

Acadia Healthcare Company, Inc.

Form 10-Q

April 30, 2014

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**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 March 31, 2014**

**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** **45-2492228**  
**(State or other jurisdiction of** **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**830 Crescent Centre Drive, Suite 610 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 April 30, 2014, there were 50,774,503 shares of the registrant's common stock outstanding.

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**QUARTERLY REPORT ON FORM 10-Q**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Acadia Healthcare Company, Inc.****Condensed Consolidated Balance Sheets****(Unaudited)**

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>(In thousands, except share and per share amounts)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 7,243	\$ 4,569
Accounts receivable, net of allowance for doubtful accounts of \$17,689 and \$18,345, respectively	104,585	95,885
Deferred tax assets	17,029	15,703
Other current assets	28,180	28,969
<b>Total current assets</b>	<b>157,037</b>	<b>145,126</b>
Property and equipment, net	403,366	370,109
Goodwill	665,421	661,549
Intangible assets, net	20,730	20,568
Deferred tax assets noncurrent	4,325	
Other assets	32,066	27,307
<b>Total assets</b>	<b>\$ 1,282,945</b>	<b>\$ 1,224,659</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 9,570	\$ 15,195
Accounts payable	28,405	36,026
Accrued salaries and benefits	32,257	37,721
Other accrued liabilities	27,673	25,748
<b>Total current liabilities</b>	<b>97,905</b>	<b>114,690</b>
Long-term debt	653,626	601,941
Deferred tax liabilities noncurrent	15,399	7,971
Other liabilities	19,865	19,347
<b>Total liabilities</b>	<b>786,795</b>	<b>743,949</b>
Equity:		

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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; 50,217,314 and 50,070,980 issued and outstanding as of March 31, 2014 and December 31, 2013, respectively

	502	501
Additional paid-in capital	464,188	461,807
Retained earnings	31,460	18,402
 Total equity	 496,150	 480,710
 Total liabilities and equity	 \$ 1,282,945	 \$ 1,224,659

See accompanying notes.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(In thousands, except per share amounts)</b>	
Revenue before provision for doubtful accounts	\$ 206,119	\$ 165,705
Provision for doubtful accounts	(4,701)	(4,492)
Revenue	201,418	161,213
Salaries, wages and benefits (including equity-based compensation expense of \$1,764 and \$601, respectively)	117,575	94,351
Professional fees	10,382	9,014
Supplies	10,064	8,598
Rents and leases	2,769	2,327
Other operating expenses	23,110	16,983
Depreciation and amortization	5,436	3,622
Interest expense, net	9,707	8,762
Debt extinguishment costs		9,350
Transaction-related expenses	1,579	1,474
Total expenses	180,622	154,481
Income from continuing operations before income taxes	20,796	6,732
Provision for income taxes	7,775	2,678
Income from continuing operations	13,021	4,054
Income (loss) from discontinued operations, net of income taxes	37	(316)
Net income	\$ 13,058	\$ 3,738
Basic earnings per share:		
Income from continuing operations	\$ 0.26	\$ 0.08
Income (loss) from discontinued operations		(0.01)
Net income	\$ 0.26	\$ 0.07
Diluted earnings per share:		
Income from continuing operations	\$ 0.26	\$ 0.08
Income (loss) from discontinued operations		(0.01)

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Net income	\$	0.26	\$	0.07
Weighted-average shares outstanding:				
Basic		50,120		49,911
Diluted		50,486		50,250

See accompanying notes.

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## Acadia Healthcare Company, Inc.

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(In thousands)</b>	
<b>Operating activities:</b>		
Net income	\$ 13,058	\$ 3,738
<b>Adjustments to reconcile net income to net cash provided by continuing operating activities:</b>		
Depreciation and amortization	5,436	3,622
Amortization of debt issuance costs	644	540
Equity-based compensation expense	1,764	601
Deferred income tax expense	2,231	2,455
(Income) loss from discontinued operations, net of taxes	(37)	316
Debt extinguishment costs		9,350
Other	13	15
Change in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	(8,694)	(9,522)
Other current assets	952	(1,072)
Other assets	(1,576)	(850)
Accounts payable and other accrued liabilities	(1,839)	(997)
Accrued salaries and benefits	(5,407)	(6,717)
Other liabilities	770	(271)
Net cash provided by continuing operating activities	7,315	1,208
Net cash provided by (used in) discontinued operating activities	31	(267)
Net cash provided by operating activities	7,346	941
<b>Investing activities:</b>		
Cash paid for acquisitions, net of cash acquired	(10,000)	(22,375)
Cash paid for capital expenditures	(21,649)	(12,764)
Cash paid for real estate acquisitions	(16,097)	
Other	(178)	(133)
Net cash used in investing activities	(47,924)	(35,272)
<b>Financing activities:</b>		
Borrowings on long-term debt	7,500	150,000
Borrowings on revolving credit facility	40,500	
Principal payments on long-term debt	(1,875)	(1,875)
Repayment of long-term debt		(52,500)
Payment of debt issuance costs	(3,491)	(4,153)



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Payment of premium on note redemption		(6,759)
Common stock withheld for minimum statutory taxes, net	(2,112)	(641)
Excess tax benefit from equity awards	2,730	635
Net cash provided by financing activities	43,252	84,707
Net increase in cash and cash equivalents	2,674	50,376
Cash and cash equivalents at beginning of the period	4,569	49,399
Cash and cash equivalents at end of the period	\$ 7,243	\$ 99,775
<b>Effect of acquisitions:</b>		
Assets acquired, excluding cash	\$ 10,500	\$ 43,330
Liabilities assumed		(9,271)
Prior year deposits paid for acquisitions	(500)	(11,684)
Cash paid for acquisitions, net of cash acquired	\$ 10,000	\$ 22,375

See accompanying notes.

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**Acadia Healthcare Company, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**March 31, 2014**

**(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. At March 31, 2014, the Company operated 52 behavioral healthcare facilities with over 4,300 licensed beds in 24 states and Puerto Rico.

***Basis of Presentation***

The business of the Company is conducted through limited liability companies 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, 2013 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, 2013 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 21, 2014. 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.



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The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2014 and 2013 (in thousands except per share amounts):

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Numerator:</b>		
Basic and diluted earnings per share:		
Income from continuing operations	\$ 13,021	\$ 4,054
Income (loss) from discontinued operations	37	(316)
<b>Net income</b>	<b>\$ 13,058</b>	<b>\$ 3,738</b>
<b>Denominator:</b>		
Weighted average shares outstanding for basic earnings per share	50,120	49,911
Effect of dilutive instruments	366	339
<b>Shares used in computing diluted earnings per common share</b>	<b>50,486</b>	<b>50,250</b>
Basic earnings per share:		
Income from continuing operations	\$ 0.26	\$ 0.08
Income (loss) from discontinued operations		(0.01)
<b>Net income</b>	<b>\$ 0.26</b>	<b>\$ 0.07</b>
Diluted earnings per share:		
Income from continuing operations	\$ 0.26	\$ 0.08
Income (loss) from discontinued operations		(0.01)
<b>Net income</b>	<b>\$ 0.26</b>	<b>\$ 0.07</b>

Approximately 0.5 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 March 31, 2014 and 2013, respectively, because their effect would have been anti-dilutive.

**3. Acquisitions*****Pacific Grove***

On January 1, 2014, the Company completed its acquisition of the assets of Pacific Grove Hospital ( Pacific Grove ), an inpatient psychiatric facility with 68 licensed beds located in Riverside, California, for cash consideration of \$10.5 million.

***2013 Acquisitions***

On December 1, 2013, the Company completed its acquisition of the assets of Cascade Behavioral Hospital ( Cascade ). On October 1, 2013, the Company completed its acquisition of the assets of Longleaf Hospital ( Longleaf ). On August 1, 2013, the Company completed its acquisition of The Refuge, a Healing Place ( The Refuge ). On May 1, 2013, the Company completed its acquisition of two facilities from United Medical Corporation (the UMC Facilities ). On January 31, 2013, the Company completed its acquisition of DMC-Memphis, Inc. d/b/a Delta Medical Center ( Delta ). On January 1, 2013, the Company completed its acquisition of the assets of Greenleaf Center ( Greenleaf ).

### ***Summary of Acquisitions***

The Company selectively seeks opportunities to expand and diversify its base of operations by acquiring additional facilities. The majority of the goodwill associated with the acquisitions completed in 2014 and 2013 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 Pacific Grove, Cascade, Longleaf, The Refuge and the UMC Facilities. The Company expects to finalize its analyses as the necessary information becomes available to complete the measurement process. Once finalized, the Company will adjust the application of the acquisition method of accounting to reflect its final valuations.

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The preliminary fair values of assets acquired during the three months ended March 31, 2014 in connection with the Pacific Grove acquisition were as follows (in thousands):

Property and equipment	\$ 6,500
Goodwill	3,796
Intangible assets	204
 Total assets acquired	 10,500
 Total liabilities assumed	
 Net assets acquired	 \$ 10,500

The fair values of assets acquired and liabilities assumed during 2013, at the corresponding acquisition dates, were as follows (in thousands):

	<b>UMC Facilities</b>	<b>Other</b>	<b>Total</b>
Cash	\$ 52	\$ 873	\$ 925
Accounts receivable	5,251	5,868	11,119
Prepaid expenses and other current assets	722	3,067	3,789
Property and equipment	22,347	42,672	65,019
Goodwill	67,268	37,603	104,871
Intangible assets	1,505	1,910	3,415
Other assets	4,712	29	4,741
 Total assets acquired	 101,857	 92,022	 193,879
Accounts payable	1,535	7,487	9,022
Accrued salaries and benefits	588	3,079	3,667
Other accrued expenses	315	2,306	2,621
Other liabilities		2,360	2,360
 Total liabilities assumed	 2,438	 15,232	 17,670
 Net assets acquired	 \$ 99,419	 \$ 76,790	 \$ 176,209

**Other**

The qualitative factors comprising the goodwill acquired in the Pacific Grove, Cascade, Longleaf, The Refuge, the UMC Facilities, Delta and Greenleaf acquisitions (collectively the 2013 and 2014 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 months ended March 31, 2014 and 2013 (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Legal, accounting and other costs	\$ 1,120	\$ 1,005
Severance and contract termination costs	459	469
	<b>\$ 1,579</b>	<b>\$ 1,474</b>

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The condensed consolidated statements of operations for the three months ended March 31, 2014 include revenue of \$33.5 million and income from continuing operations before income taxes of \$2.2 million related to acquisitions completed in 2014 and 2013. The condensed consolidated statements of operations for the three months ended March 31, 2013 include revenue of \$10.0 million and loss from continuing operations before income taxes of \$1.4 million related to acquisitions completed in 2013.

The following table provides certain pro forma financial information for the Company as if the 2013 and 2014 Acquisitions occurred as of January 1, 2013 (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Revenue	\$ 201,418	\$ 187,490
Income from continuing operations, before income taxes	\$ 20,796	\$ 7,782

**4. Goodwill and Other Intangible Assets**

The following table summarizes changes in goodwill during the three months ended March 31, 2014 (in thousands):

Balance at January 1, 2014	\$ 661,549
Increase from 2014 acquisitions	3,796
Other	76
Balance at March 31, 2014	\$ 665,421

Other identifiable intangible assets and related accumulated amortization consisted of the following as of March 31, 2014 and December 31, 2013 (in thousands):

	<b>Gross Carrying Amount</b>		<b>Accumulated Amortization</b>	
	<b>March 31, 2014</b>	<b>December 31, 2013</b>	<b>March 31, 2014</b>	<b>December 31, 2013</b>
<b>Intangible assets subject to amortization:</b>				
Contract intangible assets	\$ 2,100	\$ 2,100	\$ (1,015)	\$ (910)
Non-compete agreements	1,247	1,247	(1,054)	(1,021)
	3,347	3,347	(2,069)	(1,931)
<b>Intangible assets not subject to amortization:</b>				
Licenses and accreditations	8,595	8,391		



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Trade names	3,000	3,000		
Certificates of need	7,857	7,761		
	19,452	19,152		
Total	\$ 22,799	\$ 22,499	\$ (2,069)	\$ (1,931)

In connection with the Pacific Grove acquisition, the Company acquired a license and accreditation intangible asset with a fair value of \$0.2 million.

In connection with the Greenleaf acquisition, the Company acquired a certificate of need with a fair value of \$0.6 million. In connection with the Delta acquisition, the Company acquired intangible assets with a fair value of \$0.8 million consisting of licenses and accreditations of \$0.2 million and a certificate of need of \$0.6 million. In connection with the UMC Facilities acquisition, the Company acquired intangible assets with a fair value of \$1.5 million consisting of licenses and accreditations of \$0.2 million and certificates of need of \$1.3 million. In connection with the Longleaf acquisition, the Company acquired a license and accreditation intangible asset with a fair value of \$0.2 million. In connection with the Cascade acquisition, the Company acquired a certificate of need with a fair value of \$0.3 million. The Company incurred and capitalized \$0.1 million in both the three months ended March 31, 2014 and 2013 related to costs to obtain certificates of need.

The non-compete agreements are being amortized on a straight-line basis over the term of the agreements. The contract intangible is amortized on a straight-line basis over the estimated five-year term of the related contract.

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Amortization expense related to definite-lived intangible assets was \$0.1 million and \$0.2 million for the three months ended March 31, 2014 and 2013, respectively. Estimated amortization expense for the years ending December 31, 2014, 2015, 2016, 2017 and 2018 is \$0.5 million, \$0.5 million, \$0.3 million, \$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 March 31, 2014 and December 31, 2013 (in thousands):

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Land	\$ 66,598	\$ 58,947
Building and improvements	284,168	259,523
Equipment	39,713	36,742
Construction in progress	47,372	44,186
	437,851	399,398
Less accumulated depreciation	(34,485)	(29,289)
Property and equipment, net	\$ 403,366	\$ 370,109

**6. Discontinued Operations**

In June 2012, the Company disposed of its PsychSolutions facility located in Miami, Florida and recognized a pretax loss on disposal of \$0.2 million, which had been included in income (loss) from discontinued operations on the consolidated statements of operations. The results of operations of this facility has been reported as discontinued operations in the accompanying consolidated financial statements.

A summary of results from discontinued operations is as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Revenue	\$	\$
Income (loss) from discontinued operations, net of income taxes	\$ 37	\$ (316)

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

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
<b>Amended and Restated Senior Credit Facility:</b>		
Senior Secured Term Loans	\$ 298,125	\$ 292,500
Senior Secured Revolving Line of Credit	94,000	53,500
12.875% Senior Notes due 2018	96,264	96,216
6.125% Senior Notes due 2021	150,000	150,000
9.0% and 9.5% Revenue Bonds	24,807	24,920
	<b>663,196</b>	<b>617,136</b>
Less: current portion	(9,570)	(15,195)
<b>Long-term debt</b>	<b>\$ 653,626</b>	<b>\$ 601,941</b>

***Amended and Restated Senior Credit Facility***

The Company entered into the senior secured credit facility, administered by Bank of America, N.A., on April 1, 2011 ( Senior Secured Credit Facility ). The Senior Secured Credit Facility initially included \$135.0 million of term loans and a revolving line of credit of \$30.0 million.

On March 1, 2012, the Company amended the Senior Secured Credit Facility to provide an incremental \$25.0 million of term loans and increase the revolving line of credit by \$45.0 million, from \$30.0 million to \$75.0 million.

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 ), to provide a revolving line of credit of \$100.0 million and term loans of \$300.0 million, which resulted in debt proceeds of \$151.1 million.

On March 11, 2013, the Company entered into a Consent and First Amendment (the First Amendment ) to the Amended and Restated Credit Agreement. The First Amendment modified the definition of Consolidated EBITDA to permit the add-back for financial covenant purposes of certain fees and expenses related to the partial redemption of the Company's 12.875% Senior Notes on March 12, 2013. In addition, the First Amendment amended the definitions of Consolidated Leverage Ratio and Consolidated Senior Leverage Ratio to permit the Company to test indebtedness on a basis net of cash and cash equivalents for financial covenant purposes.

On June 28, 2013, the Company entered into a Second Amendment (the Second Amendment ) to the Amended and Restated Credit Agreement. The Second Amendment modified certain of the restrictive covenants contained therein to permit the Company to increase the amount of miscellaneous investments it may make, as well as to permit the Company to incur increased amounts of purchase money indebtedness in order to finance certain long-term capital leases.

On September 30, 2013, the Company entered into a Third Amendment (the Third Amendment ) to the Amended and Restated Credit Agreement. The Third Amendment modified certain of the restrictive covenants contained therein to permit the incurrence by the Company of increased amounts of miscellaneous types of liens and indebtedness to facilitate its consummation of the acquisition of Longleaf.

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 Company had \$205.6 million of availability under the revolving line of credit as of March 31, 2014. Borrowings under the revolving line of credit are subject to customary conditions precedent to borrowing. The term loans require quarterly principal payments of \$1.9 million for March 31, 2014 to December 31, 2014, \$3.8 million for March 31, 2015 to December 31, 2015, \$5.6 million for March 31, 2016 to December 31, 2016, \$7.5 million for March 31, 2017 to December 31, 2017, and \$9.4 million for March 31, 2018 to December 31, 2018, with the remaining principal balance due on the maturity date of February 13, 2019. 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.

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Borrowings under the Amended and Restated Senior Credit Facility are guaranteed by each of the Company's wholly-owned domestic subsidiaries (other than Park Royal and certain other excluded subsidiaries) and are secured by a lien on substantially all of the assets of the Company and its wholly-owned domestic subsidiaries (other than Park Royal and certain other excluded subsidiaries). Borrowings under the Amended and Restated Senior Credit Facility bear interest at a rate tied to the Company's consolidated leverage ratio (defined as consolidated funded debt 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 borrowings under the Amended and Restated Senior Credit Facility was 2.75% for Eurodollar Rate Loans (as defined in the Amended and Restated Credit Agreement) and 1.75% for Base Rate Loans (as defined in the Amended and Restated Credit Agreement) at March 31, 2014. Eurodollar Rate Loans bear interest at the Applicable Rate plus the Eurodollar Rate (as defined in the Amended and Restated Credit Agreement) (based upon the British Bankers Association LIBOR Rate (as defined in the Amended and Restated Credit Agreement) prior to commencement of the interest rate period). Base Rate Loans 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 March 31, 2014, borrowings under the Amended and Restated Senior Credit Facility bore interest at a rate of 2.75%. In addition, the Company is required to pay a commitment fee on undrawn amounts under the revolving line of credit. The Company 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 March 31, 2014. The Fourth Amendment resulted in a 0.50% decrease in the Applicable Rate for LIBOR Rate Loans (as defined in the Amended and Restated Credit Agreement) and a 0.10% decrease in the Unused Line Fee (as defined in the Amended and Restated Credit Agreement).

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 March 31, 2014, 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 to: (i) incur or guarantee additional debt or issue certain preferred stock; (ii) pay dividends on the Company's equity interests or redeem, repurchase or retire the Company's equity interests or subordinated debt; (iii) transfer or sell assets; (iv) make certain investments; (v) incur certain liens; (vi) restrict the Company's subsidiaries' ability to pay dividends or make other payments to the Company; (vii) engage in certain transactions with the Company's affiliates; and (viii) merge or consolidate with other companies or transfer all or substantially all of the Company's 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 Credit Facility. The guarantees are full and unconditional and joint and several and the Company, as the parent issuer of the 12.875% Senior Notes, has no independent assets or operations.

On March 12, 2013, the Company redeemed \$52.5 million 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 operations.

***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, beginning on September 15, 2013.

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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 Credit Facility. The guarantees are full and unconditional and joint and several and the Company, as the parent issuer of the 6.125% Senior Notes, has no independent assets or operations.

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.

***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 March 31, 2014 and December 31, 2013, \$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.

**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 March 31, 2014, 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 2,697,460 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 \$1.8 million and \$0.6 million in equity-based compensation expense for the three months ended March 31, 2014 and 2013, respectively. As of March 31, 2014, there was \$27.2 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 March 31, 2014, there were no warrants outstanding and exercisable. The Company recognized a deferred income tax benefit of \$0.7 million for the three months ended March 31, 2014 related to equity-based compensation expense. The actual tax benefit realized from stock options exercised during the three months ended March 31, 2014 was \$2.7 million. The Company recognized a deferred income tax benefit of \$0.2 million for the three months ended March 31, 2013 related to equity-based compensation expense. The actual tax benefit realized from stock options exercised during the three months ended March 31, 2013 was \$0.6 million.



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Stock option activity during 2013 and 2014 was as follows (aggregate intrinsic value in thousands):

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (in years)</b>	<b>Aggregate Intrinsic Value</b>
Options outstanding at January 1, 2013	555,097	\$ 13.13	7.53	\$ 5,632
Options granted	411,800	30.55	9.30	2,059
Options exercised	(126,662)	9.36	N/A	2,803
Options cancelled	(41,426)	23.50	N/A	N/A
Options outstanding at December 31, 2013	798,809	21.93	8.20	10,700
Options granted	177,863	50.75	9.92	
Options exercised	(51,024)	11.57	N/A	2,038
Options cancelled	(13,500)	30.99	N/A	N/A
Options outstanding at March 31, 2014	912,148	27.98	8.43	19,654
Options exercisable at December 31, 2013	133,647	\$ 11.15	4.81	\$ 3,472
Options exercisable at March 31, 2014	224,258	\$ 22.22	6.76	\$ 7,090

Restricted stock activity during 2013 and 2014 was as follows:

	<b>Number of Shares</b>	<b>Weighted Average Grant-Date Fair Value</b>
Unvested at January 1, 2013	318,063	\$ 15.73
Granted	290,845	31.31
Cancelled	(53,056)	21.27
Vested	(94,155)	15.52
Unvested at December 31, 2013	461,697	\$ 24.96
Granted	193,743	50.75
Cancelled	(15,300)	33.59
Vested	(83,011)	23.04
Unvested at March 31, 2014	557,129	\$ 33.95

Restricted stock unit activity during 2013 and 2014 was as follows:

	<b>Number of Shares</b>	<b>Weighted Average Grant-Date Fair Value</b>
Unvested at January 1, 2013	68,628	\$ 16.11
Granted	72,876	29.39
Cancelled		
Vested	(45,753)	16.11
Unvested at December 31, 2013	95,751	\$ 23.05
Granted	108,449	50.75
Cancelled		
Vested	(79,087)	21.81
Unvested at March 31, 2014	125,113	\$ 38.73

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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 three months ended March 31, 2014 and year ended December 31, 2013:

	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Weighted average grant-date fair value of options	\$ 18.23	\$ 11.62
Risk-free interest rate	1.7%	1.0%
Expected volatility	36%	40%
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 March 31, 2014 and 2013 reflects effective tax rates of 37.4% and 39.8%, respectively. The decrease in the tax rate for the three months ended March 31, 2014 was primarily attributable to various state tax planning initiatives and restructurings.

**10. 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, 9.0% and 9.5% Revenue Bonds and contingent consideration liability as of March 31, 2014 and December 31, 2013 were as follows (in thousands):

	<b>Carrying Amount</b>		<b>Fair Value</b>	
	<b>March 31, 2014</b>	<b>December 31, 2013</b>	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Amended and Restated Senior Credit Facility	\$ 392,125	\$ 346,000	\$ 392,125	\$ 346,000
12.875% Senior Notes due 2018	\$ 96,264	\$ 96,216	\$ 117,488	\$ 118,706
6.125% Senior Notes due 2021	\$ 150,000	\$ 150,000	\$ 156,563	\$ 155,625
9.0% and 9.5% Revenue Bonds	\$ 24,807	\$ 24,920	\$ 24,807	\$ 24,920
Contingent consideration liability	\$ 7,000	\$ 6,500	\$ 7,000	\$ 6,500

The Company's Amended and Restated Senior Credit Facility, 12.875% Senior Notes, 6.125% 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 liability at March 31, 2014 was categorized as Level 3 in the GAAP fair value hierarchy. The contingent consideration liability was 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 three months ended March 31, 2014, the Company changed its projections of the timing of future payments. 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 operations.

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**11. 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.

**12. Recently Issued Accounting Standards**

In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update ( ASU ) 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ( ASU 2014-08 ). ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. ASU 2014-08 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. Management is evaluating the impact of ASU 2014-08 on the Company's consolidated financial statements and does not expect ASU 2014-08 to have a significant impact on the Company's consolidated financial statements.

**Table of Contents****13. Financial Information for the Company and Its Subsidiaries**

The Company conducts substantially all of its business through its subsidiaries. The 12.875% and 6.125% 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 Credit Facility. Presented below is condensed consolidating financial information for the Company and its subsidiaries as of March 31, 2014 and December 31, 2013, and for the three months ended March 31, 2014 and 2013. 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****March 31, 2014****(In thousands)**

	<b>Parent</b>	<b>Combined Subsidiary Guarantors</b>	<b>Combined Non- Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated Amounts</b>
<b>Current assets:</b>					
Cash and cash equivalents	\$	\$ 2,974	\$ 4,269	\$	\$ 7,243
Accounts receivable, net		94,857	9,728		104,585
Deferred tax assets		16,588	441		17,029
Other current assets		27,065	1,115		28,180
<b>Total current assets</b>		<b>141,484</b>	<b>15,553</b>		<b>157,037</b>
Property and equipment, net		372,848	30,518		403,366
Goodwill		568,407	97,014		665,421
Intangible assets, net		18,740	1,990		20,730
Deferred tax assets - noncurrent	2,165		5,541	(3,381)	4,325
Investment in subsidiaries	1,089,264			(1,089,264)	
Other assets	48,903	13,653	2,321	(32,811)	32,066
<b>Total assets</b>	<b>\$ 1,140,332</b>	<b>\$ 1,115,132</b>	<b>\$ 152,937</b>	<b>\$ (1,125,456)</b>	<b>\$ 1,282,945</b>
<b>Current liabilities:</b>					
Current portion of long-term debt	\$ 9,375	\$	\$ 575	\$ (380)	\$ 9,570
Accounts payable		26,905	1,500		28,405
Accrued salaries and benefits		30,615	1,642		32,257
Other accrued liabilities	5,792	20,366	1,515		27,673
<b>Total current liabilities</b>	<b>15,167</b>	<b>77,886</b>	<b>5,232</b>	<b>(380)</b>	<b>97,905</b>
Long-term debt	629,015		57,042	(32,431)	653,626
Deferred tax liabilities - noncurrent		18,780		(3,381)	15,399

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Other liabilities		19,865			19,865
Total liabilities	644,182	116,531	62,274	(36,192)	786,795
Total equity	496,150	998,601	90,663	(1,089,264)	496,150
Total liabilities and equity	\$ 1,140,332	\$ 1,115,132	\$ 152,937	\$ (1,125,456)	\$ 1,282,945

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**Acadia Healthcare Company, Inc.**  
**Condensed Consolidating Balance Sheets**

**December 31, 2013**

(In thousands)

	<b>Parent</b>	<b>Combined Subsidiary Guarantors</b>	<b>Combined Non- Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated Amounts</b>
<b>Current assets:</b>					
Cash and cash equivalents	\$	\$	\$ 6,494	\$ (1,925)	\$ 4,569
Accounts receivable, net		86,597	9,288		95,885
Deferred tax assets		15,284	419		15,703
Other current assets		27,886	1,083		28,969
<b>Total current assets</b>		<b>129,767</b>	<b>17,284</b>	<b>(1,925)</b>	<b>145,126</b>
Property and equipment, net		340,175	29,934		370,109
Goodwill		564,539	97,010		661,549
Intangible assets, net		18,578	1,990		20,568
Investment in subsidiaries	1,034,160			(1,034,160)	
Other assets	46,236	11,675	8,082	(38,686)	27,307
<b>Total assets</b>	<b>\$ 1,080,396</b>	<b>\$ 1,064,734</b>	<b>\$ 154,300</b>	<b>\$ (1,074,771)</b>	<b>\$ 1,224,659</b>
<b>Current liabilities:</b>					
Current portion of long-term debt	\$ 15,000	\$	\$ 195	\$	\$ 15,195
Accounts payable		36,289	1,662	(1,925)	36,026
Accrued salaries and benefits		36,027	1,694		37,721
Other accrued liabilities	4,876	19,982	890		25,748
<b>Total current liabilities</b>	<b>19,876</b>	<b>92,298</b>	<b>4,441</b>	<b>(1,925)</b>	<b>114,690</b>
Long-term debt	577,216		57,650	(32,925)	601,941
Deferred tax liabilities noncurrent	2,594	11,138		(5,761)	7,971
Other liabilities		19,347			19,347
<b>Total liabilities</b>	<b>599,686</b>	<b>122,783</b>	<b>62,091</b>	<b>(40,611)</b>	<b>743,949</b>
<b>Total equity</b>	<b>480,710</b>	<b>941,951</b>	<b>92,209</b>	<b>(1,034,160)</b>	<b>480,710</b>
<b>Total liabilities and equity</b>	<b>\$ 1,080,396</b>	<b>\$ 1,064,734</b>	<b>\$ 154,300</b>	<b>\$ (1,074,771)</b>	<b>\$ 1,224,659</b>



**Table of Contents****Acadia Healthcare Company, Inc.****Condensed Consolidating Statement of Operations****Three Months Ended March 31, 2014****(In thousands)**

	<b>Parent</b>	<b>Combined Subsidiary Guarantors</b>	<b>Combined Non- Guarantors</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated Amounts</b>
Revenue before provision for doubtful accounts	\$	\$ 193,282	\$ 12,837	\$	\$ 206,119
Provision for doubtful accounts		(4,510)	(191)		(4,701)
Revenue		188,772	12,646		201,418
Salaries, wages and benefits	1,764	110,653	5,158		117,575
Professional fees		9,253	1,129		10,382
Supplies		9,385	679		10,064
Rents and leases		2,495	274		2,769
Other operating expenses		21,079	2,031		23,110
Depreciation and amortization		5,085	351		5,436
Interest expense, net	9,111		596		9,707
Transaction-related expenses		1,579			1,579
Total expenses	10,875	159,529	10,218		180,622
(Loss) income from continuing operations before income taxes	(10,875)	29,243	2,428		20,796
Equity in earnings of subsidiaries	19,867			(19,867)	
(Benefit from) provision for income taxes	(4,066)	10,934	907		7,775
Income (loss) from continuing operations	13,058	18,309	1,521	(19,867)	13,021
Income from discontinued operations, net of income taxes		37			37
Net income (loss)	\$ 13,058	\$ 18,346	\$ 1,521	\$ (19,867)	\$ 13,058

**Table of Contents****Acadia Healthcare Company, Inc.****Condensed Consolidating Statement of Operations****Three Months Ended March 31, 2013****(In thousands)**

	<b>Parent</b>	<b>Combined Subsidiary Guarantors</b>	<b>Non- Guarantor</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated Amounts</b>
Revenue before provision for doubtful accounts	\$	\$ 162,006	\$ 3,699	\$	\$ 165,705
Provision for doubtful accounts		(4,350)	(142)		(4,492)
Revenue		157,656	3,557		161,213
Salaries, wages and benefits	601	91,984	1,766		94,351
Professional fees		8,707	307		9,014
Supplies		8,409	189		8,598
Rents and leases		2,271	56		2,327
Other operating expenses		15,877	1,106		16,983
Depreciation and amortization		3,426	196		3,622
Interest expense, net	8,340		422		8,762
Debt extinguishment costs	9,350				9,350
Transaction-related expenses		1,474			1,474
Total expenses	18,291	132,148	4,042		154,481
(Loss) income from continuing operations before income taxes	(18,291)	25,508	(485)		6,732
Equity in earnings of subsidiaries	14,753			(14,753)	
(Benefit from) provision for income taxes	(7,276)	10,147	(193)		2,678
Income (loss) from continuing operations	3,738	15,361	(292)	(14,753)	4,054
Loss from discontinued operations, net of income taxes		(316)			(316)
Net income (loss)	\$ 3,738	\$ 15,045	\$ (292)	\$ (14,753)	\$ 3,738

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## Acadia Healthcare Company, Inc.

## Condensed Consolidating Statement of Cash Flows

Three Months Ended March 31, 2014

(In thousands)

	Parent	Combined Subsidiary Guarantors	Combined Non- Guarantors	Consolidating Adjustments	Total Consolidated Amounts
<b>Operating activities:</b>					
Net income (loss)	\$ 13,058	\$ 18,346	\$ 1,521	\$ (19,867)	\$ 13,058
<b>Adjustments to reconcile net income (loss) to net cash (used in) provided by continuing operating activities:</b>					
Equity in earnings of subsidiaries	(19,867)			19,867	
Depreciation and amortization		5,085	351		5,436
Amortization of debt issuance costs	757		(113)		644
Equity-based compensation expense	1,764				1,764
Deferred income tax expense	429	1,604	198		2,231
Income from discontinued operations, net of taxes		(37)			(37)
Other		13			13
<b>Change in operating assets and liabilities, net of effect of acquisitions:</b>					
Accounts receivable, net		(9,134)	440		(8,694)
Other current assets		919	33		952
Other assets	114	(1,576)		(114)	(1,576)
Accounts payable and other accrued liabilities		(2,302)	463		(1,839)
Accrued salaries and benefits		(5,356)	(51)		(5,407)
Other liabilities		770			770
Net cash (used in) provided by continuing operating activities	(3,745)	8,332	2,842	(114)	7,315
Net cash provided by discontinued operating activities		31			31
Net cash (used in) provided by operating activities	(3,745)	8,363	2,842	(114)	7,346
<b>Investing activities:</b>					
Cash paid for acquisitions, net of cash acquired		(10,000)			(10,000)
Cash paid for capital expenditures		(20,714)	(935)		(21,649)
Cash paid for real estate acquisitions		(16,097)			(16,097)

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Other		(178)			(178)
Net cash used in investing activities		(46,989)	(935)		(47,924)
<b>Financing activities:</b>					
Borrowings on long-term debt	7,500				7,500
Borrowings on revolving credit facility	40,500				40,500
Principal payments on long-term debt	(1,875)		(114)	114	(1,875)
Payment of debt issuance costs	(3,491)				(3,491)
Common stock withheld for minimum statutory taxes, net	(2,112)				(2,112)
Excess tax benefit from equity awards	2,730				2,730
Cash (used in) provided by intercompany activity	(39,507)	41,600	(4,018)	1,925	
Net cash provided by (used in) financing activities	3,745	41,600	(4,132)	2,039	43,252
Net increase (decrease) in cash and cash equivalents		2,974	(2,225)	1,925	2,674
Cash and cash equivalents at beginning of the period			6,494	(1,925)	4,569
Cash and cash equivalents at end of the period	\$	\$ 2,974	\$ 4,269	\$	\$ 7,243

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## Acadia Healthcare Company, Inc.

## Condensed Consolidating Statement of Cash Flows

Three Months Ended March 31, 2013

(In thousands)

	Parent	Combined Subsidiary Guarantors	Non- Guarantor	Consolidating Adjustments	Total Consolidated Amounts
<b>Operating activities:</b>					
Net income (loss)	\$ 3,738	\$ 15,045	\$ (292)	\$ (14,753)	\$ 3,738
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) continuing operating activities:</b>					
Equity in earnings of subsidiaries	(14,753)			14,753	
Depreciation and amortization		3,426	196		3,622
Amortization of debt issuance costs	540				540
Equity-based compensation expense	601				601
Deferred income tax expense	143	2,201	111		2,455
Loss from discontinued operations, net of taxes		316			316
Debt extinguishment costs	9,350				9,350
Other		15			15
Change in operating assets and liabilities, net of effect of acquisitions:					
Accounts receivable		(9,373)	(149)		(9,522)
Other current assets		(1,148)	76		(1,072)
Other assets		(850)			(850)
Accounts payable and other accrued liabilities		(1,248)	251		(997)
Accrued salaries and benefits		(6,709)	(8)		(6,717)
Other liabilities		(271)			(271)
Net cash (used in) provided by continuing operating activities	(381)	1,404	185		1,208
Net cash used in discontinued operating activities		(267)			(267)
Net cash (used in) provided by operating activities	(381)	1,137	185		941
<b>Investing activities:</b>					
Cash paid for acquisitions, net of cash acquired		(22,375)			(22,375)
Cash paid for capital expenditures		(12,776)	12		(12,764)

Other		(133)		(133)
Net cash (used in) provided by investing activities		(35,284)	12	(35,272)
<b>Financing activities:</b>				
Borrowings on long-term debt	150,000			150,000
Principal payments on long-term debt	(1,875)			(1,875)
Repayment of long-term debt	(52,500)			(52,500)
Payment of debt issuance costs	(4,153)			(4,153)
Payment of premium on note redemption	(6,759)			(6,759)
Common stock withheld for minimum statutory taxes, net	(641)			(641)
Excess tax benefit from equity awards	635			635
Cash (used in) provided by intercompany activity	(84,326)	84,615	(289)	
Net cash provided by (used in) financing activities	381	84,615	(289)	84,707
Net increase (decrease) in cash and cash equivalents		50,468	(92)	50,376
Cash and cash equivalents at beginning of the period		49,307	92	49,399
Cash and cash equivalents at end of the period	\$	\$ 99,775	\$	\$ 99,775

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**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, 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:

negative media coverage relating to patient incidents, which could adversely affect the price of our common stock and result in incremental regulatory burdens and governmental investigations;

the impact of payments received from the government and third-party payors on our revenues and results of operations;

our significant indebtedness, our ability to meet our debt obligations, and ability to incur substantially more debt;

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 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 recent healthcare reform;

the impact of our highly competitive industry on patient volumes;

the impact of the trend by insurance companies and managed care organizations entering into sole source contracts;

the impact of recruitment and retention of quality psychiatrists and other physicians on our performance;

the impact of competition for staffing on our labor costs and profitability;

our dependence on key management personnel, key executives and our local facility management personnel;

our acquisition strategy, which exposes us to a variety of operational and financial risk;

difficulties in successfully integrating the operations of acquired facilities or realizing the potential benefits and synergies of these acquisitions;

the impact of state efforts to regulate the construction or expansion of healthcare facilities 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 HIPAA, breach of privacy or other negative impact;

the impact of legislative and regulatory initiatives relating to privacy and security of patient health information and standards for electronic transactions;

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 common stock;

the impact of our sponsor's rights over certain company matters;

the impact of the trend for insurance companies and managed care organizations to enter into sole source contracts on our ability to obtain patients; and

those risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission.

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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 inpatient behavioral healthcare facilities and improve our operating results within our inpatient 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 March 31, 2014, we operated 52 behavioral healthcare facilities with over 4,300 licensed beds in 24 states and Puerto Rico. During the three months ended March 31, 2014, we acquired one facility and added 122 new beds to our existing facilities. We expect to add over 300 total beds for the year ending December 31, 2014 (exclusive of acquisitions).

We are the leading publicly traded pure-play provider of inpatient behavioral healthcare services based upon number of licensed beds in the United States. Management believes that the Company's recent acquisitions described below 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 January 1, 2014, we completed the acquisition of the assets of Pacific Grove, an inpatient psychiatric facility with 68 licensed beds located in Riverside, California, for cash consideration of \$10.5 million.

## **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 government under the Medicare program administered by CMS; and (iv) 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.

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The following table presents revenue by payor type and as a percentage of revenue before provision for doubtful accounts for the three months ended March 31, 2014 and 2013 (in thousands):

	<b>Three Months Ended March 31,</b>			
	<b>2014</b>		<b>2013</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Self-Pay	\$ 7,007	3.4%	\$ 3,684	2.2%
Commercial	56,185	27.3%	42,375	25.6%
Medicare	45,686	22.2%	32,447	19.6%
Medicaid	91,770	44.4%	83,193	50.2%
Other	5,471	2.7%	4,006	2.4%
Revenue before provision for doubtful accounts	206,119	100.0%	165,705	100.0%
Provision for doubtful accounts	(4,701)		(4,492)	
Revenue	\$ 201,418		\$ 161,213	

The following tables present a summary of our aging of accounts receivable as of March 31, 2014 and December 31, 2013:

**March 31, 2014**

	<b>Current</b>	<b>30-90</b>	<b>90-150</b>	<b>&gt;150</b>	<b>Total</b>
Self-Pay	1.4%	2.6%	2.1%	4.3%	10.4%
Commercial	16.5%	7.5%	2.2%	2.7%	28.9%
Medicare	18.3%	4.5%	1.7%	2.8%	27.3%
Medicaid	23.5%	5.1%	1.7%	3.1%	33.4%
Total	59.7%	19.7%	7.7%	12.9%	100.0%

**December 31, 2013**

	<b>Current</b>	<b>30-90</b>	<b>90-150</b>	<b>&gt;150</b>	<b>Total</b>
Self-Pay	2.4%	2.5%	2.6%	4.8%	12.3%
Commercial	14.7%	7.0%	2.6%	2.6%	26.9%
Medicare	18.1%	5.1%	2.1%	4.0%	29.3%
Medicaid	21.3%	5.6%	2.1%	2.5%	31.5%
Total	56.5%	20.2%	9.4%	13.9%	100.0%

**Table of Contents****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 March 31, 2014		2013	
	Amount	%	Amount	%
Revenue before provision for doubtful accounts	\$ 206,119		\$ 165,705	
Provision for doubtful accounts	(4,701)		(4,492)	
Revenue	201,418	100.0%	161,213	100.0%
Salaries, wages and benefits	117,575	58.4%	94,351	58.5%
Professional fees	10,382	5.1%	9,014	5.6%
Supplies	10,064	5.0%	8,598	5.3%
Rents and leases	2,769	1.4%	2,327	1.5%
Other operating expenses	23,110	11.5%	16,983	10.5%
Depreciation and amortization	5,436	2.7%	3,622	2.3%
Interest expense	9,707	4.8%	8,762	5.4%
Debt extinguishment costs		%	9,350	5.8%
Transaction-related expenses	1,579	0.8%	1,474	0.9%
<b>Total expenses</b>	<b>180,622</b>	<b>89.7%</b>	<b>154,481</b>	<b>95.8%</b>
Income from continuing operations before income taxes	20,796	10.3%	6,732	4.2%
Provision for income taxes	7,775	3.8%	2,678	1.7%
Income from continuing operations	\$ 13,021	6.5%	\$ 4,054	2.5%

**Three months ended March 31, 2014 compared to the three months ended March 31, 2013**

*Revenue before provision for doubtful accounts.* Revenue before provision for doubtful accounts increased \$40.4 million, or 24.4%, to \$206.1 million for the three months ended March 31, 2014 from \$165.7 million for the three months ended March 31, 2013. The increase related primarily to revenue generated during the three months ended March 31, 2014 from the facilities acquired in our 2013 and 2014 Acquisitions. Same-facility revenue before provision for doubtful accounts increased by \$15.5 million, or 9.4%, for the three months ended March 31, 2014 compared to the three months ended March 31, 2013, resulting from same-facility growth in patient days of 7.4% and same-facility revenue per day of 2.3%. Consistent with the same-facility patient day growth in 2013, the growth in same-facility patient days for the three months ended March 31, 2014 compared to the three months ended March 31, 2013 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 \$4.7 million for the three months ended March 31, 2014, or 2.3% of revenue before provision for doubtful accounts, compared to \$4.5 million for the three months ended March 31, 2013, or 2.7% of revenue before provision for doubtful accounts. The decrease as a percentage of revenue related primarily to improvements in our business office operations. The same-facility provision for doubtful accounts was \$4.1 million for the three months ended March 31, 2014, or 2.3% of revenue

before provision for doubtful accounts, compared to \$4.5 million for the three months ended March 31, 2013, or 2.7% of revenue before provision for doubtful accounts.

*Salaries, wages and benefits.* Salaries, wages and benefits ( SWB ) expense was \$117.6 million for the three months ended March 31, 2014 compared to \$94.4 million for the three months ended March 31, 2013, an increase of \$23.2 million. SWB expense included \$1.8 million and \$0.6 million of equity-based compensation expense for the three months ended March 31, 2014 and 2013, respectively. Excluding equity-based compensation expense, SWB expense was \$115.8 million, or 57.5% of revenue, for the three months ended March 31, 2014, compared to \$93.8 million, or 58.2% of revenue, for the three months ended March 31, 2013. The \$22.1 million increase in SWB expense, excluding equity-based compensation expense, was primarily attributable to SWB expense incurred by the facilities acquired in our 2013 and 2014 Acquisitions. Same-facility SWB expense was \$94.0 million for the three months ended March 31, 2014, or 53.3% of revenue, compared to \$88.7 million for the three months ended March 31, 2013, or 55.3% of revenue.

*Professional fees.* Professional fees were \$10.4 million for the three months ended March 31, 2014, or 5.1% of revenue, compared to \$9.0 million for the three months ended March 31, 2013, or 5.6% of revenue. The \$1.4 million increase was primarily attributable to professional fees incurred by the facilities acquired in our 2013 and 2014 Acquisitions. Same-facility professional fees were \$6.9 million for the three months ended March 31, 2014, or 3.9% of revenue, compared to \$7.4 million, for the three months ended March 31, 2013, or 4.6% of revenue.

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*Supplies.* Supplies expense was \$10.1 million for the three months ended March 31, 2014, or 5.0% of revenue, compared to \$8.6 million for the three months ended March 31, 2013, or 5.3% of revenue. The \$1.5 million increase was primarily attributable to supplies expense incurred by the facilities acquired in our 2013 and 2014 Acquisitions. Same-facility supplies expense was \$8.3 million for the three months ended March 31, 2014, or 4.7% of revenue, compared to \$8.6 million for the three months ended March 31, 2013, or 5.3% of revenue.

*Rents and leases.* Rents and leases were \$2.8 million for the three months ended March 31, 2014, or 1.4% of revenue, compared to \$2.3 million for the three months ended March 31, 2013, or 1.5% of revenue. The \$0.5 million increase was primarily attributable to rents and leases incurred by the facilities acquired in our 2013 and 2014 Acquisitions. Same-facility rents and leases were \$2.3 million for the three months ended March 31, 2014, or 1.3% of revenue, compared to \$2.3 million for the three months ended March 31, 2013, or 1.4% 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 \$23.1 million for the three months ended March 31, 2014, or 11.5% of revenue, compared to \$17.0 million for the three months ended March 31, 2013, or 10.5% of revenue. The increase in other operating expenses as a percentage of revenue was primarily attributable to higher other operating expenses incurred by the facilities acquired in our 2013 and 2014 Acquisitions, which had higher other operating expenses as a percentage of revenue than our facilities acquired prior to 2013. Same-facility other operating expenses were \$18.9 million for the three months ended March 31, 2014, or 10.7% of revenue, compared to \$16.5 million for the three months ended March 31, 2013, or 10.3% of revenue.

*Depreciation and amortization.* Depreciation and amortization expense was \$5.4 million for the three months ended March 31, 2014, or 2.7% of revenue, compared to \$3.6 million for the three months ended March 31, 2013, or 2.3% of revenue. The increase in depreciation and amortization was attributable to depreciation associated with capital expenditures during 2013 and 2014 and real estate acquired as part of the 2013 and 2014 Acquisitions.

*Interest expense.* Interest expense was \$9.7 million for the three months ended March 31, 2014 compared to \$8.8 million for the three months ended March 31, 2013. The increase in interest expense was primarily a result of increased borrowings under the Amended and Restated Senior Credit Facility and the issuance of the 6.125% Senior Notes offset by a reduction related to the redemption of \$52.5 million in principal amount of the 12.875% Senior Notes on March 12, 2013.

*Debt extinguishment costs.* Debt extinguishment costs for the three months ended March 31, 2013 represent \$6.8 million of cash charges and \$2.6 million of noncash charges recorded in connection with the redemption of \$52.5 million in principal amount of the 12.875% Senior Notes on March 12, 2013.

*Transaction-related expenses.* Transaction-related expenses were \$1.6 million for the three months ended March 31, 2014 compared to \$1.5 million for the three months ended March 31, 2013. Transaction-related expenses represent costs incurred in the respective periods, primarily related to the 2013 and 2014 Acquisitions, as summarized below (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Legal, accounting and other costs	\$ 1,120	\$ 1,005
Severance and contract termination costs	459	469

\$	1,579	\$	1,474
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*Provision for income taxes.* For the three months ended March 31, 2014, the provision for income taxes was \$7.8 million, reflecting an effective tax rate of 37.4%, compared to \$2.7 million, reflecting an effective tax rate of 39.8%, for 2013. The decrease in the tax rate for the three months ended March 31, 2014 was primarily attributable to various state tax planning initiatives and restructurings.

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**Table of Contents****Liquidity and Capital Resources**

Cash provided by continuing operating activities for the three months ended March 31, 2014 was \$7.3 million compared to \$1.2 million for the three months ended March 31, 2013. The increase in cash provided by continuing operating activities was primarily attributable to cash provided by continuing operating activities from the facilities acquired in our 2013 and 2014 Acquisitions and the growth in same-facility operations. Days sales outstanding as of March 31, 2014 was 47 compared to 46 as of December 31, 2013. As of March 31, 2014 and December 31, 2013, we had working capital of \$59.1 million and \$30.4 million, respectively.

Cash used in investing activities for the three months ended March 31, 2014 was \$47.9 million compared to \$35.3 million for the three months ended March 31, 2013. Cash used in investing activities for the three months ended March 31, 2014 primarily consisted of \$10.0 million of cash paid for acquisitions. Cash paid for capital expenditures for the three months ended March 31, 2014 was \$21.6 million, consisting of \$4.3 million of routine capital expenditures and \$17.3 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 2.2% of revenue for the three months ended March 31, 2014. Cash paid for real estate acquisitions was \$16.1 million for the three months ended March 31, 2014. Cash used in investing activities for the three months ended March 31, 2013 consisted primarily of cash paid for acquisitions of \$22.4 million and cash paid for capital expenditures of \$12.8 million.

Cash provided by financing activities for the three months ended March 31, 2014 was \$43.3 million compared to \$85.5 million for the three months ended March 31, 2013. Cash provided by financing activities for the three months ended March 31, 2014 primarily consisted of borrowings on revolving credit facility of \$40.5 million, borrowings on long-term debt of \$7.5 million and an excess tax benefit from equity awards of \$2.7 million, partially offset by payment of debt issuance costs of \$3.5 million, principal payments on long-term debt of \$1.9 million and common stock withheld for minimum statutory taxes of \$2.1 million. Cash provided by financing activities for the three months ended March 31, 2013 primarily consisted of long-term debt borrowings of \$150.0 million in connection with the issuance of the 6.125% Senior Notes and an excess tax benefit from equity awards of \$0.6 million, partially offset by repayment of long-term debt of \$52.5 million, principal payments on long-term debt of \$1.9 million, payment of premium on note redemption of \$6.8 million and payment of debt issuance costs of \$4.2 million and common stock withheld for minimum statutory taxes of \$0.6 million.

***Amended and Restated Senior Credit Facility***

The Company entered into the Senior Secured Credit Facility, administered by Bank of America, N.A., on April 1, 2011. The Senior Secured Credit Facility initially included \$135.0 million of term loans and a revolving line of credit of \$30.0 million.

On March 1, 2012, we amended the Senior Secured Credit Facility to provide an incremental \$25.0 million of term loans and increase the revolving line of credit by \$45.0 million, from \$30.0 million to \$75.0 million.

On December 31, 2012, we entered into the Amended and Restated Credit Agreement, which amended and restated the Senior Secured Credit Facility to provide a revolving line of credit of \$100.0 million and term loans of \$300.0 million, which resulted in debt proceeds of \$151.1 million.

On March 11, 2013, we entered into a Consent and First Amendment to the Amended and Restated Credit Agreement. The First Amendment modified the definition of Consolidated EBITDA to permit the add-back for financial covenant purposes of certain fees and expenses related to the redemption of the Company's 12.875% Senior Notes. In addition,



the First Amendment amended the definitions of Consolidated Leverage Ratio and Consolidated Senior Leverage Ratio to permit the Company to test indebtedness on a basis net of cash or cash equivalents on hand for financial covenant purposes.

On June 28, 2013, we entered into the Second Amendment to the Amended and Restated Credit Agreement. The Second Amendment modified certain of the restrictive covenants contained therein to permit the Company to increase the amount of miscellaneous investments it may make, as well as to permit the Company to incur increased amounts of purchase money indebtedness in order to finance certain long-term capital leases.

On September 30, 2013, we entered into the Third Amendment to the Amended and Restated Credit Agreement. The Third Amendment modified certain of the restrictive covenants contained therein to permit the incurrence by the Company of increased amounts of miscellaneous types of liens and indebtedness to facilitate its consummation of the acquisition of Longleaf.

On February 13, 2014, we entered into the Fourth Amendment to our Amended and Restated Credit Agreement, to increase the size of our Amended and Restated Senior Credit Facility and extend the maturity date thereof, which resulted in our 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 us in terms of our financial and other restrictive covenants as described below. We had \$205.6 million of availability under the revolving line of credit as of March 31, 2014. Borrowings under the revolving line of credit are subject to customary conditions precedent to borrowing. The term

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loans require quarterly principal payments of \$1.9 million for March 31, 2014 to December 31, 2014, \$3.8 million for March 31, 2015 to December 31, 2015, \$5.6 million for March 31, 2016 to December 31, 2016, \$7.5 million for March 31, 2017 to December 31, 2017, and \$9.4 million for March 31, 2018 to December 31, 2018, with the remaining principal balance due on the maturity date of February 13, 2019. The Fourth Amendment also provides for a \$150.0 million incremental credit facility, with the potential for unlimited additional incremental amounts, provided we meet certain financial ratios, in each case subject to customary conditions precedent to borrowing.

Borrowings under the Amended and Restated Senior Credit Facility are guaranteed by each of the Company's wholly-owned domestic subsidiaries (other than Park Royal and certain other excluded subsidiaries) and are secured by a lien on substantially all of the assets of the Company and its wholly-owned domestic subsidiaries (other than Park Royal and certain other excluded subsidiaries). Borrowings under the Amended and Restated Senior Credit Facility bear interest at a rate tied to the Company's consolidated leverage ratio (defined as consolidated funded debt 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 borrowings under the Amended and Restated Senior Credit Facility was 2.75% 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 March 31, 2014.

Eurodollar Rate Loans bear interest at the Applicable Rate plus the Eurodollar Rate (as defined in the Amended and Restated Credit Agreement) (based upon the British Bankers Association LIBOR Rate (as defined in the Amended and Restated Credit Agreement) prior to commencement of the interest rate period). Base Rate Loans 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 March 31, 2014, borrowings under the Senior Secured Credit Facility bore interest at a rate of 2.75%. In addition, the Company is 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 March 31, 2014. The Fourth Amendment resulted in a 0.50% decrease in the Applicable Rate for LIBOR Rate Loans (as defined in the Amended and Restated Credit Agreement) and a 0.10% decrease in the Unused Line Fee (as defined in the Amended and Restated Credit Agreement) as reflected in the table below.

The interest rates and the unused line fee on unused commitments related to the Amended and Restated Senior Credit Facility are based upon the following pricing tiers:

Pricing Tier	Consolidated Leverage Ratio	LIBOR	Base Rate	Unused Line
		Rate Loans	Loans	Fee
1	<3.5:1.0	2.25%	1.25%	0.30%
2	<sup>3</sup> 3.5:1.0 but <4.0:1.0	2.50%	1.50%	0.35%
3	<sup>3</sup> 4.0:1.0 but <4.5:1.0	2.75%	1.75%	0.40%
4	<sup>3</sup> 4.50:1.0	3.00%	2.00%	0.45%

The Amended and Restated Credit Agreement requires the Company and its subsidiaries to comply with customary affirmative, negative and financial covenants. A breach of any of the restrictions or covenants in our debt agreements could cause a cross-default under other 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 and the payment of management fees; (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) capital expenditures (not to exceed 10.0% of total revenues of the Company and its subsidiaries); (xv) prepayment or redemption of certain senior unsecured debt; and (xvi) 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.

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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 consolidated leverage ratio may not be greater than the amount set forth below as of the date opposite such ratio:

<b>Fiscal Quarter Ending</b>	<b>Maximum Consolidated Leverage Ratio</b>
June 30, 2014	5.50:1.0
September 30, 2014	5.50:1.0
December 31, 2014	5.50:1.0
March 31, 2015	5.25:1.0
June 30, 2015	5.25:1.0
September 30, 2015	5.25:1.0
December 31, 2015	5.25:1.0
March 31, 2016	5.00:1.0
June 30, 2016	5.00:1.0
September 30, 2016	5.00:1.0
December 31, 2016	5.00:1.0
March 31, 2017 and each fiscal quarter ending thereafter	4.50:1.0

The consolidated senior secured leverage ratio may not be greater than the amount set forth below as of the date opposite such ratio:

<b>Fiscal Quarter Ending</b>	<b>Maximum Consolidated Senior Secured Leverage Ratio</b>
June 30, 2014	3.50:1.0
September 30, 2014	3.50:1.0
December 31, 2014	3.50:1.0
March 31, 2015	3.25:1.0
June 30, 2015	3.25:1.0
September 30, 2015	3.25:1.0
December 31, 2015	3.25:1.0
March 31, 2016 and each fiscal quarter ending thereafter	3.00:1.0

As of March 31, 2014, 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 to: (i) incur or guarantee additional debt or issue certain preferred stock; (ii) pay dividends on our equity interests or redeem, repurchase or retire our equity interests or subordinated debt; (iii) transfer or sell assets; (iv) make certain investments; (v) incur certain liens; (vi) restrict our subsidiaries' ability to pay dividends or make other payments to the Company; (vii) engage in certain transactions with our affiliates; and (viii) merge or consolidate with other companies or transfer all or substantially all of the Company's assets.

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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 Credit Facility. The guarantees are full and unconditional and joint and several and the Company, as the parent issuer of the 12.875% Senior Notes, has no independent assets or operations.

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 operations.

***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, beginning on September 15, 2013.

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 Credit Facility. The guarantees are full and unconditional and joint and several and the Company, as the parent issuer of the 6.125% Senior Notes, has no independent assets or operations.

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.

***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. 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.

**Table of Contents****Contractual Obligations**

The following table presents a summary of contractual obligations as of March 31, 2014 (dollars in thousands):

	<b>Payments Due by Period</b>				<b>Total</b>
	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More Than 5 Years</b>	
Long-term debt (a)	\$ 45,093	\$ 111,477	\$ 309,720	\$ 414,247	\$ 880,537
Operating leases	6,562	12,545	6,472	18,737	44,316
Purchase and other obligations (b)	7,235	502	924		8,661
<b>Total obligations and commitments</b>	<b>\$ 58,890</b>	<b>\$ 124,524</b>	<b>\$ 317,116</b>	<b>\$ 432,984</b>	<b>\$ 933,514</b>

(a) Amounts include required principal and interest payments. The projected interest payments reflect an interest rate of 2.75% per annum for our variable-rate debt based on the rate in place as of March 31, 2014.

(b) Amounts relate to purchase obligations, including capital lease payments and contingent payments of up to \$7.0 million 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.

**Off-Balance Sheet Arrangements**

As of March 31, 2014, we had standby letters of credit outstanding of \$0.4 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 March 31, 2014 was composed of \$271.1 million of fixed-rate debt and \$392.1 million 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 \$0.5 million on an annual basis based upon our borrowing level at March 31, 2014.

**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 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 three months ended March 31, 2014 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**Table of Contents****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, 2013. The risks, as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, 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 March 31, 2014, 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:

Period		Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1	January 31	285	\$ 47.05		
February 1	February 28				
March 1	March 31	26,297	46.16		
Total		26,582			

**Item 6. Exhibits**

Exhibit No.	Exhibit Description
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. (1).

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- 31.1\* Certification of the Chief Executive Officer of Acadia Healthcare Company, Inc. 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 Acadia Healthcare Company, Inc. 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 Acadia Healthcare Company, Inc. 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 Acadia Healthcare Company, Inc. s Current Report on Form 8-K filed November 1, 2011 (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.

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**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: April 30, 2014

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