

Edgar Filing: Acadia Healthcare Company, Inc. - Form 10-Q

Acadia Healthcare Company, Inc.

Form 10-Q

May 01, 2019

false 2019 Q1 ACHC Acadia Healthcare Company, Inc. 0001520697 --12-31 Large Accelerated Filer false false P5Y P1Y Payable semi-annually in arrears on March 15 and September 15 of each year. Payable semi-annually in arrears on January 1 and July 1 of each year. Payable semi-annually in arrears on February 15 and August 15 of each year. Payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2016. P3Y P2Y P7Y4M24D P19Y10M24D 0 0 P7Y5M15D P9Y2M15D P7Y3M3D P9Y11M8D P8Y1M20D P5Y8M23D P6Y3M14D P5Y P5Y1M6D 0001520697 2019-01-01 2019-03-31 xbrli:shares 0001520697 2019-05-01 iso4217:USD 0001520697 2019-03-31 0001520697 2018-12-31 iso4217:USD xbrli:shares 0001520697 2018-01-01 2018-03-31 0001520697 us-gaap:CommonStockMember 2017-12-31 0001520697 us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0001520697 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0001520697 us-gaap:RetainedEarningsMember 2017-12-31 0001520697 2017-12-31 0001520697 us-gaap:CommonStockMember 2018-01-01 2018-03-31 0001520697 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-03-31 0001520697 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-03-31 0001520697 us-gaap:RetainedEarningsMember 2018-01-01 2018-03-31 0001520697 us-gaap:CommonStockMember 2018-03-31 0001520697 us-gaap:AdditionalPaidInCapitalMember 2018-03-31 0001520697 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-03-31 0001520697 us-gaap:RetainedEarningsMember 2018-03-31 0001520697 2018-03-31 0001520697 us-gaap:CommonStockMember 2018-04-01 2018-06-30 0001520697 us-gaap:AdditionalPaidInCapitalMember 2018-04-01 2018-06-30 0001520697 2018-04-01 2018-06-30 0001520697 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-04-01 2018-06-30 0001520697 us-gaap:RetainedEarningsMember 2018-04-01 2018-06-30 0001520697 us-gaap:CommonStockMember 2018-06-30 0001520697 us-gaap:AdditionalPaidInCapitalMember 2018-06-30 0001520697 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-06-30 0001520697 us-gaap:RetainedEarningsMember 2018-06-30 0001520697 2018-06-30 0001520697 us-gaap:CommonStockMember 2018-07-01 2018-09-30 0001520697 us-gaap:AdditionalPaidInCapitalMember 2018-07-01 2018-09-30 0001520697 2018-07-01 2018-09-30 0001520697 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-07-01 2018-09-30 0001520697 us-gaap:RetainedEarningsMember 2018-07-01 2018-09-30 0001520697 us-gaap:CommonStockMember 2018-09-30 0001520697 us-gaap:AdditionalPaidInCapitalMember 2018-09-30 0001520697 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-09-30 0001520697 us-gaap:RetainedEarningsMember 2018-09-30 0001520697 2018-09-30 0001520697 us-gaap:CommonStockMember 2018-10-01 2018-12-31 0001520697 us-gaap:AdditionalPaidInCapitalMember 2018-10-01 2018-12-31 0001520697 2018-10-01 2018-12-31 0001520697 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-10-01 2018-12-31 0001520697 us-gaap:RetainedEarningsMember 2018-10-01 2018-12-31 0001520697 us-gaap:CommonStockMember 2018-12-31 0001520697 us-gaap:AdditionalPaidInCapitalMember 2018-12-31 0001520697 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-12-31 0001520697 us-gaap:RetainedEarningsMember 2018-12-31 0001520697 us-gaap:CommonStockMember 2019-01-01 2019-03-31 0001520697 us-gaap:AdditionalPaidInCapitalMember 2019-01-01 2019-03-31 0001520697 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2019-01-01 2019-03-31 0001520697 us-gaap:RetainedEarningsMember 2019-01-01 2019-03-31 0001520697 us-gaap:CommonStockMember 2019-03-31 0001520697 us-gaap:AdditionalPaidInCapitalMember 2019-03-31 0001520697 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2019-03-31 0001520697 us-gaap:RetainedEarningsMember 2019-03-31 0001520697 achc:UnitedStatesFacilitiesMember 2019-01-01 2019-03-31 0001520697 achc:UnitedKingdomFacilityMember 2019-01-01 2019-03-31 0001520697 us-gaap:GoodwillMember 2019-01-01 2019-03-31 achc:Facility achc:Bed achc:State 0001520697 us-gaap:AccountingStandardsUpdate201602Member 2019-01-01 0001520697 achc:UnitedStatesFacilitiesMember achc:AcuteInpatientPsychiatricFacilitiesMember 2019-01-01 2019-03-31 0001520697 achc:UnitedStatesFacilitiesMember achc:AcuteInpatientPsychiatricFacilitiesMember 2018-01-01 2018-03-31 0001520697 achc:UnitedStatesFacilitiesMember achc:SpecialtyTreatmentFacilitiesMember 2019-01-01 2019-03-31 0001520697 achc:UnitedStatesFacilitiesMember achc:SpecialtyTreatmentFacilitiesMember 2018-01-01 2018-03-31 0001520697 achc:UnitedStatesFacilitiesMember achc:ResidentialTreatmentCentersMember 2019-01-01 2019-03-31

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achc:UnitedKingdomFacilityMember us-gaap:OperatingSegmentsMember 2019-03-31 0001520697  
us-gaap:CorporateAndOtherMember achc:CorporateReconcilingItemsAndEliminationsMember 2019-03-31  
0001520697 us-gaap:CorporateAndOtherMember achc:CorporateReconcilingItemsAndEliminationsMember  
2018-12-31 0001520697 us-gaap:AccumulatedTranslationAdjustmentMember 2018-12-31 0001520697  
achc:ChangeInFairValueOfDerivativeInstrumentsMember 2018-12-31 0001520697  
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2018-12-31 0001520697  
us-gaap:AccumulatedTranslationAdjustmentMember 2019-01-01 2019-03-31 0001520697  
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achc:ChangeInFairValueOfDerivativeInstrumentsMember 2019-01-01 2019-03-31 0001520697  
us-gaap:AccumulatedTranslationAdjustmentMember 2019-03-31 0001520697  
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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, 2019

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.)  
6100 Tower Circle, Suite 1000

Franklin, Tennessee 37067

(Address, including zip code, of registrant's principal executive offices)

(615) 861-6000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act.

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

At May 1, 2019, there were 88,701,225 shares of the registrant's common stock outstanding.

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$.01 par value	ACHC	NASDAQ Global Select Market

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ACADIA HEALTHCARE COMPANY, INC.

QUARTERLY REPORT ON FORM 10-Q

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## PART I – FINANCIAL INFORMATION

**Item 1.** Financial Statements

Acadia Healthcare Company, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

	March 31,	December 31,
	2019	2018
	(In thousands, except share and per	
	share amounts)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$43,684	\$ 50,510
Accounts receivable, net	331,851	318,087
Other current assets	76,979	81,820
Total current assets	452,514	450,417
Property and equipment, net	3,173,052	3,107,766
Goodwill	2,441,999	2,396,412
Intangible assets, net	89,796	88,990
Deferred tax assets	3,436	3,468
Derivative instrument assets	46,304	60,524
Operating lease right-of-use assets	506,787	—
Other assets	71,629	64,927
Total assets	\$6,785,517	\$ 6,172,504
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$36,503	\$ 34,112
Accounts payable	116,666	117,740
Accrued salaries and benefits	108,546	113,299
Current portion of operating lease liabilities	27,984	—
Other accrued liabilities	134,972	151,226
Total current liabilities	424,671	416,377
Long-term debt	3,221,709	3,159,375
Deferred tax liabilities	76,922	80,372
Operating lease liabilities	504,753	—
Other liabilities	122,188	154,267
Total liabilities	4,350,243	3,810,391
Redeemable noncontrolling interests	31,931	28,806

Equity:

Preferred stock, \$0.01 par value; 10,000,000 shares authorized, no shares issued	—	—
Common stock, \$0.01 par value; 180,000,000 shares authorized; 87,593,730		

and 87,444,473 issued and outstanding at March 31, 2019 and December 31, 2018,

respectively	876	874
Additional paid-in capital	2,546,759	2,541,987
Accumulated other comprehensive loss	(426,586 )	(462,377 )
Retained earnings	282,294	252,823
Total equity	2,403,343	2,333,307
Total liabilities and equity	\$6,785,517	\$ 6,172,504

See accompanying notes.

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Acadia Healthcare Company, Inc.

## Condensed Consolidated Statements of Income

(Unaudited)

	Three Months Ended	
	March 31, 2019	2018
	(In thousands, except per share amounts)	
Revenue	\$ 760,617	\$ 742,241
Salaries, wages and benefits (including equity-based compensation expense of \$6,101  and \$6,919, respectively)	429,579	411,528
Professional fees	57,007	54,018
Supplies	29,957	29,364
Rents and leases	20,307	20,288
Other operating expenses	93,865	88,231
Depreciation and amortization	40,580	39,773
Interest expense, net	48,130	45,243
Debt extinguishment costs	—	940
Transaction-related expenses	4,321	4,768
Total expenses	723,746	694,153
Income before income taxes	36,871	48,088
Provision for (benefit from) income taxes	7,360	(2,786 )
Net income	29,511	50,874
Net income attributable to noncontrolling interests	(40 )	(55 )
Net income attributable to Acadia Healthcare Company, Inc.	\$ 29,471	\$ 50,819
Earnings per share attributable to Acadia Healthcare Company, Inc. stockholders:		

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Basic	\$	0.34	\$	0.58
Diluted	\$	0.34	\$	0.58
Weighted-average shares outstanding:				
Basic		87,505		87,121
Diluted		87,694		87,294

See accompanying notes.

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Acadia Healthcare Company, Inc.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended	
	March 31, 2019	2018
	(In thousands)	
Net income	\$29,511	\$50,874
Other comprehensive income:		
Foreign currency translation gain	44,481	92,780
Loss on derivative instruments, net of tax of \$(3.5) million and \$(7.3) million, respectively	(8,690 )	(20,053 )
Other comprehensive income	35,791	72,727
Comprehensive income	65,302	123,601
Comprehensive income attributable to noncontrolling interests	(40 )	(55 )
Comprehensive income attributable to Acadia Healthcare Company, Inc.	\$65,262	\$123,546

See accompanying notes.

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Acadia Healthcare Company, Inc.

## Condensed Consolidated Statement of Equity

(Unaudited)

(In thousands)

			Accumulated		Total	
	Common Stock Shares	Amount	Additional Paid-in Capital	Other Comprehensive Loss		Retained Earnings
Balance at December 31, 2017	87,060	\$ 871	\$2,517,545	\$ (374,118 )	\$428,573	\$2,572,871
Common stock issued under stock incentive plans	228	2	94	—	—	96
Common stock withheld for minimum statutory						
taxes	—	—	(2,126 )	—	—	(2,126 )
Equity-based compensation expense	—	—	6,919	—	—	6,919
Other comprehensive income	—	—	—	72,727	—	72,727
Other	—	—	313	—	—	313
Net income attributable to Acadia Healthcare						
Company, Inc.	—	—	—	—	50,819	50,819
Balance at March 31, 2018	87,288	873	2,522,745	(301,391 )	479,392	2,701,619
Common stock issued under stock incentive plans	42	—	128	—	—	128
Common stock withheld for minimum statutory						
taxes	—	—	(232 )	—	—	(232 )
Equity-based compensation expense	—	—	7,129	—	—	7,129
Other comprehensive loss	—	—	—	(114,492 )	—	(114,492 )
Other	—	—	313	—	—	313
Net income attributable to Acadia Healthcare						
Company, Inc.	—	—	—	—	58,836	58,836
Balance at June 30, 2018	87,330	873	2,530,083	(415,883 )	538,228	2,653,301
Common stock issued under stock incentive plans	33	1	19	—	—	20



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Common stock withheld for minimum statutory

taxes	—	—	(158 )	—	—	(158 )
Equity-based compensation expense	—	—	5,225	—	—	5,225
Other comprehensive loss	—	—	—	(24,579 )	—	(24,579 )
Other	—	—	208	—	—	208

Net income attributable to Acadia Healthcare

Company, Inc.	—	—	—	—	46,232	46,232
Balance at September 30, 2018	87,363	874	2,535,377	(440,462 )	584,460	2,680,249
Common stock issued under stock incentive plans	81	—	130	—	—	130

Common stock withheld for minimum statutory

taxes	—	—	(1,265 )	—	—	(1,265 )
Equity-based compensation expense	—	—	2,728	—	—	2,728
Other comprehensive loss	—	—	—	(21,915 )	—	(21,915 )
Other	—	—	5,017	—	—	5,017

Net loss attributable to Acadia Healthcare

Company, Inc.	—	—	—	—	(331,637 )	(331,637 )
Balance at December 31, 2018	87,444	874	2,541,987	(462,377 )	252,823	2,333,307
Common stock issued under stock incentive plans	149	2	291	—	—	293

Common stock withheld for minimum statutory

taxes	—	—	(1,620 )	—	—	(1,620 )
Equity-based compensation expense	—	—	6,101	—	—	6,101
Other comprehensive income	—	—	—	35,791	—	35,791

Net income attributable to Acadia Healthcare

Company, Inc.	—	—	—	—	29,471	29,471
Balance at March 31, 2019	87,593	\$ 876	\$2,546,759	\$ (426,586 )	\$282,294	\$2,403,343

See accompanying notes.

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Acadia Healthcare Company, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended	
	March 31,	
	2019	2018
	(In thousands)	
Operating activities:		
Net income	\$29,511	\$50,874
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Depreciation and amortization	40,580	39,773
Amortization of debt issuance costs	2,888	2,525
Equity-based compensation expense	6,101	6,919
Deferred income taxes	(666 )	1,897
Debt extinguishment costs	—	940
Other	2,187	1,043
Change in operating assets and liabilities:		
Accounts receivable, net	(11,980 )	(18,793 )
Other current assets	(5,875 )	(13,216 )
Other assets	295	(1,268 )
Accounts payable and other accrued liabilities	(15,701 )	(3,368 )
Accrued salaries and benefits	(5,849 )	4,802
Other liabilities	2,182	509
Net cash provided by continuing operating activities	43,673	72,637
Net cash used in discontinued operating activities	—	(287 )
Net cash provided by operating activities	43,673	72,350
Investing activities:		
Cash paid for acquisitions, net of cash acquired	(40,400 )	—
Cash paid for capital expenditures	(69,248 )	(70,327 )
Cash paid for real estate acquisitions	(1,066 )	(4,293 )
Other	613	(4,066 )
Net cash used in investing activities	(110,101 )	(78,686 )
Financing activities:		
Borrowings on revolving credit facility	71,573	—
Principal payments on long-term debt	(8,246 )	—
Common stock withheld for minimum statutory taxes, net	(1,327 )	(2,030 )
Other	(3,497 )	(2,704 )
Net cash provided by (used in) financing activities	58,503	(4,734 )
Effect of exchange rate changes on cash	1,099	1,588

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Net decrease in cash and cash equivalents	(6,826 )	(9,482 )
Cash and cash equivalents at beginning of the period	50,510	67,290
Cash and cash equivalents at end of the period	\$43,684	\$57,808
Effect of acquisitions:		
Assets acquired, excluding cash	44,028	—
Liabilities assumed	(3,628 )	—
Cash paid for acquisitions, net of cash acquired	\$40,400	\$—

See accompanying notes.

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Acadia Healthcare Company, Inc.

Notes to Condensed Consolidated Financial Statements

March 31, 2019

(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 (“U.S.”), the United Kingdom (“U.K.”) and Puerto Rico. At March 31, 2019, the Company operated 593 behavioral healthcare facilities with approximately 18,100 beds in 40 states, the U.K. and Puerto Rico.

**Basis of Presentation**

The business of the Company is conducted through limited liability companies, partnerships and C-corporations. The Company’s consolidated financial statements include the accounts of the Company and all subsidiaries controlled by the Company through its’ direct or indirect ownership of majority interests and exclusive rights granted to the Company as the controlling member of an entity. 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, 2018 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, 2018 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on March 1, 2019. 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. Recently Issued Accounting Standards**

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) ASU 2018-15, “*Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*” (“ASU 2018-15”). ASU 2018-15 requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-402 to determine which implementation costs to capitalize as assets. ASU 2018-15 is

effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted. Management is evaluating the impact of ASU 2018-15 on the Company's consolidated financial statements.

In August 2017, FASB issued ASU 2017-12, "*Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*" ("ASU 2017-12"). ASU 2017-12 amends the hedge accounting model to enable entities to better portray the economics of their risk management activities in the financial statements and simplifies the application of hedge accounting in certain situations. ASU 2017-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company adopted ASU 2017-02 on January 1, 2019. There is no significant impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-02, "*Leases*" ("ASU 2016-02"). ASU 2016-02's core principle is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. ASU 2016-02 requires application either retrospectively to each prior reporting period presented in the financial statements or retrospectively at the beginning of the period of adoption. The Company adopted ASU 2016-02 retrospectively at the beginning of the

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period of adoption. Prior periods have not been adjusted. On January 1, 2019, the Company recorded right-of-use assets and lease liabilities of \$509.8 million and \$536.7 million, respectively, as described in Note 8 – Leases.

**3. Revenue**

Revenue is primarily derived from services rendered to patients for inpatient psychiatric and substance abuse care, outpatient psychiatric care and residential treatment. The services provided by the Company have no fixed duration and can be terminated by the patient or the facility at any time, and therefore, each treatment is its own stand-alone contract.

As our performance obligations relate to contracts with a duration of one year or less, the Company elected the optional exemption in Accounting Standards Codification (“ASC”) ASC 606-10-50-14(a). Therefore, the Company is not required to disclose the transaction price for the remaining performance obligations at the end of the reporting period or when the Company expects to recognize the revenue. The Company has minimal unsatisfied performance obligations at the end of the reporting period as our patients typically are under no obligation to remain admitted in our facilities.

The Company disaggregates revenue from contracts with customers by service type and by payor within each of the Company’s segments.

**U.S. Facilities**

The Company’s facilities in the United States (the “U.S. Facilities”) and services provided by the U.S. Facilities can generally be classified into the following categories: acute inpatient psychiatric facilities; specialty treatment facilities; residential treatment centers; and outpatient community-based facilities.

**Acute inpatient psychiatric facilities.** Acute inpatient psychiatric facilities provide a high level of care in order to stabilize patients that are either a threat to themselves or to others. The acute setting provides 24-hour observation, daily intervention and monitoring by psychiatrists.

**Specialty treatment facilities.** Specialty treatment facilities include residential recovery facilities, eating disorder facilities and comprehensive treatment centers. The Company provides a comprehensive continuum of care for adults with addictive disorders and co-occurring mental disorders. Inpatient, including detoxification and rehabilitation, partial hospitalization and outpatient treatment programs give patients access to the least restrictive level of care.

**Residential treatment centers.** Residential treatment centers treat patients with behavioral disorders in a non-hospital setting, including outdoor programs. The facilities balance therapy activities with social, academic and other activities.

**Outpatient community-based facilities.** Outpatient community-based programs are designed to provide therapeutic treatment to children and adolescents who have a clinically-defined emotional, psychiatric or chemical dependency disorder while enabling the youth to remain at home and within their community.

The table below presents total U.S. revenue attributed to each category (in thousands):

Three Months Ended  
March 31,

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	2019	2018
Acute inpatient psychiatric facilities	\$216,597	\$195,891
Specialty treatment facilities	193,035	184,535
Residential treatment centers	73,224	71,557
Outpatient community-based facilities	5,104	10,422
Revenue	\$487,960	\$462,405

The Company receives payments from the following sources for services rendered in our U.S. Facilities: (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers; (iii) the federal government under the Medicare program administered by the Centers for Medicare and Medicaid Services (“CMS”); and (iv) individual patients and clients.

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The Company determines the transaction price based on established billing rates reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients and implicit price concessions. Contractual adjustments and discounts are based on contractual agreements, discount policies and historical experience. Implicit price concessions are based on historical collection experience. Most of our U.S. Facilities have contracts containing variable consideration. However, it is unlikely a significant reversal of revenue will occur when the uncertainty is resolved, and therefore, the Company has included the variable consideration in the estimated transaction price. Subsequent changes resulting from a patient's ability to pay are recorded as bad debt expense, which is included as a component of other operating expenses in the condensed consolidating statements of income. Bad debt expense for the three months ended March 31, 2019 and 2018 was not significant.

The following table presents revenue by payor type and as a percentage of revenue in our U.S. Facilities (in thousands):

	Three Months Ended March 31,			
	2019		2018	
	Amount	%	Amount	%
Commercial	\$ 139,427	28.6 %	\$ 137,619	29.8 %
Medicare	72,616	14.9 %	67,214	14.5 %
Medicaid	239,191	49.0 %	213,336	46.1 %
Self-Pay	31,732	6.5 %	36,907	8.0 %
Other	4,994	1.0 %	7,329	1.6 %
Revenue	\$ 487,960	100.0 %	\$ 462,405	100.0 %

## U.K. Facilities

The Company's facilities located in the United Kingdom (the "U.K. Facilities") and services provided by the U.K. Facilities can generally be classified into the following categories: healthcare facilities, education and children's services, adult care facilities and elderly care facilities.

**Healthcare facilities.** Healthcare facilities provide psychiatric treatment and nursing for sufferers of mental disorders, including for patients whose risk of harm to others and risk of escape from hospitals cannot be managed safely within other mental health settings. In order to manage the risks involved with treating patients, the facility is managed through the application of a range of security measures depending on the level of dependency and risk exhibited by the patient.

**Education and children's services.** Education and children's services provide specialist education for children and young people with special educational needs, including autism, Asperger's Syndrome, social, emotional and mental health, and specific learning difficulties, such as dyslexia. The division also offers standalone children's homes for children that require 52-week residential care to support complex and challenging behavior and fostering services.

**Adult care facilities.** Adult care focuses on care of individuals with a variety of learning difficulties, mental health illnesses and adult autism spectrum disorders. It also includes long-term, short-term and respite nursing care to high-dependency elderly individuals who are physically frail or suffering from dementia. Care is provided in a number of settings, including in residential care homes and through supported living.

The table below presents total U.K. revenue attributed to each category (in thousands):



	Three Months Ended	
	March 31,	
	2019	2018
Healthcare facilities	\$151,708	\$154,615
Education and Children's Services	46,122	48,085
Adult Care facilities	74,827	77,136
Revenue	\$272,657	\$279,836

On an annual basis, the Company receives payments from approximately 500 public funded sources in the U.K. (including the National Health Service ("NHS"), Clinical Commissioning Groups ("CCGs") and local authorities in England, Scotland and Wales) and individual patients and clients. The Company determines the transaction price based on established billing rates by payor and is reduced by implicit price concessions. Implicit price concessions are insignificant in the U.K. Facilities.

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The following table presents revenue by payor type and as a percentage of revenue in our U.K. Facilities (in thousands):

	Three Months Ended March 31,			
	2019		2018	
	Amount	%	Amount	%
U.K. public funded sources	\$245,413	90.0 %	\$253,294	90.5 %
Self-Pay	26,814	9.8 %	25,068	9.0 %
Other	430	0.2 %	1,474	0.5 %
Revenue	\$272,657	100.0%	\$279,836	100.0%

The Company's contract liabilities primarily consist of unearned revenue in our U.K. Facilities due to the timing of payments received mainly in our education and children's services and healthcare facilities. Contract liabilities are included in other accrued liabilities on the condensed consolidated balance sheets. A summary of the activity in unearned revenue in the U.K. Facilities is as follows (in thousands):

Balance at December 31, 2018	\$31,239
Payments received	48,216
Revenue recognized	(39,736)
Foreign currency translation gain	480
Balance at March 31, 2019	\$40,199

**4. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2019 and 2018 (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2019	2018
Numerator:		
Net income attributable to Acadia Healthcare		
Company, Inc.	\$ 29,471	\$ 50,819
Denominator:		
Weighted average shares outstanding for basic		
earnings per share	87,505	87,121
Effect of dilutive instruments	189	173
Shares used in computing diluted earnings per		
common share	87,694	87,294

Earnings per share attributable to Acadia Healthcare

Company, Inc. stockholders:

Basic	\$ 0.34	\$ 0.58
Diluted	\$ 0.34	\$ 0.58

Approximately 2.6 million and 2.0 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, 2019 and 2018, respectively, because their effect would have been anti-dilutive.

## 5. Acquisitions

The Company's strategy is to acquire and develop behavioral healthcare facilities and improve operating results within its facilities and its other behavioral healthcare operations.

On February 15, 2019, the Company completed the acquisition of Whittier Pavilion ("Whittier"), an inpatient psychiatric facility with 71 beds located in Haverhill, Massachusetts, for cash consideration of approximately \$17.9 million. Also on February 15, 2019, the Company completed the acquisition of Mission Treatment ("Mission Treatment") for cash consideration of approximately \$22.5

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million and a working capital settlement. Mission Treatment operated nine comprehensive treatment centers in California, Nevada, Arizona and Oklahoma.

## Transaction-related expenses

Transaction-related expenses represent costs primarily related to our acquisitions, termination, restructuring and closure costs. Transaction-related expenses comprised the following cost for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended	
	March 31,	
	2019	2018
Termination, restructuring and closure costs	\$ 3,525	\$ 3,392
Legal, accounting and other	796	1,376
	\$ 4,321	\$ 4,768

**6. Property and Equipment**

Property and equipment consisted of the following at March 31, 2019 and December 31, 2018 (in thousands):

	March 31,	
	2019	December 31, 2018
Land	\$451,157	\$ 430,771
Building and improvements	2,565,195	2,423,594
Equipment	456,369	444,538
Construction in progress	216,075	294,848
	3,688,796	3,593,751
Less: accumulated depreciation	(515,744 )	(485,985 )
Property and equipment, net	\$3,173,052	\$ 3,107,766

During the three months ended March 31, 2019, the Company closed a 168-bed residential treatment center in Albuquerque, New Mexico. The Company is currently evaluating options for the future use of this property. Additionally, the Company has recorded assets held for sale of \$21.1 million and \$17.0 million within other assets on the condensed consolidated balance sheets at March 31, 2019 and December 31, 2018, respectively.

**7. Other Intangible Assets**

Other identifiable intangible assets and related accumulated amortization consisted of the following at March 31, 2019 and December 31, 2018 (in thousands):

	Gross Carrying Amount		Accumulated Amortization	
	March 31,	December 31,	March 31,	December 31,
	2019	2018	2019	2018

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Intangible assets subject to amortization:

Contract intangible assets	\$2,100	\$ 2,100	\$(2,100)	\$ (2,100)	)
Non-compete agreements	1,147	1,147	(1,147)	(1,147)	)
	3,247	3,247	(3,247)	(3,247)	)

Intangible assets not subject to amortization:

Licenses and accreditations	12,259	12,343	—	—	
Trade names	60,572	60,109	—	—	
Certificates of need	16,965	16,538	—	—	
	89,796	88,990	—	—	
Total	\$93,043	\$ 92,237	\$(3,247)	\$ (3,247)	)

All the Company's definite-lived intangible assets are fully amortized. The Company's licenses and accreditations, trade names and certificate of need intangible assets have indefinite lives and are, therefore, not subject to amortization.

Table of contents**8. Leases**

The Company's lease portfolio primarily consists of finance and operating real estate leases integral for facility operations. The original terms of the leases typically range from five to 30 years with optional renewal periods. A minimal portion of the Company's lease portfolio consists of non-real estate leases, including copiers and equipment, which generally have lease terms of one to three years and have insignificant lease obligations.

In March 2016, the FASB issued ASU 2016-02. ASU 2016-02's core principle is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information. The Company adopted ASU 2016-02 retrospectively at the beginning of the period of adoption. Prior periods have not been adjusted.

The Company has elected the package of practical expedients offered in the transition guidance which allows management not to reassess lease identification, lease classification and initial direct costs. The Company also elected the accounting policy practical expedients by class of underlying asset to: (i) combine associated lease and non-lease components into a single lease component; and (ii) exclude recording short-term leases as right-of-use assets and liabilities on the condensed consolidated balance sheets. Non-lease components, which are not significant overall, are combined with lease components.

On January 1, 2019, the Company recorded right-of-use assets and lease liabilities on the condensed consolidated balance sheet of \$509.8 million and \$536.7 million, respectively, for non-cancelable real estate operating leases with original lease terms in excess of one year. Finance leases remained on the condensed consolidating balance sheets as required by previous accounting guidance. The Company reviews service agreements for embedded leases and records right-of-use assets and liabilities as necessary.

Operating lease liabilities were recorded as the present value of remaining lease payments not yet paid for the lease term discounted using the incremental borrowing rate associated with each lease. Operating lease right-of-use assets represent operating lease liabilities adjusted for prepayments, accrued lease payments, lease incentives and initial direct costs. Certain of the Company's leases include renewal or termination options. Calculation of operating lease right-of-use assets and liabilities include the initial lease term unless it is reasonably certain a renewal or termination option will be exercised. Variable components of lease payments fluctuating with a future index or rate, as well as those related to common area maintenance costs, are not included in determining lease payments and are expensed as incurred. Most of the Company's leases do not contain implicit borrowing rates, and therefore, incremental borrowing rates were calculated based on information available at the later of the lease commencement date or January 1, 2019. Incremental borrowing rates reflect the Company's estimated interest rates for collateralized borrowings over similar lease terms.

**Lease Position**

At March 31, 2019, the Company recorded the following on the condensed consolidated balance sheet (in thousands):

Right-of-Use Assets	Balance Sheet Classification	March 31, 2019
Finance lease right-of-use assets	Property and equipment, net	\$45,547
Operating lease right-of-use assets	Operating lease right-of-use assets	506,787
Total		\$552,334

Lease Liabilities	Balance Sheet Classification
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		March 31, 2019
Current:		
Finance lease liabilities	Other accrued liabilities	\$7,210
Operating lease liabilities	Current portion of operating lease liabilities	27,984
Noncurrent:		
Finance lease liabilities	Other liabilities	44,445
Operating lease liabilities	Operating lease liabilities	504,753
Total		\$584,392

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Weighted-average remaining lease terms and discount rates at March 31, 2019 were as follows:

Weighted-average remaining lease term (in years):

Finance	7.4
Operating	19.9

Weighted-average discount rate:

Finance	6.4 %
Operating	6.4 %

Lease Costs

The Company recorded the following lease costs for the three months ended March 31, 2019 (in thousands):

	Three Months Ended  March 31, 2019
Finance lease costs:	
Depreciation of leased assets	1,123
Interest of lease liabilities	997
Total finance lease costs	\$ 2,120
Operating lease costs	16,529
Variable lease costs	886
Short term lease costs	1,447
Other lease costs	1,445
Total rents and leases	\$