Accounts payable	3,958	93	4,051
Accrued salaries and benefits	10,422	—	10,422
Other accrued expenses	7,166	1,014	8,180
Deferred tax liabilities – noncurrent	15,597	—	15,597
Other liabilities	7,704	—	7,704
Total liabilities assumed	<u>44,847</u>	<u>1,107</u>	<u>45,954</u>
Net assets acquired	<u>\$ 688,551</u>	<u>\$63,790</u>	<u>\$752,341</u>

Other

The qualitative factors comprising the goodwill acquired in the Pacific Grove, Partnerships in Care, McCallum, Croxton, Skyway, CRC, QAM, Choice, Pastoral, Mildmay Oaks and Care UK acquisitions (collectively the “2014 and 2015 Acquisitions”) include efficiencies derived through synergies expected by the elimination of certain redundant corporate functions and expenses, the ability to leverage call center referrals to a broader provider base, coordination of services provided across the combined network of facilities, achievement of operating efficiencies by benchmarking performance, and applying best practices throughout the combined companies.

Transaction-related expenses comprised the following costs for the three and six months ended June 30, 2015 and 2014 (in thousands):

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Advisory and financing commitment fees	\$ —	\$ —	\$10,337	\$ —
Legal, accounting and other costs	5,234	3,016	9,054	4,136
Severance and contract termination costs	1,923	—	6,182	459
	<u>\$ 7,157</u>	<u>\$ 3,016</u>	<u>\$25,573</u>	<u>\$4,595</u>

Pro Forma Information

The condensed consolidated statements of income for the three and six months ended June 30, 2015 include revenue of \$222.1 million and \$369.7 million, respectively, and income from continuing operations before income taxes of \$37.6 million and \$58.1 million, respectively, related to the 2014 and 2015 Acquisitions. The condensed consolidated statements of income for the three and six months ended June 30, 2014 include revenue of \$1.6 million and \$2.9 million, respectively, and income from continuing operations before income taxes of \$0.1 million and loss from continuing operations before income taxes of \$0.1 million, respectively, related to acquisitions completed in 2014.

[Table of Contents](#)

The following table provides certain pro forma financial information for the Company as if the 2014 and 2015 Acquisitions occurred as of January 1, 2014 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	\$461,128	\$431,663	\$901,582	\$841,767
Income from continuing operations, before income taxes	\$ 51,123	\$ 32,289	\$ 39,293	\$ 31,198

4. Other Intangible Assets

Other identifiable intangible assets and related accumulated amortization consisted of the following as of June 30, 2015 and December 31, 2014 (in thousands):

	Gross Carrying Amount		Accumulated Amortization	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Intangible assets subject to amortization:				
Contract intangible assets	\$ 2,100	\$ 2,100	\$(1,540)	\$ (1,330)
Non-compete agreements	1,247	1,247	(1,205)	(1,155)
	3,347	3,347	(2,745)	(2,485)
Intangible assets not subject to amortization:				
Licenses and accreditations	10,318	9,184	—	—
Trade names	37,800	3,000	—	—
Certificates of need	9,794	8,590	—	—
	57,912	20,774	—	—
Total	\$61,259	\$ 24,121	\$(2,745)	\$ (2,485)

In connection with the CRC acquisition, the Company acquired license and accreditation intangible assets with a fair value of \$1.1 million, trade name intangible assets with a fair value of \$34.8 million and certificate of need intangible assets with a fair value of \$1.1 million.

Amortization expense related to definite-lived intangible assets was \$0.1 million for both the three months ended June 30, 2015 and 2014, respectively, and \$0.3 million for both the six months ended June 30, 2015 and 2014, respectively. Estimated amortization expense for the years ending December 31, 2015, 2016, 2017, 2018 and 2019 is \$0.5 million, \$0.4 million, \$0, \$0 and \$0, respectively. The Company's licenses and accreditations, trade names and certificate of need intangible assets have indefinite lives and are, therefore, not subject to amortization.

5. Property and Equipment

Property and equipment consists of the following as of June 30, 2015 and December 31, 2014 (in thousands):

	June 30, 2015	December 31, 2014
Land	\$ 201,362	\$ 132,406
Building and improvements	1,102,767	858,055
Equipment	118,736	73,584
Construction in progress	117,930	66,268
	1,540,795	1,130,313
Less accumulated depreciation	(85,405)	(60,613)
Property and equipment, net	\$ 1,455,390	\$ 1,069,700

6. Long-Term Debt

Long-term debt consisted of the following (in thousands):

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Amended and Restated Senior Credit Facility:		
Senior Secured Term A Loans (net of discount of \$1,628 and \$1,924, respectively)	\$ 512,497	\$ 525,576
Senior Secured Term B Loans (net of discount of \$2,377)	495,123	—
Senior Secured Revolving Line of Credit	—	—
12.875% Senior Notes due 2018 (net of discount of \$967 and \$1,080, respectively)	96,533	96,420
6.125% Senior Notes due 2021	150,000	150,000
5.125% Senior Notes due 2022	300,000	300,000
5.625% Senior Notes due 2023	375,000	—
9.0% and 9.5% Revenue Bonds (net of premium of \$1,429 and \$1,649, respectively)	24,054	24,274
	<u>1,953,207</u>	<u>1,096,270</u>
Less: current portion	(38,652)	(26,965)
Long-term debt	<u>\$ 1,914,555</u>	<u>\$ 1,069,305</u>

Amended and Restated Senior Credit Facility

The Company entered into a senior secured credit facility (the “Senior Secured Credit Facility”) on April 1, 2011. On December 31, 2012, the Company entered into an Amended and Restated Credit Agreement (the “Amended and Restated Credit Agreement”) which amended and restated the Senior Secured Credit Facility (“Amended and Restated Senior Credit Facility”).

On February 13, 2014, the Company entered into a Fourth Amendment (the “Fourth Amendment”) to the Amended and Restated Credit Agreement, to increase the size of the Amended and Restated Senior Credit Facility and extend the maturity date thereof, which resulted in the Company having a revolving line of credit of up to \$300.0 million and term loans of \$300.0 million. The Fourth Amendment also reduced the interest rates applicable to the Amended and Restated Senior Credit Facility and provided increased flexibility to the Company in terms of the financial and other restrictive covenants. The Fourth Amendment also provides for a \$150.0 million incremental credit facility, with the potential for unlimited additional incremental amounts, provided the Company meets certain financial ratios, in each case subject to customary conditions precedent to borrowing.

On June 16, 2014, the Company entered into a Fifth Amendment (the “Fifth Amendment”) to the Amended and Restated Credit Agreement. The Fifth Amendment specifically permitted the Company’s acquisition of Partnerships in Care, gave the Company the ability to incur a tranche of term loan B debt in the future through its incremental credit facility, and modified certain of the restrictive covenants on miscellaneous investments and incurrence of miscellaneous liens. The restrictive covenants on investments in joint ventures and foreign subsidiaries were also amended such that the Company may now invest, in any given fiscal year, up to five percent (5%) of its total assets in both joint ventures and foreign subsidiaries, respectively; provided that the aggregate amount of investments in both joint ventures and foreign subsidiaries, respectively, may not exceed ten percent (10%) of its total assets over the life of the Amended and Restated Senior Credit Facility; provided further that the aggregate amount of investments made in both joint ventures and foreign subsidiaries collectively pursuant to the foregoing may not exceed fifteen percent (15%) of its total assets. Finally, the Fifth Amendment provided increased flexibility to the Company in terms of its financial covenants.

On December 15, 2014, the Company entered into a Sixth Amendment (the “Sixth Amendment”) to our Amended and Restated Credit Agreement. Pursuant to the Sixth Amendment, we incurred \$235.0 million of additional term loans. A portion of the additional term loan advance was used to prepay our outstanding revolving loans, and a portion of the additional term loan advance is being held as cash on the consolidated balance sheet. The Sixth Amendment also specifically permitted the acquisition of CRC. In connection with the acquisition of CRC, the Sixth Amendment (i) imposed a temporary reserve on the Company’s revolving credit facility in the amount of \$110.0 million in order to preserve such reserved amounts for later borrowings to partially fund the consideration for the acquisition of CRC (subject to limited conditionality provisions) (the reserve is no longer in effect due to the acquisition of CRC), (ii) permitted the incurrence of an additional incremental term loan facility under the Amended and Restated Credit Agreement partially to fund the consideration for the acquisition of CRC (subject to limited conditionality provisions) and (iii) permitted the issuance of additional senior unsecured indebtedness or senior unsecured bridge indebtedness partially to fund the consideration for the acquisition of CRC.

[Table of Contents](#)

On February 6, 2015, the Company entered into a Seventh Amendment (the “Seventh Amendment”) to our Amended and Restated Credit Agreement. The Seventh Amendment added Citibank, N.A. as an “L/C Issuer” under the Amended and Restated Credit Agreement in order to permit the rollover of CRC’s existing letters of credit into the Amended and Restated Credit Agreement and increased both the Company’s Letter of Credit Sublimit and Swing Line Sublimit to \$20.0 million.

On February 11, 2015, the Company entered into a First Incremental Facility Amendment (the “First Incremental Amendment”) to our Amended and Restated Credit Agreement. The First Incremental Amendment activated a new \$500.0 million incremental Term Loan B facility (the “TLB Facility”) that was added to our Amended and Restated Senior Credit Facility, subject to limited conditionality provisions. Borrowings under the TLB Facility were used to fund a portion of the purchase price for the acquisition of CRC.

On April 22, 2015, the Company entered into an Eighth Amendment (the “Eighth Amendment”) to our Amended and Restated Credit Agreement. The Eighth Amendment changed the definition of “Change of Control” in part to remove a provision whose purpose was, when calculating whether a majority of incumbent directors have approved new directors, that any incumbent director that became a director as a result of a threatened or actual proxy contest was not counted in such calculation.

The Company had \$291.1 million of availability under the revolving line of credit as of June 30, 2015. Borrowings under the revolving line of credit are subject to customary conditions precedent to borrowing. The Amended and Restated Credit Agreement requires quarterly term loan principal repayments of our outstanding term loan A loans (“TLA Facility”) of \$6.7 million for June 30, 2015 to December 31, 2015, \$10.0 million for March 31, 2016 to December 31, 2016, \$13.4 million for March 31, 2017 to December 31, 2017, and \$16.7 million for March 31, 2018 to December 31, 2018, with the remaining principal balance of the TLA Facility due on the maturity date of February 13, 2019. On December 15, 2014, prior to the execution of the Sixth Amendment, the Company prepaid the December 31, 2014 quarterly term loan principal payment of \$1.9 million. The Company is required to repay the TLB Facility in equal quarterly installments of \$1.3 million on the last business day of each March, June, September and December, with the outstanding principal balance of the TLB Facility due on February 11, 2022.

Borrowings under the Amended and Restated Senior Credit Facility are guaranteed by each of the Company’s wholly-owned domestic subsidiaries (other than certain excluded subsidiaries) and are secured by a lien on substantially all of the assets of the Company and such subsidiaries. Borrowings with respect to the TLA Facility and the Company’s revolving credit facility (collectively, “Pro Rata Facilities”) under the Amended and Restated Credit Agreement bear interest at a rate tied to Acadia’s Consolidated Leverage Ratio (defined as consolidated funded debt net of up to \$40.0 million of unrestricted and unencumbered cash to consolidated EBITDA, in each case as defined in the Amended and Restated Credit Agreement). The Applicable Rate (as defined in the Amended and Restated Credit Agreement) for the Pro Rata Facilities was 3.25% for Eurodollar Rate Loans (as defined in the Amended and Restated Credit Agreement) and 2.25% for Base Rate Loans (as defined in the Amended and Restated Credit Agreement) at June 30, 2015. Eurodollar Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the Eurodollar Rate (as defined in the Amended and Restated Credit Agreement) (based upon the LIBOR Rate (as defined in the Amended and Restated Credit Agreement) prior to commencement of the interest rate period). Base Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As of June 30, 2015, the Pro Rata Facilities bore interest at a rate of LIBOR plus 3.25%. In addition, we are required to pay a commitment fee on undrawn amounts under the revolving line of credit. We paid a commitment fee of 0.50% for undrawn amounts for the period from January 1, 2013 through February 12, 2014 and 0.40% for undrawn amounts for the period from February 13, 2014 through June 30, 2015. Borrowings under the Pro Rata Facilities mature on February 13, 2019.

The Amended and Restated Credit Agreement requires the Company and its subsidiaries to comply with customary affirmative, negative and financial covenants, including a fixed charge coverage ratio, consolidated leverage ratio and senior secured leverage ratio. The Company may be required to pay all of its indebtedness immediately if it defaults on any of the numerous financial or other restrictive covenants contained in any of its material debt agreements. As of June 30, 2015, the Company was in compliance with such covenants.

12.875% Senior Notes due 2018

On November 1, 2011, the Company issued \$150.0 million of 12.875% Senior Notes due 2018 (the “12.875% Senior Notes”) at 98.323% of the aggregate principal amount of \$150.0 million, a discount of \$2.5 million. The notes bear interest at a rate of 12.875% per annum. The Company pays interest on the notes semi-annually, in arrears, on November 1 and May 1 of each year.

The indenture governing the 12.875% Senior Notes contains covenants that, among other things, limit the Company’s ability and the ability of its restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of the Company’s assets; and (vii) create liens on assets.

[Table of Contents](#)

The 12.875% Senior Notes issued by the Company are guaranteed by each of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

On March 12, 2013, the Company redeemed \$52.5 million in principal amount of the 12.875% Senior Notes using a portion of the net proceeds of its December 2012 equity offering pursuant to the provision in the indenture permitting an optional redemption with equity proceeds of up to 35% of the principal amount of 12.875% Senior Notes. The 12.875% Senior Notes were redeemed at a redemption price of 112.875% of the principal amount thereof plus accrued and unpaid interest to, but not including, the redemption date in accordance with the provisions of the indenture governing the 12.875% Senior Notes. As part of the redemption of 35% of the 12.875% Senior Notes, the Company recorded a debt extinguishment charge of \$9.4 million, including the premium and write-off of deferred financing costs, which was recorded in debt extinguishment costs in the consolidated statements of income.

6.125% Senior Notes due 2021

On March 12, 2013, the Company issued \$150.0 million of 6.125% Senior Notes due 2021 (the "6.125% Senior Notes"). The 6.125% Senior Notes mature on March 15, 2021 and bear interest at a rate of 6.125% per annum, payable semi-annually in arrears on March 15 and September 15 of each year.

The indenture governing the 6.125% Senior Notes contains covenants that, among other things, limit the Company's ability and the ability of its restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of the Company's assets; and (vii) create liens on assets.

The 6.125% Senior Notes issued by the Company are guaranteed by each of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

The Company may redeem the 6.125% Senior Notes at its option, in whole or part, at any time prior to March 15, 2016, at a price equal to 100% of the principal amount of the 6.125% Senior Notes redeemed, plus accrued and unpaid interest to the redemption date and plus an applicable premium. The Company may redeem the 6.125% Senior Notes, in whole or in part, on or after March 15, 2016, at the redemption prices set forth in the indenture governing the 6.125% Senior Notes plus accrued and unpaid interest to the redemption date. At any time on or before March 15, 2016, the Company may elect to redeem up to 35% of the aggregate principal amount of the 6.125% Senior Notes at a redemption price equal to 106.125% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net proceeds of one or more equity offerings.

5.125% Senior Notes due 2022

On July 1, 2014, the Company issued \$300.0 million of 5.125% Senior Notes (the "5.125% Senior Notes"). The 5.125% Senior Notes mature on July 1, 2022 and bear interest at a rate of 5.125% per annum, payable semi-annually in arrears on January 1 and July 1 of each year, beginning on January 1, 2015.

The indenture governing the 5.125% Senior Notes contains covenants that limit, among other things, the Company's ability and the ability of its restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of the Company's assets and (vii) create liens on assets.

The 5.125% Senior Notes issued by the Company are guaranteed by each of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

The Company may redeem the 5.125% Senior Notes at its option, in whole or part, at any time prior to July 1, 2017, at a price equal to 100% of the principal amount of the 5.125% Senior Notes redeemed, plus accrued and unpaid interest to the redemption date and plus an applicable premium. The Company may redeem the 5.125% Senior Notes, in whole or in part, on or after July 1, 2017, at the redemption prices set forth in the indenture governing the 5.125% Senior Notes plus accrued and unpaid interest to the redemption date. At any time on or before July 1, 2017, the Company may elect to redeem up to 35% of the aggregate principal amount of the 5.125% Senior Notes at a redemption price equal to 105.125% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net proceeds of one or more equity offerings.

5.625% Senior Notes due 2023

On February 11, 2015, the Company issued \$375.0 million of 5.625% Senior Notes due 2023 (the “5.625% Senior Notes”). The 5.625% Senior Notes mature on February 15, 2023 and bear interest at a rate of 5.625% per annum, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on August 15, 2015.

The indenture governing the 5.625% Senior Notes contains covenants that, among other things, limit the Company’s ability and the ability of its restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of the Company’s assets and (vii) create liens on assets.

The 5.625% Senior Notes issued by the Company are guaranteed by each of the Company’s subsidiaries that guarantee the Company’s obligations under the Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

The Company may redeem the 5.625% Senior Notes at its option, in whole or part, at any time prior to February 15, 2018, at a price equal to 100% of the principal amount of the 5.625% Senior Notes redeemed, plus accrued and unpaid interest to the redemption date and plus an applicable premium. We may redeem the 5.625% Senior Notes, in whole or in part, on or after February 15, 2018, at the redemption prices set forth in the indenture governing the 5.625% Senior Notes plus accrued and unpaid interest to the redemption date. At any time on or before February 15, 2018, the Company may elect to redeem up to 35% of the aggregate principal amount of the 5.625% Senior Notes at a redemption price equal to 105.625% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net proceeds of one or more equity offerings.

9.0% and 9.5% Revenue Bonds

On November 11, 2012, in connection with the acquisition of Park Royal, the Company assumed debt of \$23.0 million. The fair market value of the debt assumed was \$25.6 million and resulted in a debt premium balance being recorded as of the acquisition date. The debt consisted of \$7.5 million and \$15.5 million of Lee County (Florida) Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 with stated interest rates of 9.0% and 9.5% (“9.0% and 9.5% Revenue Bonds”), respectively. The 9.0% bonds in the amount of \$7.5 million have a maturity date of December 1, 2030 and require yearly principal payments beginning in 2013. The 9.5% bonds in the amount of \$15.5 million have a maturity date of December 1, 2040 and require yearly principal payments beginning in 2031. The principal payments establish a bond sinking fund to be held with the trustee and shall be sufficient to redeem the principal amounts of the 9.0% and 9.5% Revenue Bonds on their respective maturity dates. As of June 30, 2015 and December 31, 2014, \$2.3 million was recorded within other assets on the balance sheet related to the debt service reserve fund requirements. The yearly principal payments, which establish a bond sinking fund, will increase the debt service reserve fund requirements. The bond premium amount of \$2.6 million is amortized as a reduction of interest expense over the life of the revenue bonds using the effective interest method.

7. Equity Offerings

On June 17, 2014, the Company completed the offering of 8,881,794 shares of common stock (including shares sold pursuant to the exercise of the over-allotment option that the Company granted to the underwriters as part of the offering) at a price of \$44.00 per share. The net proceeds to the Company from the sale of the shares, after deducting the underwriting discount of \$15.6 million and additional offering-related costs of \$0.8 million, were \$374.4 million. The Company used the net offering proceeds to fund a portion of the consideration for the acquisition of Partnerships in Care.

On February 11, 2015, the Company completed its acquisition of CRC for total consideration of approximately \$1.3 billion. As consideration for the acquisition, the Company issued 5,975,326 shares of its common stock to certain holders of CRC common stock and repaid CRC’s outstanding indebtedness.

On May 11, 2015, the Company completed the offering of 5,175,000 shares of common stock (including shares sold pursuant to the exercise of the over-allotment option that the Company granted to the underwriters as part of the offering) at a price of \$66.50 per share. The net proceeds to the Company from the sale of the shares, after deducting the underwriting discount of \$12.0 million and additional offering-related costs of \$0.6 million, were \$331.5 million. The Company used the net offering proceeds to repay outstanding indebtedness and fund acquisitions.

8. Equity-Based Compensation

Equity Incentive Plans

The Company issues stock-based awards, including stock options, restricted stock and restricted stock units, to certain officers, employees and non-employee directors under the Acadia Healthcare Company, Inc. Incentive Compensation Plan (the “Equity Incentive Plan”). As of June 30, 2015, a maximum of 4,700,000 shares of the Company’s common stock were authorized for issuance as stock options, restricted stock and restricted stock units or other share-based compensation under the Equity Incentive Plan, of which 1,257,326 were available for future grant. Stock options may be granted for terms of up to ten years. The Company recognizes expense on all share-based awards on a straight-line basis over the requisite service period of the entire award. Grants to employees generally vest in annual increments of 25% each year, commencing one year after the date of grant. The exercise prices of stock options are equal to the most recent closing price of the Company’s common stock on the date of grant.

The Company recognized \$5.4 million and \$2.4 million in equity-based compensation expense for the three months ended June 30, 2015 and 2014, respectively, and \$9.2 million and \$4.2 million for the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015, there was \$57.7 million of unrecognized compensation expense related to unvested options, restricted stock and restricted stock units, which is expected to be recognized over the remaining weighted average vesting period of 1.6 years. As of June 30, 2015, there were no warrants outstanding. The Company recognized a deferred income tax benefit of \$2.2 million and \$1.0 million for the three months ended June 30, 2015 and 2014, respectively, related to equity-based compensation expense. The Company recognized a deferred income tax benefit of \$3.8 million and \$1.7 million for the six months ended June 30, 2015 and 2014, respectively, related to equity-based compensation expense. The actual tax benefit realized from stock options exercised during the three months ended June 30, 2015 and 2014 was \$2.0 million and \$0.8 million, respectively. The actual tax benefit realized from stock options exercised during the six months ended June 30, 2015 and 2014 was \$6.3 million and \$3.5 million, respectively.

Stock option activity during 2014 and 2015 was as follows (aggregate intrinsic value in thousands):

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (in years)</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding at January 1, 2014	798,809	\$ 21.93	8.20	\$ 10,700
Options granted	226,663	49.80	9.25	209
Options exercised	(210,199)	14.93	N/A	4,994
Options cancelled	(77,851)	27.85	N/A	N/A
Options outstanding at December 31, 2014	<u>737,422</u>	<u>32.19</u>	<u>8.09</u>	<u>14,512</u>
Options granted	190,900	62.37	9.68	1,148
Options exercised	(49,045)	23.66	N/A	5,197
Options cancelled	(88,264)	47.86	N/A	N/A
Options outstanding at June 30, 2015	<u>791,013</u>	<u>\$ 40.28</u>	<u>8.09</u>	<u>\$ 23,104</u>
Options exercisable at December 31, 2014	<u>91,947</u>	<u>\$ 28.87</u>	<u>6.30</u>	<u>\$ 3,326</u>
Options exercisable at June 30, 2015	<u>153,900</u>	<u>\$ 34.84</u>	<u>6.60</u>	<u>\$ 6,941</u>

[Table of Contents](#)

Restricted stock activity during 2014 and 2015 was as follows:

	<u>Number of Shares</u>	<u>Weighted Average Grant-Date Fair Value</u>
Unvested at January 1, 2014	461,697	\$ 24.96
Granted	468,484	48.99
Cancelled	(75,369)	36.36
Vested	(132,784)	22.81
Unvested at December 31, 2014	722,028	\$ 39.77
Granted	480,152	62.08
Cancelled	(55,674)	49.59
Vested	(107,263)	32.47
Unvested at June 30, 2015	<u>1,039,243</u>	<u>\$ 51.03</u>

Restricted stock unit activity during 2014 and 2015 was as follows:

	<u>Number of Units</u>	<u>Weighted Average Grant-Date Fair Value</u>
Unvested at January 1, 2014	95,751	\$ 23.05
Granted	108,449	50.75
Cancelled	—	—
Vested	(79,087)	21.81
Unvested at December 31, 2014	125,113	\$ 38.73
Granted	217,994	61.77
Cancelled	—	—
Vested	(125,023)	32.38
Unvested at June 30, 2015	<u>218,084</u>	<u>\$ 56.97</u>

The grant-date fair value of the Company's stock options is estimated using the Black-Scholes option pricing model. The following table summarizes the grant-date fair value of options and the assumptions used to develop the fair value estimates for options granted during the six months ended June 30, 2015 and year ended December 31, 2014:

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Weighted average grant-date fair value of options	\$ 24.30	\$ 17.14
Risk-free interest rate	1.9%	1.7%
Expected volatility	33%	36%
Expected life (in years)	5.5	5.5

The Company's estimate of expected volatility for stock options is based upon the volatility of guideline companies given the lack of sufficient historical trading experience of the Company's common stock. The risk-free interest rate is the approximate yield on United States Treasury Strips having a life equal to the expected option life on the date of grant. The expected life is an estimate of the number of years an option will be held before it is exercised.

9. Income Taxes

The provision for income taxes for continuing operations for the three months ended June 30, 2015 and 2014 reflects effective tax rates of 31.4% and 39.9%, respectively. The provision for income taxes for continuing operations for the six months ended June 30, 2015 and 2014 reflects effective tax rates of 31.4% and 39.0%, respectively. The decrease in the tax rate for the three and six months ended June 30, 2015 was primarily attributable to the acquisition of Partnerships in Care, which is located in a lower taxing jurisdiction and for which earnings are permanently reinvested.

10. Derivatives

The Company entered into foreign currency forward contracts during the three and six months ended June 30, 2015 and 2014 in connection with acquisitions in the United Kingdom. The foreign currency forward contracts limited the economic risk of changes in the foreign exchange rate between US Dollars (“USD”) and British Pounds (“GBP”) associated with the payment of the purchase price in GBP in April 2015 and July 2014. These foreign currency forward contracts did not meet the hedge accounting criteria under Accounting Standards Codification 815, *Derivatives and Hedging*. As such, losses associated with changes in fair value of \$1.0 million and \$0.9 million for the three and six months ended June 30, 2015, respectively, have been recorded in the consolidated statements of income. The final fair value of the 2015 foreign currency forward contracts settled during the three and six months ended June 30, 2015. Gains associated with changes in fair value of \$13.7 million for the three and six months ended June 30, 2014 have been recorded in the consolidated statements of income. The final fair value of the 2014 foreign currency forward contracts settled on July 1, 2014 for \$15.3 million in connection with the acquisition of Partnerships in Care.

11. Fair Value Measurements

The carrying amounts reported for cash and cash equivalents, accounts receivable, other current assets, accounts payable and other current liabilities approximate fair value because of the short-term maturity of these instruments.

The carrying amounts and fair values of the Company’s Amended and Restated Senior Credit Facility, 12.875% Senior Notes, 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes, 9.0% and 9.5% Revenue Bonds and contingent consideration liabilities as of June 30, 2015 and December 31, 2014 were as follows (in thousands):

	Carrying Amount		Fair Value	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Amended and Restated Senior Credit Facility	\$1,007,620	\$ 525,576	\$1,007,620	\$ 525,576
12.875% Senior Notes due 2018	\$ 96,533	\$ 96,420	\$ 106,519	\$ 109,688
6.125% Senior Notes due 2021	\$ 150,000	\$ 150,000	\$ 154,500	\$ 153,000
5.125% Senior Notes due 2022	\$ 300,000	\$ 300,000	\$ 297,750	\$ 295,500
5.625% Senior Notes due 2023	\$ 375,000	—	\$ 379,688	—
9.0% and 9.5% Revenue Bonds	\$ 24,054	\$ 24,274	\$ 24,054	\$ 24,274
Contingent consideration liabilities	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000

The Company’s Amended and Restated Senior Credit Facility, 12.875% Senior Notes, 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes and 9.0% and 9.5% Revenue Bonds were categorized as Level 2 in the GAAP fair value hierarchy. Fair values were based on trading activity among the Company’s lenders and the average bid and ask price as determined using published rates.

The fair value of the contingent consideration liabilities were categorized as Level 3 in the GAAP fair value hierarchy. The contingent consideration liabilities were valued using a probability-weighted discounted cash flow method. This analysis reflected the contractual terms of the purchase agreements and utilized assumptions with regard to future earnings, probabilities of achieving such future earnings and a discount rate. Significant increases with respect to assumptions as to future earnings and probabilities of achieving such future earnings would result in higher fair value measurement while an increase in the discount rate would result in a lower fair value measurement. During the six months ended June 30, 2014, the Company changed its projections of the timing of future payments of the contingent consideration liability related to the acquisition of The Pavilion at Healthpark LLC (“Park Royal”). This change resulted in a \$0.5 million increase in the fair value of the contingent consideration liability, which was recorded in transaction-related expenses in the consolidated statements of income. During the year ended December 31, 2014, the Company paid \$5.0 million of the estimated \$7.0 million Park Royal contingent consideration liability as a result of the facility achieving certain earnings targets. In addition to the Park Royal contingent consideration liability, the Company may make an earn-out payment of up to \$6.0 million to the former owners of McCallum, contingent upon achievement by McCallum of certain operating performance targets for the one-year period ending December 31, 2015.

12. Commitments and Contingencies

The Company is, from time to time, subject to various claims and legal actions that arise in the ordinary course of the Company’s business, including claims for damages for personal injuries, medical malpractice, breach of contract, tort and employment related claims. In these actions, plaintiffs request a variety of damages, including, in some instances, punitive and other types of damages that may not be covered by insurance. In the opinion of management, the Company is not currently a party to any proceeding that would individually or in the aggregate have a material adverse effect on the Company’s business, financial condition or results of operations.

13. Segment Information

The Company operates in one line of business, which is operating acute inpatient psychiatric facilities, specialty treatment facilities, residential treatment centers and facilities providing outpatient behavioral healthcare services. As management reviews the operating results of its facilities in the United States (the "U.S. Facilities") and its facilities in the United Kingdom (the "U.K. Facilities") separately to assess performance and make decisions, the Company's operating segments include its U.S. Facilities and U.K. Facilities. At June 30, 2015, the U.S. Facilities included 178 behavioral healthcare facilities with approximately 7,200 beds in 37 states and Puerto Rico, and the U.K. Facilities included 45 behavioral healthcare facilities with approximately 1,800 beds in the United Kingdom.

The following tables set forth the financial information by operating segment, including a reconciliation of Segment EBITDA to income from continuing operations before income taxes (in thousands):

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenue:				
U.S. Facilities	\$ 366,886	\$ 212,834	\$ 657,393	\$ 413,398
U.K. Facilities	84,927	—	158,242	—
Corporate and Other	1,847	969	3,808	1,823
	<u>\$ 453,660</u>	<u>\$ 213,803</u>	<u>\$ 819,443</u>	<u>\$ 415,221</u>
Segment EBITDA (1):				
U.S. Facilities	\$ 102,342	\$ 53,031	\$ 178,706	\$ 100,563
U.K. Facilities	20,371	—	39,182	—
Corporate and Other	(16,910)	(8,317)	(33,373)	(16,567)
	<u>\$ 105,803</u>	<u>\$ 44,714</u>	<u>\$ 184,515</u>	<u>\$ 83,996</u>
			<u>Three Months Ended June 30,</u>	<u>Six Months Ended June 30,</u>
			<u>2015</u>	<u>2014</u>
Segment EBITDA (1)	\$ 105,803	\$ 44,714	\$ 184,515	\$ 83,996
Plus (less):				
Equity-based compensation expense	(5,355)	(2,406)	(9,249)	(4,170)
(Loss) gain on foreign currency derivatives	(961)	13,735	(908)	13,735
Transaction-related expenses	(7,157)	(3,016)	(25,573)	(4,595)
Interest expense, net	(28,049)	(9,730)	(50,195)	(19,437)
Depreciation and amortization	(14,926)	(5,935)	(28,030)	(11,371)
Income from continuing operations before income taxes	<u>\$ 49,355</u>	<u>\$ 37,362</u>	<u>\$ 70,560</u>	<u>\$ 58,158</u>
			<u>U.S. Facilities</u>	<u>U.K. Facilities</u>
			<u>Corporate and Other</u>	<u>Consolidated</u>
Goodwill:				
Balance at January 1, 2015	\$ 693,945	\$ 109,041	\$ —	\$ 802,986
Increase from 2015 acquisitions	1,103,813	65,293	—	1,169,106
Foreign currency translation	—	6,972	—	6,972
Purchase price allocation and other	281	(33,317)	—	(33,036)
Balance at June 30, 2015	<u>\$ 1,798,039</u>	<u>\$ 147,989</u>	<u>\$ —</u>	<u>\$ 1,946,028</u>

[Table of Contents](#)

	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Assets (2):		
U.S. Facilities	\$ 2,729,896	\$ 1,327,563
U.K. Facilities	944,033	726,693
Corporate and Other	252,456	169,334
	<u>\$ 3,926,385</u>	<u>\$ 2,223,590</u>

- (1) Segment EBITDA is defined as income from continuing operations before provision for income taxes, equity-based compensation expense, gain/loss on foreign currency derivatives, transaction-related expenses, interest expense and depreciation and amortization. The Company uses Segment EBITDA as an analytical indicator to measure the performance of the Company's segments and to develop strategic objectives and operating plans for those segments. Segment EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. Segment EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from Segment EBITDA are significant components in understanding and assessing financial performance. Because Segment EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, Segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.
- (2) Assets include property and equipment for the U.S. Facilities of \$671.2 million, U.K. Facilities of \$754.2 million and corporate and other of \$30.0 million at June 30, 2015. Assets include property and equipment for the U.S. Facilities of \$478.1 million, U.K. Facilities of \$578.6 million and corporate and other of \$13.0 million at December 31, 2014.

14. Recently Issued Accounting Standards

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2015-03, "*Interest-Imputation of Interest (Subtopic 835-30)*" ("ASU 2015-03"). ASU 2015-03 simplifies the presentation of debt issuance costs by requiring debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted, and the new guidance should be applied retrospectively. Management is evaluating the impact of ASU 2015-03 on the Company's consolidated financial statements.

In May 2014, the FASB and the International Accounting Standards Board issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*" ("ASU 2014-09"). ASU 2014-09's core principal is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Additionally, ASU 2014-09 would permit both public and nonpublic organizations to adopt the new revenue standard early, but not before the original public organization effective date (that is, annual periods beginning after December 15, 2016). Management is evaluating the impact of ASU 2014-09 on the Company's consolidated financial statements.

15. Subsequent Events

On July 1, 2015, the Company completed the acquisition of (i) the assets of Belmont Behavioral Health, an inpatient psychiatric facility with 147 beds located in Philadelphia, Pennsylvania for cash consideration of approximately \$40.0 million which consists of \$35.0 million base purchase price and an estimated working capital settlement of \$5.0 million, and (ii) The Manor Clinic, a substance abuse facility with 15 beds located in England, for cash consideration of approximately \$5.9 million.

16. Financial Information for the Company and Its Subsidiaries

The Company conducts substantially all of its business through its subsidiaries. The 12.875% Senior Notes, 6.125% Senior Notes, 5.125% Senior Notes and 5.625% Senior Notes are jointly and severally guaranteed on an unsecured senior basis by all of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. Presented below is condensed consolidating financial information for the Company and its subsidiaries as of June 30, 2015 and December 31, 2014, and for the three and six months ended June 30, 2015 and 2014. The information segregates the parent company (Acadia Healthcare Company, Inc.), the combined wholly-owned subsidiary guarantors, the combined non-guarantor subsidiaries and eliminations.

Acadia Healthcare Company, Inc.
Condensed Consolidating Balance Sheets
June 30, 2015
(In thousands)

	<u>Parent</u>	<u>Combined Subsidiary Guarantors</u>	<u>Combined Non- Guarantors</u>	<u>Consolidating Adjustments</u>	<u>Total Consolidated Amounts</u>
Current assets:					
Cash and cash equivalents	\$ —	\$ 17,179	\$ 17,393	\$ —	\$ 34,572
Accounts receivable, net	—	160,179	22,136	—	182,315
Deferred tax assets	—	36,502	2,191	—	38,693
Other current assets	—	62,295	8,030	—	70,325
Total current assets	—	276,155	49,750	—	325,905
Property and equipment, net	—	656,262	799,128	—	1,455,390
Goodwill	—	1,700,705	245,323	—	1,946,028
Intangible assets, net	—	55,928	2,586	—	58,514
Deferred tax assets – noncurrent	5,361	16,239	12,366	—	33,966
Investment in subsidiaries	1,332,308	—	—	(1,332,308)	—
Other assets	389,676	65,957	2,322	(351,373)	106,582
Total assets	<u>\$1,727,345</u>	<u>\$2,771,246</u>	<u>\$1,111,475</u>	<u>\$(1,683,681)</u>	<u>\$3,926,385</u>
Current liabilities:					
Current portion of long-term debt	\$ 38,437	\$ —	\$ 215	\$ —	\$ 38,652
Accounts payable	—	44,985	13,729	—	58,714
Accrued salaries and benefits	—	65,040	12,505	—	77,545
Other accrued liabilities	22,604	27,543	18,050	—	68,197
Total current liabilities	61,041	137,568	44,499	—	243,108
Long-term debt	—	1,890,716	375,212	(351,373)	1,914,555
Deferred tax liabilities – noncurrent	—	—	20,200	—	20,200
Other liabilities	—	72,329	9,889	—	82,218
Total liabilities	<u>61,041</u>	<u>2,100,613</u>	<u>449,800</u>	<u>(351,373)</u>	<u>2,260,081</u>
Total equity	1,666,304	670,633	661,675	(1,332,308)	1,666,304
Total liabilities and equity	<u>\$1,727,345</u>	<u>\$2,771,246</u>	<u>\$1,111,475</u>	<u>\$(1,683,681)</u>	<u>\$3,926,385</u>

Acadia Healthcare Company, Inc.
Condensed Consolidating Balance Sheets
December 31, 2014
(In thousands)

	<u>Parent</u>	<u>Combined Subsidiary Guarantors</u>	<u>Combined Non- Guarantors</u>	<u>Consolidating Adjustments</u>	<u>Total Consolidated Amounts</u>
Current assets:					
Cash and cash equivalents	\$ —	\$ 76,685	\$ 17,355	\$ —	\$ 94,040
Accounts receivable, net	—	100,797	17,581	—	118,378
Deferred tax assets	—	18,395	1,760	—	20,155
Other current assets	—	36,049	5,521	—	41,570
Total current assets	—	231,926	42,217	—	274,143
Property and equipment, net	—	451,943	617,757	—	1,069,700
Goodwill	—	596,611	206,375	—	802,986
Intangible assets, net	—	19,057	2,579	—	21,636
Deferred tax assets – noncurrent	4,563	—	14,244	(5,666)	13,141
Investment in subsidiaries	1,759,337	—	—	(1,759,337)	—
Other assets	202,708	18,727	2,323	(181,774)	41,984
Total assets	<u>\$1,966,608</u>	<u>\$1,318,264</u>	<u>\$ 885,495</u>	<u>\$(1,946,777)</u>	<u>\$2,223,590</u>
Current liabilities:					
Current portion of long-term debt	\$ 26,750	\$ —	\$ 215	\$ —	\$ 26,965
Accounts payable	—	39,486	9,210	—	48,696
Accrued salaries and benefits	—	47,597	11,720	—	59,317
Other accrued liabilities	13,647	7,688	9,621	—	30,956
Total current liabilities	40,397	94,771	30,766	—	165,934
Long-term debt	1,045,246	—	205,833	(181,774)	1,069,305
Deferred tax liabilities – noncurrent	—	21,027	48,519	(5,666)	63,880
Other liabilities	—	33,321	10,185	—	43,506
Total liabilities	<u>1,085,643</u>	<u>149,119</u>	<u>295,303</u>	<u>(187,440)</u>	<u>1,342,625</u>
Total equity	880,965	1,169,145	590,192	(1,759,337)	880,965
Total liabilities and equity	<u>\$1,966,608</u>	<u>\$1,318,264</u>	<u>\$ 885,495</u>	<u>\$(1,946,777)</u>	<u>\$2,223,590</u>

Acadia Healthcare Company, Inc.
Condensed Consolidating Statement of Comprehensive Income
Three Months Ended June 30, 2015
(In thousands)

	<u>Parent</u>	<u>Combined Subsidiary Guarantors</u>	<u>Combined Non- Guarantors</u>	<u>Consolidating Adjustments</u>	<u>Total Consolidated Amounts</u>
Revenue before provision for doubtful accounts	\$ —	\$ 363,851	\$ 97,947	\$ —	\$ 461,798
Provision for doubtful accounts	—	(7,566)	(572)	—	(8,138)
Revenue	—	356,285	97,375	—	453,660
Salaries, wages and benefits	5,355	183,490	54,457	—	243,302
Professional fees	—	22,579	7,450	—	30,029
Supplies	—	16,929	3,613	—	20,542
Rents and leases	—	7,402	809	—	8,211
Other operating expenses	—	43,145	7,983	—	51,128
Depreciation and amortization	—	10,551	4,375	—	14,926
Interest expense, net	18,106	5,882	4,061	—	28,049
Loss on foreign currency derivatives	961	—	—	—	961
Transaction-related expenses	—	2,946	4,211	—	7,157
Total expenses	24,422	292,924	86,959	—	404,305
(Loss) income from continuing operations before income taxes	(24,422)	63,361	10,416	—	49,355
Equity in earnings of subsidiaries	50,281	—	—	(50,281)	—
(Benefit from) provision for income taxes	(7,985)	20,734	2,763	—	15,512
Income (loss) from continuing operations	33,844	42,627	7,653	(50,281)	33,843
Income from discontinued operations, net of income taxes	—	1	—	—	1
Net income (loss)	<u>\$ 33,844</u>	<u>\$ 42,628</u>	<u>\$ 7,653</u>	<u>\$ (50,281)</u>	<u>\$ 33,844</u>
Other comprehensive income:					
Foreign currency translation gain	—	—	46,173	—	46,173
Other comprehensive income	—	—	46,173	—	46,173
Comprehensive income (loss)	<u>\$ 33,844</u>	<u>\$ 42,628</u>	<u>\$ 53,826</u>	<u>\$ (50,281)</u>	<u>\$ 80,017</u>

Acadia Healthcare Company, Inc.
Condensed Consolidating Statement of Comprehensive Income
Three Months Ended June 30, 2014
(In thousands)

	<u>Parent</u>	<u>Combined Subsidiary Guarantors</u>	<u>Combined Non- Guarantors</u>	<u>Consolidating Adjustments</u>	<u>Total Consolidated Amounts</u>
Revenue before provision for doubtful accounts	\$ —	\$ 207,143	\$ 13,521	\$ —	\$ 220,664
Provision for doubtful accounts	—	(5,954)	(907)	—	(6,861)
Revenue	—	201,189	12,614	—	213,803
Salaries, wages and benefits	2,406	114,976	5,091	—	122,473
Professional fees	—	9,691	1,200	—	10,891
Supplies	—	9,967	629	—	10,596
Rents and leases	—	2,613	276	—	2,889
Other operating expenses	—	22,522	2,124	—	24,646
Depreciation and amortization	—	5,581	354	—	5,935
Interest expense, net	9,202	—	528	—	9,730
Loss (gain) on foreign currency derivatives	(13,735)	—	—	—	(13,735)
Transaction-related expenses	—	3,016	—	—	3,016
Total expenses	(2,127)	168,366	10,202	—	176,441
Income from continuing operations before income taxes	2,127	32,823	2,412	—	37,362
Equity in earnings of subsidiaries	20,972	—	—	(20,972)	—
Provision for income taxes	648	13,315	942	—	14,905
Income (loss) from continuing operations	22,451	19,508	1,470	(20,972)	22,457
Loss from discontinued operations, net of income taxes	—	(6)	—	—	(6)
Net income (loss)	<u>\$ 22,451</u>	<u>\$ 19,502</u>	<u>\$ 1,470</u>	<u>\$ (20,972)</u>	<u>\$ 22,451</u>
Comprehensive income (loss)	<u>\$ 22,451</u>	<u>\$ 19,502</u>	<u>\$ 1,470</u>	<u>\$ (20,972)</u>	<u>\$ 22,451</u>

Acadia Healthcare Company, Inc.
Condensed Consolidating Statement of Comprehensive Income
Six Months Ended June 30, 2015
(In thousands)

	<u>Parent</u>	<u>Combined Subsidiary Guarantors</u>	<u>Combined Non- Guarantors</u>	<u>Consolidating Adjustments</u>	<u>Total Consolidated Amounts</u>
Revenue before provision for doubtful accounts	\$ —	\$ 651,616	\$ 184,340	\$ —	\$ 835,956
Provision for doubtful accounts	—	(14,985)	(1,528)	—	(16,513)
Revenue	—	636,631	182,812	—	819,443
Salaries, wages and benefits	9,249	339,189	100,735	—	449,173
Professional fees	—	39,064	13,392	—	52,456
Supplies	—	29,938	6,858	—	36,796
Rents and leases	—	12,519	1,578	—	14,097
Other operating expenses	—	75,392	16,263	—	91,655
Depreciation and amortization	—	19,262	8,768	—	28,030
Interest expense, net	31,054	11,603	7,538	—	50,195
Loss on foreign currency derivatives	908	—	—	—	908
Transaction-related expenses	—	21,362	4,211	—	25,573
Total expenses	41,211	548,329	159,343	—	748,883
(Loss) income from continuing operations before income taxes	(41,211)	88,302	23,469	—	70,560
Equity in earnings of subsidiaries	76,268	—	—	(76,268)	—
(Benefit from) provision for income taxes	(13,381)	29,251	6,255	—	22,125
Income (loss) from continuing operations	48,438	59,051	17,214	(76,268)	48,435
Income from discontinued operations, net of income taxes	—	3	—	—	3
Net income (loss)	<u>\$ 48,438</u>	<u>\$ 59,054</u>	<u>\$ 17,214</u>	<u>\$ (76,268)</u>	<u>\$ 48,438</u>
Other comprehensive income:					
Foreign currency translation gain	—	—	16,784	—	16,784
Other comprehensive income	—	—	16,784	—	16,784
Comprehensive income (loss)	<u>\$ 48,438</u>	<u>\$ 59,054</u>	<u>\$ 33,998</u>	<u>\$ (76,268)</u>	<u>\$ 65,222</u>

Acadia Healthcare Company, Inc.
Condensed Consolidating Statement of Comprehensive Income
Six Months Ended June 30, 2014
(In thousands)

	<u>Parent</u>	<u>Combined Subsidiary Guarantors</u>	<u>Combined Non- Guarantors</u>	<u>Consolidating Adjustments</u>	<u>Total Consolidated Amounts</u>
Revenue before provision for doubtful accounts	\$ —	\$ 400,425	\$ 26,358	\$ —	\$ 426,783
Provision for doubtful accounts	—	(10,464)	(1,098)	—	(11,562)
Revenue	—	389,961	25,260	—	415,221
Salaries, wages and benefits	4,170	225,629	10,249	—	240,048
Professional fees	—	18,944	2,329	—	21,273
Supplies	—	19,353	1,307	—	20,660
Rents and leases	—	5,108	550	—	5,658
Other operating expenses	—	43,600	4,156	—	47,756
Depreciation and amortization	—	10,666	705	—	11,371
Interest expense, net	18,313	—	1,124	—	19,437
Loss (gain) on foreign currency derivatives	(13,735)	—	—	—	(13,735)
Transaction-related expenses	—	4,595	—	—	4,595
Total expenses	8,748	327,895	20,420	—	357,063
(Loss) income from continuing operations before income taxes	(8,748)	62,066	4,840	—	58,158
Equity in earnings of subsidiaries	40,839	—	—	(40,839)	—
(Benefit from) provision for income taxes	(3,418)	24,249	1,849	—	22,680
Income (loss) from continuing operations	35,509	37,817	2,991	(40,839)	35,478
Income from discontinued operations, net of income taxes	—	31	—	—	31
Net income (loss)	<u>\$ 35,509</u>	<u>\$ 37,848</u>	<u>\$ 2,991</u>	<u>\$ (40,839)</u>	<u>\$ 35,509</u>
Comprehensive income (loss)	<u>\$ 35,509</u>	<u>\$ 37,848</u>	<u>\$ 2,991</u>	<u>\$ (40,839)</u>	<u>\$ 35,509</u>

Acadia Healthcare Company, Inc.
Condensed Consolidating Statement of Cash Flows
Six Months Ended June 30, 2015
(In thousands)

	<u>Parent</u>	<u>Combined Subsidiary Guarantors</u>	<u>Combined Non- Guarantors</u>	<u>Consolidating Adjustments</u>	<u>Total Consolidated Amounts</u>
Operating activities:					
Net income (loss)	\$ 48,438	\$ 59,054	\$ 17,214	\$ (76,268)	\$ 48,438
Adjustments to reconcile net income (loss) to net cash (used in) provided by continuing operating activities:					
Equity in earnings of subsidiaries	(76,268)	—	—	76,268	—
Depreciation and amortization	—	19,262	8,768	—	28,030
Amortization of debt issuance costs	—	3,438	(220)	—	3,218
Equity-based compensation expense	9,249	—	—	—	9,249
Deferred income tax (benefit) expense	(798)	22,964	2,516	—	24,682
Loss from discontinued operations, net of taxes	—	(3)	—	—	(3)
Loss (gain) on foreign currency derivatives	908	—	—	—	908
Other	—	662	30	—	692
Change in operating assets and liabilities, net of effect of acquisitions:				—	
Accounts receivable, net	—	(11,409)	967	—	(10,442)
Other current assets	—	(12,026)	(1,022)	—	(13,048)
Other assets	(300)	(1,220)	2	300	(1,218)
Accounts payable and other accrued liabilities	—	5,991	(10,304)	—	(4,313)
Accrued salaries and benefits	—	791	(1,016)	—	(225)
Other liabilities	—	5,442	(823)	—	4,619
Net cash (used in) provided by continuing operating activities	<u>(18,771)</u>	<u>92,946</u>	<u>16,112</u>	<u>300</u>	<u>90,587</u>
Net cash provided by discontinued operating activities	—	554	—	—	554
Net cash (used in) provided by operating activities	<u>(18,771)</u>	<u>93,500</u>	<u>16,112</u>	<u>300</u>	<u>91,141</u>
Investing activities:					
Cash paid for acquisitions, net of cash acquired	—	(89,041)	(197,693)	—	(286,734)
Cash paid for capital expenditures	—	(62,101)	(59,934)	—	(122,035)
Cash paid for real estate acquisitions	—	(3,428)	—	—	(3,428)
Settlement of foreign currency derivatives	—	(908)	—	—	(908)
Other	—	(481)	—	—	(481)
Net cash used in investing activities	<u>—</u>	<u>(155,959)</u>	<u>(257,627)</u>	<u>—</u>	<u>(413,586)</u>
Financing activities:					
Borrowings on long-term debt	875,000	—	—	—	875,000
Borrowings on revolving credit facility	180,000	—	—	—	180,000
Principal payments on revolving credit facility	(180,000)	—	—	—	(180,000)
Repayment of assumed CRC debt	(904,467)	—	—	—	(904,467)
Principal payments on long-term debt	(15,875)	—	(300)	300	(15,875)
Payment of debt issuance costs	—	(22,775)	—	—	(22,775)
Issuance of Common Stock	—	331,530	—	—	331,530
Common stock withheld for minimum statutory taxes, net	—	(7,826)	—	—	(7,826)
Excess tax benefit from equity awards	—	6,327	—	—	6,327
Other	—	(150)	—	—	(150)
Cash provided by (used in) intercompany activity	64,113	(305,366)	241,853	(600)	—
Net cash provided by (used in) financing activities	<u>18,771</u>	<u>1,740</u>	<u>241,553</u>	<u>(300)</u>	<u>261,764</u>
Effect of exchange rate changes on cash	—	1,213	—	—	1,213
Net (decrease) increase in cash and cash equivalents	—	(59,506)	38	—	(59,468)
Cash and cash equivalents at beginning of the period	—	76,685	17,355	—	94,040
Cash and cash equivalents at end of the period	<u>\$ —</u>	<u>\$ 17,179</u>	<u>\$ 17,393</u>	<u>\$ —</u>	<u>\$ 34,572</u>

Acadia Healthcare Company, Inc.
Condensed Consolidating Statement of Cash Flows
Six Months Ended June 30, 2014
(In thousands)

	Parent	Combined Subsidiary Guarantors	Combined Non- Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Operating activities:					
Net income (loss)	\$ 35,509	\$ 37,848	\$ 2,991	\$ (40,839)	\$ 35,509
Adjustments to reconcile net income (loss) to net cash (used in) provided					
by continuing operating activities:					
Equity in earnings of subsidiaries	(40,839)	—	—	40,839	—
Depreciation and amortization	—	10,666	705	—	11,371
Amortization of debt issuance costs	1,560	—	(226)	—	1,334
Equity-based compensation expense	4,170	—	—	—	4,170
Deferred income tax expense	5,585	3,105	407	—	9,097
Income from discontinued operations, net of taxes	—	(31)	—	—	(31)
Gain on foreign currency derivatives	(13,735)	—	—	—	(13,735)
Other	—	25	—	—	25
Change in operating assets and liabilities, net of effect of acquisitions:					
Accounts receivable, net	—	(16,670)	1,367	—	(15,303)
Other current assets	—	(5,033)	241	—	(4,792)
Other assets	165	(578)	—	(165)	(578)
Accounts payable and other accrued liabilities	—	(1,584)	284	—	(1,300)
Accrued salaries and benefits	—	1,701	81	—	1,782
Other liabilities	—	1,701	—	—	1,701
Net cash (used in) provided by continuing operating activities	(7,585)	31,150	5,850	(165)	29,250
Net cash used in discontinued operating activities	—	(11)	—	—	(11)
Net cash (used in) provided by operating activities	(7,585)	31,139	5,850	(165)	29,239
Investing activities:					
Cash paid for acquisitions, net of cash acquired	—	(10,000)	—	—	(10,000)
Cash paid for capital expenditures	—	(39,782)	(3,541)	—	(43,323)
Cash paid for real estate acquisitions	—	(18,326)	—	—	(18,326)
Other	—	(439)	—	—	(439)
Net cash used in investing activities	—	(68,547)	(3,541)	—	(72,088)
Financing activities:					
Borrowings on long-term debt	7,500	—	—	—	7,500
Borrowings on revolving credit facility	59,500	—	—	—	59,500
Principal payments on revolving credit facility	(113,000)	—	—	—	(113,000)
Principal payments on long-term debt	(3,750)	—	(165)	165	(3,750)
Payment of debt issuance costs	(5,810)	—	—	—	(5,810)
Issuance of common stock, net	374,336	—	—	—	374,336
Common stock withheld for minimum statutory taxes, net	(2,981)	—	—	—	(2,981)
Excess tax benefit from equity awards	3,479	—	—	—	3,479
Cash paid for contingent consideration	—	(3,250)	—	—	(3,250)
Cash (used in) provided by intercompany activity	(311,689)	315,175	(5,411)	1,925	—
Net cash provided by (used in) financing activities	7,585	311,925	(5,576)	2,090	316,024
Net increase (decrease) in cash and cash equivalents	—	274,517	(3,267)	1,925	273,175
Cash and cash equivalents at beginning of the period	—	—	6,494	(1,925)	4,569
Cash and cash equivalents at end of the period	<u>\$ —</u>	<u>\$ 274,517</u>	<u>\$ 3,227</u>	<u>\$ —</u>	<u>\$ 277,744</u>

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statements that address future results or occurrences. In some cases you can identify forward-looking statements by terminology such as “may,” “might,” “will,” “would,” “should,” “could” or the negative thereof. Generally, the words “anticipate,” “believe,” “continue,” “expect,” “intend,” “estimate,” “project,” “plan” and similar expressions identify forward-looking statements. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance contained are forward-looking statements.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks, uncertainties and other factors, many of which are outside of our control, which could cause our actual results, performance or achievements to differ materially from any results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to:

- our significant indebtedness, our ability to meet our debt obligations, and our ability to incur substantially more debt;
- difficulties in successfully integrating the operations of acquired facilities, including those acquired in the CRC and Partnerships in Care acquisitions, or realizing the potential benefits and synergies of our acquisitions;
- our ability to implement our business strategies in the United Kingdom and adapt to the regulatory and business environment in the United Kingdom;
- the impact of payments received from the government and third-party payors on our revenues and results of operations including the significant dependence of the Partnerships in Care facilities on payments received from the National Health Service in the United Kingdom (“NHS”);
- the occurrence of patient incidents, which could result in negative media coverage, adversely affect the price of our securities and result in incremental regulatory burdens and governmental investigations;
- our future cash flow and earnings;
- our restrictive covenants, which may restrict our business and financing activities;
- our ability to make payments on our financing arrangements;
- the impact of the economic and employment conditions in the United States and the United Kingdom on our business and future results of operations;
- compliance with laws and government regulations;
- the impact of claims brought against our facilities;
- the impact of governmental investigations, regulatory actions and whistleblower lawsuits;
- the impact of healthcare reform in the United States and abroad;
- the impact of our highly competitive industry on patient volumes;
- our ability to recruit and retain quality psychiatrists and other physicians;
- the impact of competition for staffing on our labor costs and profitability;
- our dependence on key management personnel, key executives and local facility management personnel;
- our acquisition strategy, which exposes us to a variety of operational and financial risks, as well as legal and regulatory risks (e.g., exposure to the new regulatory regimes such as the United Kingdom for Partnerships in Care and various investigations relating to CRC);
- the impact of state efforts to regulate the construction or expansion of healthcare facilities (including those from CRC and Partnerships in Care) on our ability to operate and expand our operations;
- our potential inability to extend leases at expiration;
- the impact of controls designed to reduce inpatient services on our revenues;
- the impact of different interpretations of accounting principles on our results of operations or financial condition;
- the impact of environmental, health and safety laws and regulations, especially in states where we have concentrated operations;

- the impact of an increase in uninsured and underinsured patients or the deterioration in the collectability of the accounts of such patients on our results of operations;
- the risk of a cyber-security incident and any resulting violation of laws and regulations regarding information privacy or other negative impact;
- the impact of laws and regulations relating to privacy and security of patient health information and standards for electronic transactions;

[Table of Contents](#)

- the impact of a change in the mix of our earnings, and changes in tax rates and laws generally;
- failure to maintain effective internal control over financial reporting;
- the impact of fluctuations in our operating results, quarter to quarter earnings and other factors on the price of our securities;
- the impact of the trend for insurance companies and managed care organizations to enter into sole source contracts on our ability to obtain patients;
- the impact of fluctuations in foreign exchange rates; and
- those risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. These risks and uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. These forward-looking statements are made only as of the date of this Quarterly Report on Form 10-Q. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments.

Overview

Our business strategy is to acquire and develop behavioral healthcare facilities and improve our operating results within our facilities and our other behavioral healthcare operations. We strive to improve the operating results of our facilities by providing high-quality services, expanding referral networks and marketing initiatives while meeting the increased demand for behavioral healthcare services through expansion of our current locations as well as developing new services within existing locations. At June 30, 2015, we operated 223 behavioral healthcare facilities with over 9,000 beds in 37 states, the United Kingdom and Puerto Rico. During the six months ended June 30, 2015, we acquired 144 facilities and added approximately 250 new beds, including one de novo facility. For the year ending December 31, 2015, we expect to add approximately 500 total beds to facilities we owned as of December 31, 2014.

We are the leading publicly traded pure-play provider of behavioral healthcare services, with operations in the United States and the United Kingdom. Management believes that the Company's recent acquisitions position the Company as a leading platform in a highly fragmented industry under the direction of an experienced management team that has significant industry expertise. Management expects to take advantage of several strategies that are more accessible as a result of our increased size and geographic scale, including continuing a national marketing strategy to attract new patients and referral sources, increasing our volume of out-of-state referrals, providing a broader range of services to new and existing patients and clients and selectively pursuing opportunities to expand our facility and bed count.

Acquisitions

On February 11, 2015, we completed the acquisition of CRC for total consideration of approximately \$1.3 billion. As consideration for the acquisition, we issued 5,975,326 shares of our common stock to certain holders of CRC common stock and repaid CRC's outstanding indebtedness. CRC is a leading provider of treatment services related to substance abuse and other addiction and behavioral disorders. At the acquisition date, CRC operated 35 inpatient facilities with over 2,400 beds and 81 comprehensive treatment centers located in 30 states.

On March 1, 2015, we acquired the stock of QAM for total consideration of approximately \$54.6 million. QAM operates seven comprehensive treatment centers located in Wisconsin.

On April 1, 2015, we completed the acquisitions of (i) two facilities from Choice for approximately \$37.5 million, (ii) Pastoral for approximately \$34.2 million and (iii) Mildmay Oaks for approximately \$14.9 million. The two inpatient psychiatric facilities acquired from Choice have an aggregate of 48 beds and are located in England. Pastoral operates two inpatient psychiatric facilities with an aggregate of 65 beds located in Wales. Mildmay Oaks is an inpatient psychiatric facility with 67 beds located in England.

On June 1, 2015, we completed the acquisitions of (i) one facility from Choice for approximately \$25.9 million and (ii) 15 facilities from Care UK for approximately \$88.3 million. The inpatient psychiatric facility acquired from Choice has 42 beds and is located in England. The inpatient psychiatric facilities acquired from Care UK have an aggregate of 299 beds and are located in England.

Revenue

Our revenue is primarily derived from services rendered to patients for inpatient psychiatric and substance abuse care, outpatient psychiatric care and adolescent residential treatment. We receive payments from the following sources for services rendered in our facilities: (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers; (iii) the federal

[Table of Contents](#)

government under the Medicare program administered by CMS; (iv) NHS in the United Kingdom; and (v) individual patients and clients. Revenue is recorded in the period in which services are provided at established billing rates less contractual adjustments 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.

The following table presents revenue by payor type and as a percentage of revenue before provision for doubtful accounts for the three and six months ended June 30, 2015 and 2014 (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
	Amount	%	Amount	%	Amount	%	Amount	%
Commercial	\$108,059	23.4%	\$ 58,429	26.5%	\$191,533	22.9%	\$114,614	26.8%
Medicare	51,987	11.3%	48,581	22.0%	101,132	12.1%	94,267	22.1%
Medicaid	154,204	33.4%	101,546	46.0%	280,528	33.6%	193,316	45.3%
NHS	83,069	18.0%	—	— %	155,635	18.6%	—	— %
Self-Pay	50,559	10.9%	6,207	2.8%	80,287	9.6%	13,214	3.1%
Other	13,920	3.0%	5,901	2.7%	26,841	3.2%	11,372	2.7%
Revenue before provision for doubtful accounts	461,798	100.0%	220,664	100.0%	835,956	100.0%	426,783	100.0%
Provision for doubtful accounts	(8,138)		(6,861)		(16,513)		(11,562)	
Revenue	<u>\$453,660</u>		<u>\$213,803</u>		<u>\$819,443</u>		<u>\$415,221</u>	

The following tables present a summary of our aging of accounts receivable as of June 30, 2015 and December 31, 2014:

June 30, 2015

	Current	30-90	90-150	>150	Total
Commercial	19.0%	8.2%	3.1%	1.9%	32.2%
Medicare	12.3%	1.9%	1.0%	2.0%	17.2%
Medicaid	24.3%	7.1%	2.7%	1.9%	36.0%
NHS	1.9%	2.4%	— %	— %	4.3%
Self-Pay	1.3%	2.0%	2.1%	3.7%	9.1%
Other	0.5%	0.4%	0.1%	0.2%	1.2%
Total	59.3%	22.0%	9.0%	9.7%	100.0%

December 31, 2014

	Current	30-90	90-150	>150	Total
Commercial	14.5%	6.7%	2.6%	3.1%	26.9%
Medicare	15.8%	3.4%	1.7%	3.7%	24.6%
Medicaid	22.2%	4.9%	2.3%	2.8%	32.2%
NHS	2.1%	1.8%	0.1%	— %	4.0%
Self-Pay	1.1%	1.8%	2.2%	6.2%	11.3%
Other	0.3%	0.2%	0.2%	0.3%	1.0%
Total	56.0%	18.8%	9.1%	16.1%	100.0%

Results of Operations

The following table illustrates our consolidated results of operations from continuing operations for the respective periods shown (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
	Amount	%	Amount	%	Amount	%	Amount	%
Revenue before provision for doubtful accounts	\$461,798		\$220,664		\$835,956		\$426,783	
Provision for doubtful accounts	(8,138)		(6,861)		(16,513)		(11,562)	
Revenue	453,660	100.0%	213,803	100.0%	819,443	100.0%	415,221	100.0%
Salaries, wages and benefits	243,302	53.6%	122,473	57.3%	449,173	54.8%	240,048	57.8%
Professional fees	30,029	6.6%	10,891	5.1%	52,456	6.4%	21,273	5.1%
Supplies	20,542	4.5%	10,596	5.0%	36,796	4.5%	20,660	5.0%
Rents and leases	8,211	1.8%	2,889	1.3%	14,097	1.7%	5,658	1.4%
Other operating expenses	51,128	11.3%	24,646	11.5%	91,655	11.2%	47,756	11.5%
Depreciation and amortization	14,926	3.3%	5,935	2.8%	28,030	3.4%	11,371	2.7%
Interest expense	28,049	6.2%	9,730	4.5%	50,195	6.1%	19,437	4.7%
Loss (gain) on foreign currency derivatives	961	0.2%	(13,735)	(6.4)%	908	0.1%	(13,735)	(3.3)%
Transaction-related expenses	7,157	1.6%	3,016	1.4%	25,573	3.1%	4,595	1.1%
Total expenses	404,305	89.1%	176,441	82.5%	748,883	91.3%	357,063	86.0%
Income from continuing operations before income taxes	49,355	10.9%	37,362	17.5%	70,560	8.6%	58,158	14.0%
Provision for income taxes	15,512	3.4%	14,905	7.0%	22,125	2.7%	22,680	5.5%
Income from continuing operations	<u>\$ 33,843</u>	7.5%	<u>\$ 22,457</u>	10.5%	<u>\$ 48,435</u>	5.9%	<u>\$ 35,478</u>	8.5%

Three months ended June 30, 2015 compared to the three months ended June 30, 2014

Revenue before provision for doubtful accounts. Revenue before provision for doubtful accounts increased \$241.1 million, or 109.3%, to \$461.8 million for the three months ended June 30, 2015 from \$220.7 million for the three months ended June 30, 2014. The increase related primarily to revenue generated during the three months ended June 30, 2015 from the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisitions of Partnerships in Care and CRC. Same-facility revenue before provision for doubtful accounts increased by \$17.9 million, or 8.3%, for the three months ended June 30, 2015 compared to the three months ended June 30, 2014, resulting from same-facility growth in patient days of 7.4% and an increase in same-facility revenue per day of 1.5%. Consistent with the same-facility patient day growth in 2014, the growth in same-facility patient days for the three months ended June 30, 2015 compared to the three months ended June 30, 2014 resulted from the addition of beds to our existing facilities and ongoing demand for our services.

Provision for doubtful accounts. The provision for doubtful accounts was \$8.1 million for the three months ended June 30, 2015, or 1.8% of revenue before provision for doubtful accounts, compared to \$6.9 million for the three months ended June 30, 2014, or 3.1% of revenue before provision for doubtful accounts.

Salaries, wages and benefits. Salaries, wages and benefits (“SWB”) expense was \$243.3 million for the three months ended June 30, 2015 compared to \$122.5 million for the three months ended June 30, 2014, an increase of \$120.8 million. SWB expense included \$5.4 million and \$2.4 million of equity-based compensation expense for the three months ended June 30, 2015 and 2014, respectively. Excluding equity-based compensation expense, SWB expense was \$237.9 million, or 52.5% of revenue, for the three months ended June 30, 2015, compared to \$120.1 million, or 56.2% of revenue, for the three months ended June 30, 2014. The \$117.8 million increase in SWB expense, excluding equity-based compensation expense, was primarily attributable to SWB expense incurred by the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisitions of Partnerships in Care and CRC. Same-facility SWB expense was \$116.0 million for the three months ended June 30, 2015, or 50.7% of revenue, compared to \$111.2 million for the three months ended June 30, 2014, or 53.0% of revenue.

Professional fees. Professional fees were \$30.0 million for the three months ended June 30, 2015, or 6.6% of revenue, compared to \$10.9 million for the three months ended June 30, 2014, or 5.1% of revenue. The \$19.1 million increase was primarily attributable to professional fees incurred by the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisitions of Partnerships in Care and CRC. Same-facility professional fees were \$11.1 million for the three months ended June 30, 2015, or 4.9% of revenue, compared to \$9.5 million, for the three months ended June 30, 2014, or 4.5% of revenue.

[Table of Contents](#)

Supplies. Supplies expense was \$20.5 million for the three months ended June 30, 2015, or 4.5% of revenue, compared to \$10.6 million for the three months ended June 30, 2014, or 5.0% of revenue. The \$9.9 million increase was primarily attributable to supplies expense incurred by the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisitions of Partnerships in Care and CRC. Same-facility supplies expense was \$11.0 million for the three months ended June 30, 2015, or 4.8% of revenue, compared to \$10.4 million for the three months ended June 30, 2014, or 5.0% of revenue.

Rents and leases. Rents and leases were \$8.2 million for the three months ended June 30, 2015, or 1.8% of revenue, compared to \$2.9 million for the three months ended June 30, 2014, or 1.3% of revenue. The \$5.3 million increase was primarily attributable to rents and leases incurred by the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisitions of Partnerships in Care and CRC. Same-facility rents and leases were \$2.5 million for the three months ended June 30, 2015, or 1.1% of revenue, compared to \$2.8 million for the three months ended June 30, 2014, or 1.3% of revenue.

Other operating expenses. Other operating expenses consisted primarily of purchased services, utilities, insurance, travel and repairs and maintenance expenses. Other operating expenses were \$51.1 million for the three months ended June 30, 2015, or 11.3% of revenue, compared to \$24.6 million for the three months ended June 30, 2014, or 11.5% of revenue. The \$26.5 million increase was primarily attributable to other operating expenses incurred by the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisitions of Partnerships in Care and CRC. Same-facility other operating expenses were \$28.3 million for the three months ended June 30, 2015, or 12.4% of revenue, compared to \$23.7 million for the three months ended June 30, 2014, or 11.3% of revenue.

Depreciation and amortization. Depreciation and amortization expense was \$14.9 million for the three months ended June 30, 2015, or 3.3% of revenue, compared to \$5.9 million for the three months ended June 30, 2014, or 2.8% of revenue. The increase in depreciation and amortization was attributable to depreciation associated with capital expenditures during 2014 and 2015 and real estate acquired as part of the 2014 and 2015 Acquisitions, particularly the acquisition of Partnerships in Care.

Interest expense. Interest expense was \$28.0 million for the three months ended June 30, 2015 compared to \$9.7 million for the three months ended June 30, 2014. The increase in interest expense was primarily a result of borrowings under the Amended and Restated Senior Credit Facility, the issuance of the 5.125% Senior Notes on July 1, 2014 and the issuance of the 5.625% Senior Notes on February 11, 2015.

Loss (gain) on foreign currency derivatives. In connection with acquisitions in the United Kingdom, the Company entered into foreign currency forward contracts in May 2015 in order to fix the exchange rate applicable to the payment of acquisition purchase prices in June 2015. Unfavorable exchange rate changes resulted in a decrease in the fair value of the forward contracts and a loss on foreign currency derivatives of \$1.0 million for the three months ended June 30, 2015, compared to gain of \$13.7 million for the three months ended June 30, 2014 related to the acquisition of Partnerships in Care on July 1, 2014.

Transaction-related expenses. Transaction-related expenses were \$7.2 million for the three months ended June 30, 2015 compared to \$3.0 million for the three months ended June 30, 2014. Transaction-related expenses represent costs incurred in the respective periods, primarily related to the 2014 and 2015 Acquisitions, as summarized below (in thousands):

	Three Months Ended June 30,	
	2015	2014
Legal, accounting and other costs	\$ 5,234	\$ 3,016
Severance and contract termination costs	1,923	—
	<u>\$ 7,157</u>	<u>\$ 3,016</u>

Provision for income taxes. For the three months ended June 30, 2015, the provision for income taxes was \$15.5 million, reflecting an effective tax rate of 31.4%, compared to \$14.9 million, reflecting an effective tax rate of 39.9%, for the three months ended June 30, 2014. The decrease in the tax rate for the three months ended June 30, 2015 was primarily attributable to the acquisition of Partnerships in Care, which is located in a lower taxing jurisdiction and for which earnings are permanently reinvested.

Six months ended June 30, 2015 compared to the six months ended June 30, 2014

Revenue before provision for doubtful accounts. Revenue before provision for doubtful accounts increased \$409.2 million, or 95.9%, to \$836.0 million for the six months ended June 30, 2015 from \$426.8 million for the six months ended June 30, 2014. The increase related primarily to revenue generated during the six months ended June 30, 2015 from the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisitions of Partnerships in Care and CRC. Same-facility revenue before provision for doubtful accounts increased \$38.4 million, or 9.2%, for the six months ended June 30, 2015 compared to the six months ended June 30, 2014, resulting from same-facility growth in patient days of 8.9% and an increase in same-facility revenue per day of 0.2%. Consistent with the same-facility patient day growth in 2014, the growth in same-facility patient days for the six months ended June 30, 2015 compared to the six months ended June 30, 2014 resulted from the addition of beds to our existing facilities and ongoing demand for our services.

[Table of Contents](#)

Provision for doubtful accounts. The provision for doubtful accounts was \$16.5 million for the six months ended June 30, 2015, or 2.0% of revenue before provision for doubtful accounts, compared to \$11.6 million for the six months ended June 30, 2014, or 2.7% of revenue before provision for doubtful accounts.

Salaries, wages and benefits. SWB expense was \$449.2 million for the six months ended June 30, 2015 compared to \$240.0 million for the six months ended June 30, 2014, an increase of \$209.2 million. SWB expense included \$9.3 million and \$4.2 million of equity-based compensation expense for the six months ended June 30, 2015 and 2014, respectively. Excluding equity-based compensation expense, SWB expense was \$439.9 million, or 53.7% of revenue, for the six months ended June 30, 2015, compared to \$235.8 million, or 56.8% of revenue, for the six months ended June 30, 2014. The \$204.1 million increase in SWB expense, excluding equity-based compensation expense, was primarily attributable to SWB expense incurred by the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisitions of Partnerships in Care and CRC. Same-facility SWB expense was \$230.5 million for the six months ended June 30, 2015, or 51.9% of revenue, compared to \$218.0 million for the six months ended June 30, 2014, or 53.5% of revenue.

Professional fees. Professional fees were \$52.5 million for the six months ended June 30, 2015, or 6.4% of revenue, compared to \$21.3 million for the six months ended June 30, 2014, or 5.1% of revenue. The \$31.2 million increase was primarily attributable to professional fees incurred by the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisitions of Partnerships in Care and CRC. Same-facility professional fees were \$21.3 million for the six months ended June 30, 2015, or 4.8% of revenue, compared to \$18.5 million, for the six months ended June 30, 2014, or 4.5% of revenue.

Supplies. Supplies expense was \$36.8 million for the six months ended June 30, 2015, or 4.5% of revenue, compared to \$20.7 million for the six months ended June 30, 2014, or 5.0% of revenue. The \$16.1 million increase was primarily attributable to supplies expense incurred by the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisitions of Partnerships in Care and CRC. Same-facility supplies expense was \$21.1 million for the six months ended June 30, 2015, or 4.8% of revenue, compared to \$20.2 million for the six months ended June 30, 2014, or 5.0% of revenue.

Rents and leases. Rents and leases were \$14.1 million for the six months ended June 30, 2015, or 1.7% of revenue, compared to \$5.7 million for the six months ended June 30, 2014, or 1.4% of revenue. The \$8.4 million increase was primarily attributable to rents and leases incurred by the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisitions of Partnerships in Care and CRC. Same-facility rents and leases were \$5.0 million for the six months ended June 30, 2015, or 1.1% of revenue, compared to \$5.4 million for the six months ended June 30, 2014, or 1.3% of revenue.

Other operating expenses. Other operating expenses consisted primarily of purchased services, utilities, insurance, travel and repairs and maintenance expenses. Other operating expenses were \$91.7 million for the six months ended June 30, 2015, or 11.2% of revenue, compared to \$47.8 million for the six months ended June 30, 2014, or 11.5% of revenue. The \$43.9 million increase was primarily attributable to other operating expenses incurred by the facilities acquired in our 2014 and 2015 Acquisitions, particularly the acquisitions of Partnerships in Care and CRC. Same-facility other operating expenses were \$53.7 million for the six months ended June 30, 2015, or 12.1% of revenue, compared to \$46.1 million for the six months ended June 30, 2014, or 11.3% of revenue.

Depreciation and amortization. Depreciation and amortization expense was \$28.0 million for the six months ended June 30, 2015, or 3.4% of revenue, compared to \$11.4 million for the six months ended June 30, 2014, or 2.7% of revenue. The increase in depreciation and amortization was attributable to depreciation associated with capital expenditures during 2014 and 2015 and real estate acquired as part of the 2014 and 2015 Acquisitions, particularly the acquisition of Partnerships in Care.

Interest expense. Interest expense was \$50.2 million for the six months ended June 30, 2015 compared to \$19.4 million for the six months ended June 30, 2014. The increase in interest expense was primarily a result of borrowings under the Amended and Restated Senior Credit Facility, the issuance of the 5.125% Senior Notes on July 1, 2014 and the issuance of the 5.625% Senior Notes on February 11, 2015.

Loss (gain) on foreign currency derivatives. In connection with acquisitions in the United Kingdom, the Company entered into foreign currency forward contracts in March and May 2015 in order to fix the exchange rate applicable to the payment of acquisition purchase prices in April and June 2015. Unfavorable exchange rate changes resulted in a decrease in the fair value of the forward contracts and a loss on foreign currency derivatives of \$0.9 million for the six months ended June 30, 2015, compared to gain of \$13.7 million for the three months ended June 30, 2014 related to the acquisition of Partnerships in Care on July 1, 2014.

[Table of Contents](#)

Transaction-related expenses. Transaction-related expenses were \$25.6 million for the six months ended June 30, 2015 compared to \$4.6 million for the six months ended June 30, 2014. Transaction-related expenses represent costs incurred in the respective periods, primarily related to the 2014 and 2015 Acquisitions, as summarized below (in thousands):

	<u>Six Months Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Advisory and financing commitment fees	\$ 10,337	\$ —
Legal, accounting and other costs	9,054	4,136
Severance and contract termination costs	6,182	459
	<u>\$ 25,573</u>	<u>\$ 4,595</u>

Provision for income taxes. For the six months ended June 30, 2015, the provision for income taxes was \$22.1 million, reflecting an effective tax rate of 31.4%, compared to \$22.7 million, reflecting an effective tax rate of 39.0%, for the six months ended June 30, 2014. The decrease in the tax rate for the six months ended June 30, 2015 was primarily attributable to the acquisition of Partnerships in Care, which is located in a lower taxing jurisdiction and for which earnings are permanently reinvested.

Liquidity and Capital Resources

Cash provided by continuing operating activities for the six months ended June 30, 2015 was \$90.6 million compared to \$29.3 million for the six months ended June 30, 2014. The increase in cash provided by continuing operating activities was primarily attributable to cash provided by continuing operating activities from the 2014 and 2015 Acquisitions and the growth in same-facility operations. Days sales outstanding was 37 at both June 30, 2015 and December 31, 2014. As of June 30, 2015 and December 31, 2014, we had working capital of \$82.8 million and \$108.2 million, respectively.

Cash used in investing activities for the six months ended June 30, 2015 was \$413.6 million compared to \$72.1 million for the six months ended June 30, 2014. Cash used in investing activities for the six months ended June 30, 2015 primarily consisted of \$286.7 million of cash paid for acquisitions. Cash paid for capital expenditures for the six months ended June 30, 2015 was \$122.0 million, consisting of \$22.7 million of routine capital expenditures and \$99.3 million of expansion capital expenditures. We define expansion capital expenditures as those that increase the capacity of our facilities or otherwise enhance revenue. Routine or maintenance capital expenditures were 2.8% of revenue for the six months ended June 30, 2015. Cash paid for real estate acquisitions was \$3.4 million for the six months ended June 30, 2015. Cash used in investing activities for the six months ended June 30, 2014 primarily consisted of \$10.0 million of cash paid for acquisitions, \$43.3 million of cash paid for capital expenditures and \$18.3 million of cash paid for real estate acquisitions.

Cash provided by financing activities for the six months ended June 30, 2015 was \$261.8 million compared to \$316.0 million for the six months ended June 30, 2014. Cash provided by financing activities for the six months ended June 30, 2015 primarily consisted of borrowings on long-term debt of \$875.0 million, borrowings on our revolving credit facility of \$180.0 million, issuance of common stock of \$331.5 million and an excess tax benefit from equity awards of \$6.3 million, partially offset by repayment of assumed CRC debt of \$904.5 million, principal payments on our revolving credit facility of \$180.0 million, payment of debt issuance costs of \$22.8 million, principal payments on long-term debt of \$15.9 million and common stock withheld for minimum statutory taxes of \$7.8 million. Cash provided by financing activities for the six months ended June 30, 2014 primarily consisted of the \$374.3 million of proceeds from our issuance of common stock, borrowings on our revolving credit facility of \$59.5 million, borrowings on long-term debt of \$7.5 million and an excess tax benefit from equity awards of \$3.5 million, partially offset by principal payments on our revolving credit facility of \$113.0 million, payment of debt issuance costs of \$5.8 million, principal payments on long-term debt of \$3.8 million, cash paid as contingent consideration based upon earnings of Park Royal of \$3.3 million and common stock withheld for minimum statutory taxes of \$3.0 million.

We had total available cash and cash equivalents of \$34.6 million and \$94.0 million as of June 30, 2015 and December 31, 2014, respectively, of which approximately \$17.4 million was held by our foreign subsidiaries for both periods. Our strategic plan does not require the repatriation of foreign cash in order to fund our operations in the U.S., and it is our current intention to permanently reinvest our foreign cash and cash equivalents outside of the U.S. If we were to repatriate foreign cash to the U.S., we would be required to accrue and pay U.S. taxes in accordance with applicable U.S. tax rules and regulations as a result of the repatriation.

Amended and Restated Senior Credit Facility

We entered into the Senior Secured Credit Facility on April 1, 2011. On December 31, 2012, we entered into the Amended and Restated Credit Agreement which amended and restated the Senior Secured Credit Facility.

On February 13, 2014, we entered into the Fourth Amendment to the Amended and Restated Credit Agreement, to increase the size of the Amended and Restated Senior Credit Facility and extend the maturity date thereof, which resulted in the Company having a revolving line of credit of up to \$300.0 million and term loans of \$300.0 million. The Fourth Amendment also reduced the interest rates applicable to the Amended and Restated Senior Credit Facility and provided increased flexibility to the Company in terms of the financial and other restrictive covenants. The Fourth Amendment also provides for a \$150.0 million incremental credit facility, with the potential for unlimited additional incremental amounts, provided the Company meets certain financial ratios, in each case subject to customary conditions precedent to borrowing.

On June 16, 2014, we entered into the Fifth Amendment to the Amended and Restated Senior Credit Facility. The Fifth Amendment specifically permitted the acquisition of Partnerships in Care, gave us the ability to incur a tranche of term loan B debt in the future through its incremental credit facility, and modified certain of the restrictive covenants on miscellaneous investments and incurrence of miscellaneous liens. The restrictive covenants on investments in joint ventures and foreign subsidiaries were also amended such that we may now invest, in any given fiscal year, up to five percent (5%) of our total assets in both joint ventures and foreign subsidiaries, respectively; provided that the aggregate amount of investments in both joint ventures and foreign subsidiaries, respectively, may not exceed ten percent (10%) of its total assets over the life of the Amended and Restated Senior Credit Facility; provided further that the aggregate amount of investments made in both joint ventures and foreign subsidiaries collectively pursuant to the foregoing may not exceed fifteen percent (15%) of our total assets. Finally, the Fifth Amendment provided increased flexibility to the Company in terms of our financial covenants.

On December 15, 2014, we entered into a Sixth Amendment to our Amended and Restated Credit Agreement. Pursuant to the Sixth Amendment, we incurred \$235.0 million of additional term loans. A portion of the additional term loan advance was used to prepay our outstanding revolving loans, and a portion of the additional term loan advance was held as cash on our consolidated balance sheet. The Sixth Amendment also specifically permitted the acquisition of CRC. In connection with the acquisition of CRC, the Sixth Amendment (i) imposed a temporary reserve on our revolving credit facility in the amount of \$110.0 million in order to preserve such reserved amounts for later borrowings to partially fund the consideration for the acquisition of CRC (subject to limited conditionality provisions) (the reserve is no longer in effect due to the acquisition of CRC), (ii) permitted the incurrence of an additional incremental term loan facility under the Amended and Restated Credit Agreement partially to fund the consideration for the acquisition of CRC (subject to limited conditionality provisions) and (iii) permitted our issuance of additional senior unsecured indebtedness or senior unsecured bridge indebtedness partially to fund the consideration for the acquisition of CRC.

On February 6, 2015, we entered into the Seventh Amendment to our Amended and Restated Credit Agreement. The Seventh Amendment added Citibank, N.A. as an "L/C Issuer" under the Amended and Restated Credit Agreement in order to permit the rollover of CRC's existing letters of credit into the Amended and Restated Credit Agreement and increased both the Company's Letter of Credit Sublimit and Swing Line Sublimit to \$20.0 million.

On February 11, 2015, we entered into the First Incremental Amendment to our Amended and Restated Credit Agreement. The First Incremental Amendment activated a new \$500.0 million incremental TLB Facility that was added to the Amended and Restated Senior Secured Credit Facility, subject to limited conditionality provisions. Borrowings under the TLB Facility were used to fund a portion of the purchase price for our acquisition of CRC.

On April 22, 2015, we entered into an Eighth Amendment to our Amended and Restated Credit Agreement. The Eighth Amendment changed the definition of "Change of Control" in part to remove a provision whose purpose was, when calculating whether a majority of incumbent directors have approved new directors, that any incumbent director that became a director as a result of a threatened or actual proxy contest was not counted in such calculation.

We had \$291.1 million of availability under the revolving line of credit as of June 30, 2015. Borrowings under the revolving line of credit are subject to customary conditions precedent to borrowing. The Amended and Restated Credit Agreement requires quarterly term loan principal repayments of our outstanding term loan A loans ("TLA Facility") of \$6.7 million for June 30, 2015 to December 31, 2015, \$10.0 million for March 31, 2016 to December 31, 2016, \$13.4 million for March 31, 2017 to December 31, 2017, and \$16.7 million for March 31, 2018 to December 31, 2018, with the remaining principal balance of the TLA Facility due on the maturity date of February 13, 2019. On December 15, 2014, prior to the execution of the Sixth Amendment, we prepaid the December 31, 2014 quarterly TLA Facility principal payment of \$1.9 million. We are required to repay the TLB Facility in equal quarterly installments of \$1.3 million on the last business day of each March, June, September and December, with the outstanding principal balance of the TLB Facility due on February 11, 2022.

Borrowings under the Amended and Restated Credit Agreement are guaranteed by each of our wholly-owned domestic subsidiaries (other than certain excluded subsidiaries) and are secured by a lien on substantially all of our and such subsidiaries'

Table of Contents

assets. Borrowings with respect to the TLA Facility and our revolving credit facility (collectively, “Pro Rata Facilities”) under the Amended and Restated Credit Agreement bear interest at a rate tied to Acadia’s Consolidated Leverage Ratio (defined as consolidated funded debt net of up to \$40.0 million of unrestricted and unencumbered cash to consolidated EBITDA, in each case as defined in the Amended and Restated Credit Agreement). The Applicable Rate (as defined in the Amended and Restated Credit Agreement) for the Pro Rata Facilities was 3.25% for Eurodollar Rate Loans (as defined in the Amended and Restated Credit Agreement) and 2.25% for Base Rate Loans (as defined in the Amended and Restated Credit Agreement) at June 30, 2015. Eurodollar Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the Eurodollar Rate (as defined in the Amended and Restated Credit Agreement) (based upon the LIBOR Rate (as defined in the Amended and Restated Credit Agreement) prior to commencement of the interest rate period). Base Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As of June 30, 2015, the Pro Rata Facilities bore interest at a rate of LIBOR plus 3.25%. In addition, we are required to pay a commitment fee on undrawn amounts under our revolving credit facility. We paid a commitment fee of 0.50% for undrawn amounts for the period from January 1, 2013 through February 12, 2014 and 0.40% for undrawn amounts for the period from February 13, 2014 through June 30, 2015. Borrowings under the Pro Rata Facilities mature on February 13, 2019.

The interest rates and the unused line fee on unused commitments related to the Pro Rata Facilities are based upon the following pricing tiers:

<u>Pricing Tier</u>	<u>Consolidated Leverage Ratio</u>	<u>Eurodollar Rate Loans</u>	<u>Base Rate Loans</u>	<u>Commitment Fee</u>
1	< 3.50:1.0	2.25%	1.25%	0.30%
2	3.50:1.0 but < 4.00:1.0	2.50%	1.50%	0.35%
3	4.00:1.0 but < 4.50:1.0	2.75%	1.75%	0.40%
4	4.50:1.0 but < 5.25:1.0	3.00%	2.00%	0.45%
5	5.25:1.0	3.25%	2.25%	0.50%

Eurodollar Rate Loans with respect to the TLB Facility bear interest at the TLB Applicable Rate (as defined below) plus the Eurodollar Rate (subject to a floor of 0.75% and based upon the LIBOR Rate prior to commencement of the interest rate period). Base Rate Loans bear interest at the TLB Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As used herein, the term “TLB Applicable Rate” means, with respect to Eurodollar Rate Loans, 3.50%, and with respect to Base Rate Loans, 2.50%.

The lenders who provided the TLB Facility are not entitled to benefit from the Company’s maintenance of its financial covenants under the Amended and Restated Credit Agreement. Accordingly, if we fail to maintain its financial covenants, such failure shall not constitute an event of default under the Amended and Restated Credit Agreement with respect to the TLB Facility until and unless the Amended and Restated Senior Credit Facility is accelerated or the commitment of the lenders to make further loans is terminated.

The Amended and Restated Credit Agreement requires us and our subsidiaries to comply with customary affirmative, negative and financial covenants, including a fixed charge coverage ratio, consolidated leverage ratio and consolidated senior secured leverage ratio. We may be required to pay all of our indebtedness immediately if we default on any of the numerous financial or other restrictive covenants contained in any of its material debt agreements. We may be required to pay all of our indebtedness immediately if we default on any of the numerous financial or other restrictive covenants contained in any of our material debt agreements. Set forth below is a brief description of such covenants, all of which are subject to customary exceptions, materiality thresholds and qualifications:

- a) the affirmative covenants include the following: (i) delivery of financial statements and other customary financial information; (ii) notices of events of default and other material events; (iii) maintenance of existence, ability to conduct business, properties, insurance and books and records; (iv) payment of taxes; (v) lender inspection rights; (vi) compliance with laws; (vii) use of proceeds; (viii) further assurances; and (ix) additional collateral and guarantor requirements.
- b) the negative covenants include limitations on the following: (i) liens; (ii) debt (including guaranties); (iii) investments; (iv) fundamental changes (including mergers, consolidations and liquidations); (v) dispositions; (vi) sale leasebacks; (vii) affiliate transactions; (viii) burdensome agreements; (ix) restricted payments; (x) use of proceeds; (xi) ownership of subsidiaries; (xii) changes to line of business; (xiii) changes to organizational documents, legal name, state of formation, form of entity and fiscal year; (xiv) prepayment or redemption of certain senior unsecured debt; and (xv) amendments to certain material agreements. The Company is generally not permitted to issue dividends or distributions other than with respect to the following: (w) certain tax distributions; (x) the repurchase of equity held by employees, officers or directors upon the occurrence of death, disability or termination subject to cap of \$500,000 in any fiscal year and compliance with certain other conditions; (y) in the form of capital stock; and (z) scheduled payments of deferred purchase price, working capital adjustments and similar payments pursuant to the merger agreement or any permitted acquisition.

[Table of Contents](#)

c) The financial covenants include maintenance of the following:

- the fixed charge coverage ratio may not be less than 1.25:1.00 as of the end of any fiscal quarter;
- the total leverage ratio may not be greater than the following levels as of the end of each fiscal quarter listed below:

	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
2014	N/A	N/A	5.75x	5.50x
2015	6.75x	6.75x	6.50x	6.00x
2016	6.00x	6.00x	6.00x	5.50x
2017	5.50x	5.50x	5.50x	5.00x
2018	5.00x	5.00x	5.00x	4.50x

- the secured leverage ratio may not be greater than the following levels as of the end of each fiscal quarter listed below:

June 30, 2014 - September 30, 2015	3.75x
December 31, 2015 and each fiscal quarter thereafter	3.50x

As of June 30, 2015, the Company was in compliance with all of the above covenants.

12.875% Senior Notes due 2018

On November 1, 2011, we issued \$150.0 million of 12.875% Senior Notes due 2018 at 98.323% of the aggregate principal amount of \$150.0 million, a discount of \$2.5 million. The notes bear interest at a rate of 12.875% per annum. We pay interest on the notes semi-annually, in arrears, on November 1 and May 1 of each year.

The indenture governing the 12.875% Senior Notes contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of the Company's assets; and (vii) create liens on assets.

The 12.875% Senior Notes issued by the Company are guaranteed by each of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

On March 12, 2013, we redeemed \$52.5 million in principal amount of the 12.875% Senior Notes using a portion of the net proceeds of our December 2012 equity offering pursuant to the provision in the indenture permitting an optional redemption with equity proceeds of up to 35% of the principal amount of 12.875% Senior Notes. The 12.875% Senior Notes were redeemed at a redemption price of 112.875% of the principal amount thereof plus accrued and unpaid interest to, but not including, the redemption date in accordance with the provisions of the indenture governing the 12.875% Senior Notes. As part of the redemption of 35% of the 12.875% Senior Notes, the Company recorded a debt extinguishment charge of \$9.4 million, including the premium and write-off of deferred financing costs, which was recorded in debt extinguishment costs in the consolidated statements of income.

6.125% Senior Notes Due 2021

On March 12, 2013, we issued \$150.0 million of 6.125% Senior Notes due 2021. The 6.125% Senior Notes mature on March 15, 2021 and bear interest at a rate of 6.125% per annum, payable semi-annually in arrears on March 15 and September 15 of each year.

The indenture governing the 6.125% Senior Notes contains covenants that, among other things, limit the Company's ability and the ability of its restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of the Company's assets; and (vii) create liens on assets.

[Table of Contents](#)

The 6.125% Senior Notes issued by the Company are guaranteed by each of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

We may redeem the 6.125% Senior Notes at our option, in whole or part, at any time prior to March 15, 2016, at a price equal to 100% of the principal amount of the 6.125% Senior Notes redeemed, plus accrued and unpaid interest to the redemption date and plus an applicable premium. We may redeem the 6.125% Senior Notes, in whole or in part, on or after March 15, 2016, at the redemption prices set forth in the indenture governing the 6.125% Senior Notes plus accrued and unpaid interest to the redemption date. At any time on or before March 15, 2016, we may elect to redeem up to 35% of the aggregate principal amount of the 6.125% Senior Notes at a redemption price equal to 106.125% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net proceeds of one or more equity offerings.

5.125% Senior Notes due 2022

On July 1, 2014, we issued \$300.0 million of 5.125% Senior Notes due 2022. The 5.125% Senior Notes mature on July 1, 2022 and bear interest at a rate of 5.125% per annum, payable semi-annually in arrears on January 1 and July 1 of each year, beginning on January 1, 2015.

The indenture governing the 5.125% Senior Notes contains covenants that, among other things, limit the Company's ability and the ability of its restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of the Company's assets and (vii) create liens on assets.

The 5.125% Senior Notes issued by the Company are guaranteed by each of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

We may redeem the 5.125% Senior Notes at its option, in whole or part, at any time prior to July 1, 2017, at a price equal to 100% of the principal amount of the 5.125% Senior Notes redeemed, plus accrued and unpaid interest to the redemption date and plus an applicable premium. We may redeem the 5.125% Senior Notes, in whole or in part, on or after July 1, 2017, at the redemption prices set forth in the indenture governing the 5.125% Senior Notes plus accrued and unpaid interest to the redemption date. At any time on or before July 1, 2017, the Company may elect to redeem up to 35% of the aggregate principal amount of the 5.125% Senior Notes at a redemption price equal to 105.125% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net proceeds of one or more equity offerings.

5.625% Senior Notes due 2023

On February 11, 2015, we issued \$375.0 million of 5.625% Senior Notes due 2023. The 5.625% Senior Notes mature on February 15, 2023 and bear interest at a rate of 5.625% per annum, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on August 15, 2015.

The indenture governing the 5.625% Senior Notes contains covenants that, among other things, limit the Company's ability and the ability of its restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of the Company's assets and (vii) create liens on assets.

The 5.625% Senior Notes issued by the Company are guaranteed by each of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

We may redeem the 5.625% Senior Notes at its option, in whole or part, at any time prior to February 15, 2018, at a price equal to 100% of the principal amount of the 5.625% Senior Notes redeemed, plus accrued and unpaid interest to the redemption date and plus an applicable premium. We may redeem the 5.625% Senior Notes, in whole or in part, on or after February 15, 2018, at the redemption prices set forth in the indenture governing the 5.625% Senior Notes plus accrued and unpaid interest to the redemption date. At any time on or before February 15, 2018, the Company may elect to redeem up to 35% of the aggregate principal amount of the 5.625% Senior Notes at a redemption price equal to 105.625% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net proceeds of one or more equity offerings.

[Table of Contents](#)

9.0% and 9.5% Revenue Bonds

On November 11, 2012, in connection with the acquisition of Park Royal, we assumed debt of \$23.0 million. The fair market value of the debt assumed was \$25.6 million and resulted in a debt premium balance being recorded as of the acquisition date. The debt consisted of \$7.5 million and \$15.5 million of Lee County (Florida) Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 with stated interest rates of 9.0% and 9.5%, respectively. The 9.0% bonds in the amount of \$7.5 million have a maturity date of December 1, 2030 and require yearly principal payments beginning in 2013. The 9.5% bonds in the amount of \$15.5 million have a maturity date of December 1, 2040 and require yearly principal payments beginning in 2031. The principal payments establish a bond-sinking fund to be held with the trustee and shall be sufficient to redeem the principal amounts of the 9.0% and 9.5% Revenue Bonds on their respective maturity dates. As of June 30, 2015 and December 31, 2014, \$2.3 million was recorded within other assets on the balance sheet related to the debt service reserve fund requirements. The yearly principal payments, which establish a bond sinking fund, will increase the debt service reserve fund requirements. The bond premium amount of \$2.6 million is amortized as a reduction of interest expense over the life of the 9.0% and 9.5% Revenue Bonds using the effective interest method.

Contractual Obligations

The following table presents a summary of contractual obligations as of June 30, 2015 (dollars in thousands):

	Payments Due by Period				Total
	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	
Long-term debt (a)	\$133,865	\$303,140	\$515,086	\$1,540,329	\$2,492,420
Operating leases	26,258	41,046	20,975	40,909	129,188
Purchase and other obligations (b)	4,001	2,362	2,448	29,560	38,371
Total obligations and commitments	<u>\$164,124</u>	<u>\$346,548</u>	<u>\$538,509</u>	<u>\$1,610,798</u>	<u>\$2,659,979</u>

- (a) Amounts include required principal and interest payments. The projected interest payments reflect an interest rate of 3.25% per annum for our variable-rate debt based on the rate in place as of June 30, 2015.
- (b) Amounts relate to purchase obligations, including capital lease payments and contingent payments related to the acquisition of Park Royal in November 2012 that we may make depending upon achievements of certain financial targets over the four-year period ending December 31, 2016 and related to the acquisition of McCallum in September 2014 that we may make depending upon achievements of certain financial targets over the one-year period ending December 31, 2015.

Off-Balance Sheet Arrangements

As of June 30, 2015, we had standby letters of credit outstanding of \$8.9 million related to security for the payment of claims as required by our workers' compensation insurance program.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our interest expense is sensitive to changes in market interest rates. With respect to our interest-bearing liabilities, our long-term debt outstanding at June 30, 2015 was composed of \$0.9 billion of fixed-rate debt and \$1.0 billion of variable-rate debt with interest based on LIBOR plus an applicable margin. A hypothetical 10% increase in interest rates would decrease our net income and cash flows by \$1.4 million on an annual basis based upon our borrowing level at June 30, 2015.

The functional currency for our U.K. facilities is GBP. Our revenue and earnings are sensitive to changes in GBP to USD exchange rate. As a result, our future earnings could be affected by fluctuations in the exchange rate between USD and GBP. Based upon the level of our U.K. operations relative to the Company as a whole, a hypothetical 10% change in this exchange rate would cause a change in our net income of \$2.5 million for the six months ended June 30, 2015.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management conducted an evaluation, with the participation of our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective to ensure that

[Table of Contents](#)

information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the six months ended June 30, 2015 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II – OTHER INFORMATION**Item 1. Legal Proceedings**

We are, from time to time, subject to various claims and legal actions that arise in the ordinary course of our business, including claims for damages for personal injuries, medical malpractice, breach of contract, tort and employment related claims. In these actions, plaintiffs request a variety of damages, including, in some instances, punitive and other types of damages that may not be covered by insurance. In the opinion of management, we are not currently a party to any proceeding that would have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors

In addition to the other information set forth in this report, an investor should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. The risks, as described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, are not the only risks facing the Company. Additional risks and uncertainties not currently known to management or that management currently deems immaterial also may materially, adversely affect the Company’s business, financial condition, operating results or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended June 30, 2015, the Company withheld shares of Company common stock to satisfy employee minimum statutory tax withholding obligations payable upon the vesting of restricted stock, as follows:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</u>
April 1 – April 30	—	\$ —	—	—
May 1 – May 31	3,770	70.88	—	—
June 1 – June 30	—	—	—	—
Total	<u>3,770</u>			

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Exhibit Description</u>
3.1	Amended and Restated Certificate of Incorporation, as filed on October 28, 2011 with the Secretary of State of the State of Delaware. (1)
3.2	Amended and Restated Bylaws of Acadia Healthcare Company, Inc. (the “Company”). (1)
10.1	Eighth Amendment, dated April 22, 2015, to the Amended and Restated Credit Agreement. (2)
10.2	Underwriting Agreement, dated May 5, 2015, by and among the Company and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC as representatives of the several underwriters named therein. (3)

Table of Contents

31.1*	Certification of the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of Chief Executive Officer and Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Calculation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	XBRL Taxonomy Labels Linkbase Document.
101.PRE**	XBRL Taxonomy Presentation Linkbase Document.

(1) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed November 1, 2011 (File No. 001-35331).

(2) Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2015 (File No. 001-35331).

(3) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed May 6, 2015 (File No. 001-35331).

* Filed herewith.

** The XBRL related information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

SIGNATURES

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

Acadia Healthcare Company, Inc.

By: /s/ David M. Duckworth
David M. Duckworth
Chief Financial Officer

Dated: August 5, 2015

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Exhibit Description</u>
3.1	Amended and Restated Certificate of Incorporation, as filed on October 28, 2011 with the Secretary of State of the State of Delaware. (1)
3.2	Amended and Restated Bylaws of the Company. (1)
10.1	Eighth Amendment, dated April 22, 2015, to the Amended and Restated Credit Agreement. (2)
10.2	Underwriting Agreement, dated May 5, 2015, by and among the Company and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Jefferies LLC as representatives of the several underwriters named therein. (3)
31.1*	Certification of the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of Chief Executive Officer and Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Calculation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	XBRL Taxonomy Labels Linkbase Document.
101.PRE**	XBRL Taxonomy Presentation Linkbase Document.

(1) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed November 1, 2011 (File No. 001-35331).

(2) Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2015 (File No. 001-35331).

(3) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed May 6, 2015 (File No. 001-35331).

* Filed herewith.

** The XBRL related information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

**CERTIFICATION OF CEO PURSUANT TO
RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joey A. Jacobs, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Acadia Healthcare Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2015

/s/ Joey A. Jacobs

Joey A. Jacobs

Chairman of the Board and Chief Executive Officer

**CERTIFICATION OF CFO PURSUANT TO
RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David M. Duckworth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Acadia Healthcare Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2015

/s/ David M. Duckworth

David M. Duckworth
Chief Financial Officer

**CERTIFICATIONS OF CEO AND CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Acadia Healthcare Company, Inc. (the "Company") for the quarterly period ended June 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joey A. Jacobs, Chief Executive Officer of the Company, and I, David M. Duckworth, Chief Financial Officer of the Company, each certify, for the purpose of complying with 18 U.S.C. Section 1350 and Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: August 5, 2015

/s/ Joey A. Jacobs

Joey A. Jacobs
Chairman of the Board and Chief Executive Officer

/s/ David M. Duckworth

David M. Duckworth
Chief Financial Officer