

Acadia Healthcare Company, Inc.

Form 10-Q

November 06, 2018

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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 September 30, 2018

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 November 6, 2018, there were 88,256,115 shares of the registrant's common stock outstanding.

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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)

	September 30,	December 31,
	2018	2017
	(In thousands, except share and per	
	share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$48,928	\$ 67,290
Accounts receivable, net	345,659	296,925
Other current assets	96,146	107,335
Total current assets	490,733	471,550
Property and equipment, net	3,126,642	3,048,130
Goodwill	2,729,941	2,751,174
Intangible assets, net	91,259	87,348
Deferred tax assets	3,630	3,731
Derivative instrument assets	33,084	12,997
Other assets	54,295	49,572
Total assets	\$6,529,584	\$ 6,424,502
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$33,264	\$ 34,830
Accounts payable	133,914	102,299
Accrued salaries and benefits	109,151	99,047
Other accrued liabilities	114,414	141,213
Total current liabilities	390,743	377,389
Long-term debt	3,181,962	3,205,058
Deferred tax liabilities	82,269	80,333
Other liabilities	165,663	166,434
Total liabilities	3,820,637	3,829,214
Redeemable noncontrolling interests	28,698	22,417
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; 87,363,357	874	871

and 87,060,114 issued and outstanding at September 30, 2018 and December 31, 2017, respectively

Additional paid-in capital	2,535,377	2,517,545
Accumulated other comprehensive loss	(440,462)	(374,118)
Retained earnings	584,460	428,573
Total equity	2,680,249	2,572,871
Total liabilities and equity	\$6,529,584	\$ 6,424,502

See accompanying notes.

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Acadia Healthcare Company, Inc.

Condensed Consolidated Statements of Income

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(In thousands, except per share amounts)			
Revenue before provision for doubtful accounts	\$760,916	\$728,712	\$2,268,895	\$2,143,696
Provision for doubtful accounts	—	(11,998)	—	(31,892)
Revenue	760,916	716,714	2,268,895	2,111,804
Salaries, wages and benefits (including equity-based compensation expense of \$5,225, \$4,175, \$19,273 and \$19,007, respectively)	417,917	385,562	1,246,186	1,145,578
Professional fees	59,509	53,042	166,988	142,772
Supplies	29,461	28,652	88,958	85,000
Rents and leases	19,866	19,049	60,390	57,455
Other operating expenses	90,464	82,328	265,977	249,161
Depreciation and amortization	39,659	36,442	119,360	105,256
Interest expense, net	46,651	44,515	137,706	130,777
Debt extinguishment costs	—	—	940	810
Transaction-related expenses	2,353	5,665	10,008	18,836
Total expenses	705,880	655,255	2,096,513	1,935,645
Income before income taxes	55,036	61,459	172,382	176,159
Provision for income taxes	8,757	15,970	16,339	46,259
Net income	46,279	45,489	156,043	129,900
Net (income) loss attributable to noncontrolling interests	(47)	129	(156)	306
Net income attributable to Acadia Healthcare Company, Inc.	\$46,232	\$45,618	\$155,887	\$130,206
Earnings per share attributable to Acadia Healthcare Company, Inc. stockholders:				
Basic	\$0.53	\$0.52	\$1.79	\$1.50
Diluted	\$0.53	\$0.52	\$1.78	\$1.50
Weighted-average shares outstanding:				
Basic	87,344	87,017	87,233	86,912
Diluted	87,537	87,172	87,386	87,038

See accompanying notes.

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Acadia Healthcare Company, Inc.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(In thousands)			
Net income	\$46,279	\$45,489	\$156,043	\$129,900
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain	(31,959)	69,622	(82,778)	188,744
Gain (loss) on derivative instruments, net of tax of \$2.4 million, \$(6.7) million, \$5.6 million and \$(18.8) million, respectively	7,380	(9,402)	16,434	(24,354)
Other comprehensive (loss) income	(24,579)	60,220	(66,344)	164,390
Comprehensive income	21,700	105,709	89,699	294,290
Comprehensive (gain) loss attributable to noncontrolling interests	(47)	129	(156)	306
Comprehensive income attributable to Acadia Healthcare Company, Inc.	\$21,653	\$105,838	\$89,543	\$294,596

See accompanying notes.

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Acadia Healthcare Company, Inc.

Condensed Consolidated Statement of Equity

(Unaudited)

(In thousands)

	Accumulated					
	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Other Comprehensive Loss	Retained Earnings	Total
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	303	3	241	—	—	244
Common stock withheld for minimum statutory taxes	—	—	(2,516)	—	—	(2,516)
Equity-based compensation expense	—	—	19,273	—	—	19,273
Other comprehensive loss	—	—	—	(66,344)	—	(66,344)
Other	—	—	834	—	—	834
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	—	155,887	155,887
Balance at September 30, 2018	87,363	\$ 874	\$2,535,377	\$ (440,462)	\$584,460	\$2,680,249

See accompanying notes.

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Acadia Healthcare Company, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended	
	September 30,	2017
	2018	2017
	(In thousands)	
Operating activities:		
Net income	\$ 156,043	\$ 129,900
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Depreciation and amortization	119,360	105,256
Amortization of debt issuance costs	7,763	7,340
Equity-based compensation expense	19,273	19,007
Deferred income taxes	(1,738)	29,416
Debt extinguishment costs	940	810
Other	3,025	10,672
Change in operating assets and liabilities:		
Accounts receivable, net	(43,252)	(28,681)
Other current assets	3,021	26,099
Other assets	3,868	(566)
Accounts payable and other accrued liabilities	9,230	(26,381)
Accrued salaries and benefits	11,049	(7,937)
Other liabilities	149	7,677
Net cash provided by continuing operating activities	288,731	272,612
Net cash used in discontinued operating activities	(2,548)	(1,261)
Net cash provided by operating activities	286,183	271,351
Investing activities:		
Cash paid for capital expenditures	(249,989)	(193,817)
Cash paid for real estate acquisitions	(9,391)	(33,297)
Other	(3,114)	(6,062)
Net cash used in investing activities	(262,494)	(233,176)
Financing activities:		
Principal payments on long-term debt	(31,492)	(25,913)
Common stock withheld for minimum statutory taxes, net	(2,272)	(3,278)
Other	(6,973)	1,649
Net cash used in financing activities	(40,737)	(27,542)
Effect of exchange rate changes on cash	(1,314)	7,965
Net (decrease) increase in cash and cash equivalents	(18,362)	18,598
Cash and cash equivalents at beginning of the period	67,290	57,063

Cash and cash equivalents at end of the period	\$48,928	\$75,661
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See accompanying notes.

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Acadia Healthcare Company, Inc.

Notes to Condensed Consolidated Financial Statements

September 30, 2018

(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 September 30, 2018, the Company operated 586 behavioral healthcare facilities with approximately 18,000 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, 2017 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, 2017 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on February 27, 2018. 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 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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. Management is evaluating the impact of ASU 2017-12 on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 simplifies the measurement of goodwill by eliminating the requirement to calculate the implied fair value of goodwill (step 2 of the current impairment test) to measure the goodwill impairment charge. Instead, entities will record impairment charges based on the excess of a reporting unit's carrying amount over its fair value. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company has elected to early adopt ASU 2017-04 on January 1, 2018, and there was no significant impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 addresses treatment of how certain cash receipts and cash payments are presented and classified in the statement of cash flows to reduce the diversity in practice. ASU 2016-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company adopted ASU 2016-15 on January 1, 2018. There is no significant impact on the Company's consolidated financial statements.

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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. Additionally, ASU 2016-02 would permit both public and nonpublic organizations to adopt the new standard early. Management believes the primary effect of adopting the new standard will be to record right-of-use assets and obligations for current operating leases. Management is continuing to evaluate the impact ASU 2016-02 will have on the Company’s consolidated financial statements, internal controls, policies and procedures.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). ASU 2016-01 amends how entities recognize, measure, present and disclose certain financial assets and financial liabilities. It requires entities to measure equity investments (except for those accounted for under equity method) at fair value and recognize any changes in fair value in net income. ASU 2016-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company adopted ASU 2016-01 on January 1, 2018. There was no significant impact on the Company’s consolidated financial statements.

In May 2014, the FASB and the International Accounting Standards Board issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company adopted ASU 2014-09 on January 1, 2018 as described in Note 3 – Revenue.

3. Revenue

ASU 2014-09 requires companies to exercise more judgment and recognize revenue using a five-step process. The Company adopted ASU 2014-09 using the modified retrospective method for all contracts effective January 1, 2018 and is using a portfolio approach to group contracts with similar characteristics and analyze historical cash collections trends. Modified retrospective adoption requires entities to apply the standard retrospectively to the most current period presented in the financial statements, requiring the cumulative effect of the retrospective application as an adjustment to the opening balance of retained earnings at the date of initial application. Prior periods have not been adjusted. No cumulative-effect adjustment in retained earnings was recorded as the adoption of ASU 2014-09 did not significantly impact the Company’s reported historical revenue.

As a result of certain changes required by ASU 2014-09, the majority of the Company’s provision for doubtful accounts are recorded as a direct reduction to revenue instead of being presented as a separate line item on the condensed consolidated statements of income. The adoption of ASU 2014-09 has no impact on the Company’s accounts receivable as it was historically recorded net of allowance for doubtful accounts and contractual adjustments, and the Company has eliminated the presentation of allowance for doubtful accounts on the condensed consolidated balance sheets. The adoption of ASU 2014-09 did not have a significant impact on the Company’s condensed consolidated statements of income. The impact of adopting ASU 2014-09 on the condensed consolidated statements of income for the three and nine months ended September 30, 2018 was as follows (in thousands):

Three Months Ended	Nine Months Ended
September 30, 2018	September 30, 2018

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	Prior to Adopting		Prior to Adopting	
	As Reported	ASU 2014-09	As Reported	ASU 2014-09
Revenue before provision for doubtful accounts	\$760,916	\$772,380	\$2,268,895	\$2,298,084
Provision for doubtful accounts	—	(11,464)	—	(29,189)
Revenue	\$760,916	\$760,916	\$2,268,895	\$2,268,895

The Company evaluated the nature, amount, timing and uncertainty of revenue and cash flows using the five-step process provided within ASU 2014-09.

Revenue is primarily derived from services rendered to patients for inpatient psychiatric and substance abuse care, outpatient psychiatric care and adolescent 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.

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Services ordered by a healthcare provider in an episode of care are not separately identifiable and therefore have been combined into a single performance obligation for each contract. The Company recognizes revenue as its performance obligations are completed. The performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the healthcare services provided. For inpatient services, the Company recognizes revenue equally over the patient stay on a daily basis. For outpatient services, the Company recognizes revenue equally over the number of treatments provided in a single episode of care. Typically, patients and third-party payors are billed within several days of the service being performed or the patient being discharged, and payments are due based on contract terms.

As our performance obligations relate to contracts with a duration of one year or less, the Company elected the optional exemption in 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 services.

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 services. 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	Nine Months Ended
September 30,	September 30,

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	2018	2017	2018	2017
Acute inpatient psychiatric facilities	\$208,885	\$187,497	\$608,311	\$566,173
Specialty treatment facilities	198,107	183,290	575,536	543,079
Residential treatment centers	72,351	72,677	218,041	213,300
Outpatient community-based services	9,283	10,214	30,613	32,763
Revenue	\$488,626	\$453,678	\$1,432,501	\$1,355,315

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. As the period between the time of service and time of payment is typically one year or less, the Company elected the practical expedient under ASC 606-10-32-18 and did not adjust for the effects of a significant financing component.

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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 and nine months ended September 30, 2018 was not significant.

The Company derives a significant portion of its revenue from Medicare, Medicaid and other payors that receive discounts from established billing rates. The Medicare and Medicaid regulations and various managed care contracts under which these discounts must be calculated are complex, subject to interpretation and adjustment, and may include multiple reimbursement mechanisms for different types of services provided in the Company's inpatient facilities and cost settlement provisions. Management estimates the transaction price on a payor-specific basis given its interpretation of the applicable regulations or contract terms. The services authorized and provided and related reimbursement are often subject to interpretation that could result in payments that differ from the Company's estimates. Additionally, updated regulations and contract renegotiations occur frequently, necessitating regular review and assessment of the estimation process by management.

Settlements under cost reimbursement agreements with third-party payors are estimated and recorded in the period in which the related services are rendered and are adjusted in future periods as final settlements are determined. Final determination of amounts earned under the Medicare and Medicaid programs often occurs in subsequent years because of audits by such programs, rights of appeal and the application of numerous technical provisions. In the opinion of management, adequate provision has been made for any adjustments and final settlements. However, there can be no assurance that any such adjustments and final settlements will not have a material effect on the Company's financial condition or results of operations. The Company's cost report receivables were \$10.9 million at both September 30, 2018 and December 31, 2017, respectively, and were included in other current assets in the condensed consolidated balance sheets. Management believes that these receivables are properly stated and are not likely to be settled for a significantly different amount. The net adjustments to estimated cost report settlements were not significant for the three and nine months ended September 30, 2018.

Management believes that we comply in all material respects with applicable laws and regulations and is not aware of any material pending or threatened investigations involving allegations of wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

The Company provides care without charge to patients who are financially unable to pay for the healthcare services they receive based on Company policies and federal and state poverty thresholds. Such amounts determined to qualify as charity care are not reported as revenue. The cost of providing charity care services were \$1.0 million and \$1.3 million for the three months ended September 30, 2018 and 2017, respectively. The cost of providing charity care services were \$3.8 million and \$4.2 million for the nine months ended September 30, 2018 and 2017, respectively. The estimated cost of charity care services was determined using a ratio of cost to gross charges determined from our most recently filed Medicare cost reports and applying that ratio to the gross charges associated with providing charity care for the period.

The following table presents revenue generated by each payor type (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Commercial	\$146,439	\$142,870	\$431,337	\$431,818
Medicare	73,528	73,593	210,307	212,992
Medicaid	229,390	199,592	668,236	587,705
Self-Pay	33,559	43,685	103,845	130,928
Other	5,710	5,936	18,776	23,758
Revenue before provision for doubtful accounts	488,626	465,676	1,432,501	1,387,201
Provision for doubtful accounts	—	(11,998)	—	(31,886)
Revenue	\$488,626	\$453,678	\$1,432,501	\$1,355,315

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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		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Healthcare facilities	\$150,871	\$146,264	\$464,731	\$419,549
Education and Children's Services	46,966	42,441	145,609	124,337
Adult Care facilities	74,453	74,331	226,054	212,603
Revenue	\$272,290	\$263,036	\$836,394	\$756,489

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 our U.K. Facilities. There is no significant variable consideration in our U.K. Facilities' contracts. As the period between the time of service and time of payment is typically one year or less, the Company elected the practical expedient under ASC 606-10-32-18 and did not adjust for the effects of a significant financing component.

The following table presents revenue generated by each payor type (in thousands):

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	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
U.K. public funded sources	\$245,919	\$236,778	\$756,094	\$678,623
Self-Pay	26,159	24,572	78,499	70,662
Other	212	1,686	1,801	7,210
Revenue before provision for doubtful accounts	272,290	263,036	836,394	756,495
Provision for doubtful accounts	—	—	—	(6)
Revenue	\$272,290	\$263,036	\$836,394	\$756,489

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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, 2017	\$30,812
Payments received	126,506
Revenue recognized	(124,894)
Foreign currency translation loss	(1,687)
Balance at September 30, 2018	\$30,737

4. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2018 and 2017 (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Numerator:				
Net income attributable to Acadia Healthcare				
Company, Inc.	\$ 46,232	\$ 45,618	\$ 155,887	\$ 130,206
Denominator:				
Weighted average shares outstanding for basic				
earnings per share	87,344	87,017	87,233	86,912
Effect of dilutive instruments	193	155	153	126
Shares used in computing diluted earnings per				
common share	87,537	87,172	87,386	87,038
Earnings per share attributable to Acadia Healthcare				
Company, Inc. stockholders:				
Basic	\$ 0.53	\$ 0.52	\$ 1.79	\$ 1.50
Diluted	\$ 0.53	\$ 0.52	\$ 1.78	\$ 1.50

Approximately 1.6 million and 1.0 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 September 30, 2018 and 2017, respectively, because their effect would have been anti-dilutive. Approximately 1.9 million and 1.5 million shares of common stock issuable upon exercise of outstanding stock option awards were excluded from

the calculation of diluted earnings per share for the nine months ended September 30, 2018 and 2017, respectively, because their effect would have been anti-dilutive.

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5. Other Intangible Assets

Other identifiable intangible assets and related accumulated amortization consisted of the following at September 30, 2018 and December 31, 2017 (in thousands):

	Gross Carrying Amount		Accumulated Amortization	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
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	12,766	12,266	—	—
Trade names	61,675	60,586	—	—
Certificates of need	16,818	14,496	—	—
	91,259	87,348	—	—
Total	\$94,506	\$ 90,595	\$(3,247)	\$(3,247)

All the Company's defined-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.

6. Property and Equipment

Property and equipment consists of the following at September 30, 2018 and December 31, 2017 (in thousands):

	September 30,	
	2018	December 31, 2017
Land	\$ 444,579	\$ 450,342
Building and improvements	2,443,980	2,370,918
Equipment	434,205	400,596
Construction in progress	249,001	173,693
	3,571,765	3,395,549
Less accumulated depreciation	(445,123)	(347,419)
Property and equipment, net	\$ 3,126,642	\$ 3,048,130

7. Long-Term Debt

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

December 31, 2017

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September 30,
2018

Amended and Restated Senior Credit Facility:		
Senior Secured Term A Loans	\$ 370,500	\$ 380,000
Senior Secured Term B Loans	1,376,408	1,398,400
Senior Secured Revolving Line of Credit	—	—
6.125% Senior Notes due 2021	150,000	150,000
5.125% Senior Notes due 2022	300,000	300,000
5.625% Senior Notes due 2023	650,000	650,000
6.500% Senior Notes due 2024	390,000	390,000
9.0% and 9.5% Revenue Bonds	21,920	21,920
Less: unamortized debt issuance costs, discount and		
premium	(43,602)	(50,432)
	3,215,226	3,239,888
Less: current portion	(33,264)	(34,830)
Long-term debt	\$ 3,181,962	\$ 3,205,058

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Amended and Restated Senior Credit Facility

The Company entered into a senior secured credit facility (the “Senior Secured Credit Facility”) on April 1, 2011. On December 31, 2012, the Company entered into an Amended and Restated Credit Agreement (the “Amended and Restated Credit Agreement”) which amended and restated the Senior Secured Credit Facility (the “Amended and Restated Senior Credit Facility”). The Company has amended the Amended and Restated Credit Agreement from time to time as described in the Company’s prior filings with the SEC.

On May 10, 2017, the Company entered into a Third Repricing Amendment (the “Third Repricing Amendment”) to the Amended and Restated Credit Agreement. The Third Repricing Amendment reduced the Applicable Rate with respect to the Term Loan B facility Tranche B-1 (the “Tranche B-1 Facility”) and the Term Loan B facility Tranche B-2 (the “Tranche B-2 Facility”) from 3.00% to 2.75% in the case of Eurodollar Rate loans and from 2.00% to 1.75% in the case of Base Rate Loans. In connection with the Third Repricing Amendment, the Company recorded a debt extinguishment charge of \$0.8 million, including the discount and write-off of deferred financing costs, which was recorded in debt extinguishment costs in the condensed consolidated statements of income.

On March 22, 2018, the Company entered into a Second Repricing Facilities Amendment (the “Second Repricing Facilities Amendment”) to the Amended and Restated Credit Agreement. The Second Repricing Facilities Amendment (i) replaced the Tranche B-1 Facility and the Tranche B-2 Facility with a new Term Loan B facility Tranche B-3 (the “Tranche B-3 Facility”) and a new Term Loan B facility Tranche B-4 (the “Tranche B-4 Facility”), respectively, and (ii) reduced the Applicable Rate from 2.75% to 2.50% in the case of Eurodollar Rate loans and reduced the Applicable Rate from 1.75% to 1.50% in the case of Base Rate Loans.

On March 29, 2018, the Company entered into a Third Repricing Facilities Amendment to the Amended and Restated Credit Agreement (the “Third Repricing Facilities Amendment”, and together with the Second Repricing Facilities Amendment, the “Repricing Facilities Amendments”). The Third Repricing Facilities Amendment replaced the existing revolving credit facility and Term Loan A facility (“TLA Facility”) with a new revolving credit facility and TLA Facility, respectively. The Company’s line of credit on its revolving credit facility remains at \$500.0 million and the Third Repricing Facility Amendment reduced the size of the TLA Facility from \$400.0 million to \$380.0 million to reflect the then current outstanding principal. The Third Repricing Facilities Amendment reduced the Applicable Rate by 25 basis points for the revolving credit facility and the TLA Facility by amending the definition of “Applicable Rate.”

In connection with the Repricing Facilities Amendments, the Company recorded a debt extinguishment charge of \$0.9 million, including the discount and write-off of deferred financing costs, which was recorded in debt extinguishment costs in the condensed consolidated statements of income.

The Company had \$494.1 million of availability under the revolving line of credit and had standby letters of credit outstanding of \$5.9 million related to security for the payment of claims required by its workers’ compensation insurance program at September 30, 2018. Borrowings under the revolving line of credit are subject to customary conditions precedent to borrowing. The Amended and Restated Credit Agreement requires quarterly term loan principal repayments of our TLA Facility of \$4.8 million for December 31, 2018 to December 31, 2019, \$7.1 million for March 31, 2020 to December 31, 2020, and \$9.5 million for March 31, 2021 to September 30, 2021, with the remaining principal balance of the TLA Facility due on the maturity date of November 30, 2021. The Company is required to repay the Tranche B-3 Facility in equal quarterly installments of \$1.2 million on the last business day of each March, June, September and December, with the outstanding principal balance of the Tranche B-3 Facility due on February 11, 2022. The Company is required to repay the Tranche B-4 Facility in equal quarterly installments of

approximately \$2.3 million on the last business day of each March, June, September and December, with the outstanding principal balance of the Tranche B-4 Facility due on February 16, 2023. On December 29, 2017, the Company made an additional payment of \$22.5 million, including \$7.7 million on the Tranche B-1 Facility and \$14.8 million on the Tranche B-2 Facility. On April 17, 2018, the Company made an additional payment of \$15.0 million, including \$5.1 million on the Tranche B-3 Facility and \$9.9 million on the Tranche B-4 Facility.

Borrowings under the Amended and Restated Senior Credit Facility are guaranteed by each of the Company's wholly-owned domestic subsidiaries (other than certain excluded subsidiaries) and are secured by a lien on substantially all of the assets of the Company and such subsidiaries. Borrowings with respect to the TLA Facility and the Company's revolving credit facility (collectively, "Pro Rata Facilities") under the Amended and Restated Credit Agreement bear interest at a rate tied to Acadia's Consolidated Leverage Ratio (defined as consolidated funded debt net of up to \$40.0 million of unrestricted and unencumbered cash to consolidated EBITDA, in each case as defined in the Amended and Restated Credit Agreement). The Applicable Rate (as defined in the Amended and Restated Credit Agreement) for the Pro Rata Facilities was 2.50% for Eurodollar Rate Loans (as defined in the Amended and Restated Credit Agreement) and 1.50% for Base Rate Loans (as defined in the Amended and Restated Credit Agreement) at September 30, 2018. Eurodollar Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate

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plus the Eurodollar Rate (as defined in the Amended and Restated Credit Agreement) (based upon the LIBOR Rate (as defined in the Amended and Restated Credit Agreement) prior to commencement of the interest rate period). Base Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.00%. At September 30, 2018, the Pro Rata Facilities bore interest at a rate of LIBOR plus 2.50%. In addition, the Company is required to pay a commitment fee on undrawn amounts under the revolving line of credit.

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. At September 30, 2018, the Company was in compliance with such covenants.

Senior Notes

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.

5.125% Senior Notes due 2022

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

5.625% Senior Notes due 2023

On February 11, 2015, the Company issued \$375.0 million of 5.625% Senior Notes due 2023 (the “5.625% Senior Notes”). On September 21, 2015, the Company issued \$275.0 million of additional 5.625% Senior Notes. The additional notes formed a single class of debt securities with the 5.625% Senior Notes issued in February 2015. Giving effect to this issuance, the Company has outstanding an aggregate of \$650.0 million of 5.625% Senior Notes. The 5.625% Senior Notes mature on February 15, 2023 and bear interest at a rate of 5.625% per annum, payable semi-annually in arrears on February 15 and August 15 of each year.

6.500% Senior Notes due 2024

On February 16, 2016, the Company issued \$390.0 million of 6.500% Senior Notes due 2024 (the “6.500% Senior Notes”). The 6.500% Senior Notes mature on March 1, 2024 and bear interest at a rate of 6.500% per annum, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2016.

The indentures governing the 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes and 6.500% Senior Notes (together, the “Senior Notes”) contain 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 Senior Notes issued by the Company are guaranteed by each of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

The Company may redeem the Senior Notes at its option, in whole or part, at the dates and amounts set forth in the indentures.

9.0% and 9.5% Revenue Bonds

On November 11, 2012, in connection with the acquisition of The Pavilion at HealthPark, LLC ("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

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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. At September 30, 2018 and December 31, 2017, \$2.3 million was recorded within other assets on the condensed consolidated balance sheets 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”). At September 30, 2018, a maximum of 8,200,000 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 3,233,738 were available for future grant. Stock options may be granted for terms of up to ten years. The Company recognizes expense on all share-based awards on a straight-line basis over the requisite service period of the entire award. Grants to employees generally vest in annual increments of 25% each year, commencing one year after the date of grant. The exercise prices of stock options are equal to the most recent closing price of the Company’s common stock on the date of grant.

The Company recognized \$5.2 million and \$4.2 million in equity-based compensation expense for the three months ended September 30, 2018 and 2017, respectively, and \$19.3 million and \$19.0 million for the nine months ended September 30, 2018 and 2017. At September 30, 2018, there was \$47.8 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 1.2 years.

At September 30, 2018, there were no warrants outstanding. The Company recognized a deferred income tax benefit of \$1.4 million and \$1.5 million for the three months ended September 30, 2018 and 2017, respectively, related to equity-based compensation expense. The Company recognized a deferred income tax benefit of \$5.2 million and \$7.3 million for the nine months ended September 30, 2018 and 2017, respectively, related to equity-based compensation expense.

Stock Options

Stock option activity during 2017 and 2018 was as follows (aggregate intrinsic value in thousands):

Number	Weighted	Weighted	Aggregate
of	Average	Average	Intrinsic
Options	Exercise	Remaining	Value
	Price		

			Contractual	
			Term (in	
			years)	
Options outstanding at January 1, 2017	1,000,946	\$ 49.42	7.80	\$ 8,166
Options granted	259,300	42.25	9.30	205
Options exercised	(87,367)	25.92	N/A	1,636
Options cancelled	(198,313)	54.71	N/A	N/A
Options outstanding at December 31, 2017	974,566	47.89	7.46	3,802
Options granted	353,800	37.36	9.42	475
Options exercised	(9,889)	24.67	N/A	165
Options cancelled	(102,787)	51.23	N/A	N/A
Options outstanding at September 30, 2018	1,215,690	\$ 44.69	7.43	\$ 3,536
Options exercisable at December 31, 2017	405,634	\$ 41.20	6.05	\$ 3,549
Options exercisable at September 30, 2018	543,139	\$ 44.65	5.87	\$ 2,835

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Fair values are 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 nine months ended September 30, 2018 and year ended December 31, 2017:

	September 30, 2018	December 31, 2017		
Weighted average grant-date fair value of options	\$ 13.61	\$ 14.39		
Risk-free interest rate	2.2	%	2.0	%
Expected volatility	37	%	33	%
Expected life (in years)	5.0		5.5	

The Company's estimate of expected volatility for stock options is based upon the volatility of our stock price over the expected life of the award. The risk-free interest rate is the approximate yield on U. S. 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.

Other Stock-Based Awards

Restricted stock activity during 2017 and 2018 was as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value
Unvested at January 1, 2017	844,419	\$ 55.76
Granted	404,224	42.38
Cancelled	(145,981)	55.03
Vested	(292,794)	53.07
Unvested at December 31, 2017	809,868	\$ 50.19
Granted	441,837	36.51
Cancelled	(71,067)	48.36
Vested	(283,077)	53.24
Unvested at September 30, 2018	897,561	\$ 42.64

Restricted stock unit activity during 2017 and 2018 was as follows:

	Number of Units	Weighted Average Grant-Date Fair Value
Unvested at January 1, 2017	273,599	\$ 59.68
Granted	219,840	43.23
Cancelled	—	—
Vested	(132,530)	58.67
Unvested at December 31, 2017	360,909	\$ 50.04
Granted	285,358	42.26
Cancelled	(87,173)	55.44
Vested	(72,983)	49.64
Unvested at September 30, 2018	486,111	\$ 44.52

Restricted stock awards are time-based vesting awards that vest over a period of three or four years and are subject to continuing service of the employee or non-employee director over the ratable vesting periods. The fair values of the restricted stock awards were determined based on the closing price of the Company's common stock on the trading date immediately prior to the grant date.

Restricted stock units are granted to employees and are subject to Company performance compared to pre-established targets and, in the case of the 2018 awards, Company performance compared to peers. In addition to Company performance, these performance-based restricted stock units are subject to the continuing service of the employee during the two- or three-year period

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covered by the awards. The performance condition for the restricted stock units is based on the Company's achievement of annually established targets for diluted earnings per share. Additionally, the number of shares issuable pursuant to restricted stock units granted during 2018 is subject to adjustment based on the Company's three-year annualized total stockholder return relative to a peer group consisting of S&P 1500 companies within the Healthcare Providers & Services 6 digit GICS industry group and selected other companies deemed to be peers. The number of shares issuable at the end of the applicable vesting period of restricted stock units ranges from 0% to 200% of the targeted units based on the Company's actual performance compared to the targets and, for 2018 awards, performance compared to peers.

The fair values of restricted stock units were determined based on the closing price of the Company's common stock on the trading date immediately prior to the grant date for units subject to performance conditions, or at its Monte-Carlo simulation value for units subject to market conditions.

9. Income Taxes

The provision for income taxes for the three months ended September 30, 2018 and 2017 reflects effective tax rates of 15.9% and 26.0%, respectively. The provision for income taxes for the nine months ended September 30, 2018 and 2017 reflects effective tax rates of 9.5% and 26.3%, respectively. The decrease in the effective tax rate for the three and nine months ended September 30, 2018 and 2017 was primarily attributable to the application of Public Law 115-97, informally referred to as the Tax Cuts and Jobs Act (the "Tax Act") and a discrete benefit of \$10.5 million recorded in the nine months ended September 30, 2018 related to a change in the Company's provisional amount recorded at December 31, 2017.

The Company adopted ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" on January 1, 2017, which changed how the Company accounts for share-based awards for tax purposes. Income tax effects of share-based awards are recognized in the income statement, instead of through equity, when the awards vest. These changes resulted in an increase in our income tax provision of \$1.2 million and \$1.7 million, or an increase in the effective tax rate of 0.7% and 1.0% for the nine months ended September 30, 2018 and 2017, respectively.

U.S. Tax Reform

On December 22, 2017, the Tax Act was enacted into law. The Tax Act provides for significant changes to the U.S. tax code that impact businesses. Effective January 1, 2018, the Tax Act reduces the U.S. federal tax rate for corporations from 35% to 21%, for U.S. taxable income. The Tax Act requires a one-time remeasurement of deferred taxes to reflect their value at a lower tax rate of 21%. The Tax Act includes other changes, including, but not limited to, requiring a one-time transition tax on certain repatriated earnings of foreign subsidiaries that is payable over eight years, a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries, a new provision designed to tax global intangible low-taxed income, a limitation of the deduction for net operating losses, elimination of net operating loss carrybacks, immediate deductions for depreciation expense for certain qualified property, additional limitations on the deductibility of executive compensation and limitations on the deductibility of interest.

Accounting Standards Codification ("ASC") 740 "Income Taxes" ("ASC 740") requires the Company to recognize the effect of tax law changes in the period of enactment. However, the SEC staff issued Staff Accounting Bulletin 118 ("SAB 118") which will allow the Company to record provisional amounts during a measurement period similarly to the measurement period used when accounting for business combinations. The Company will continue to assess the impact of the Tax Act on its business and consolidated financial statements.

At September 30, 2018, the Company had not completed its accounting for the tax effects of enactment of the Tax Act; however, in certain cases, as described below, the Company has made a reasonable estimate of the effects on its existing deferred tax balances. The Company has recognized a cumulative provisional amount of \$19.3 million at September 30, 2018 related to the remeasurement of its deferred tax balance. In addition, the Company has recorded a one-time transition tax liability in relation to its foreign subsidiaries of \$0.0 million at September 30, 2018. The amount may change when the calculation of post-1986 foreign earnings and profits previously deferred from U.S. federal taxation is finalized.

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Provisional Amounts

Deferred Tax Assets and Liabilities

The Company remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. As a result of the reduction in the corporate income tax rate, the Company is required to revalue its net deferred tax assets and liabilities to account for the future impact of lower corporate tax rates on this deferred amount and record any change in the value of such asset or liability as a one-time non-cash charge or benefit on its income statement. However, the Company is still analyzing certain aspects of the Tax Act, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The Company has recognized a cumulative provisional amount of \$19.3 million at September 30, 2018 related to the remeasurement of its deferred tax balance.

U.S. Tax on Foreign Earnings

The one-time transition tax is based on total post-1986 earnings and profits that the Company previously deferred from U.S. income taxes. The Company has made sufficient progress on the earnings and profits analysis for its foreign subsidiaries to reasonably estimate the effects of the one-time transition tax and has recorded a provisional amount of \$0.0 million at September 30, 2018. This amount may change when the Company finalizes the calculation of post-1986 foreign earnings and profit. As part of the analysis of the Tax Act, the Company made an adjustment regarding the treatment of foreign dividends of \$10.9 million during the nine months ended September 30, 2018. The change in the provisional estimate recorded at December 31, 2017 was recognized under the law that existed prior to December 22, 2017.

The Company has estimated the impacts for Global Intangible Low-Taxed Income, Foreign-Derived Intangible Income, the Base Erosion and Anti-Abuse Tax and any remaining impacts of the foreign income provisions of the Tax Act. The Company has made sufficient progress to reasonably estimate the effects of the aforementioned items and has recorded a provisional amount of \$0.0 million at September 30, 2018.

10. Derivatives

The Company entered into foreign currency forward contracts during the three and nine months ended September 30, 2018 and 2017 in connection with certain transfers of cash between the U.S. and U.K. under the Company's cash management and foreign currency risk management programs. Foreign currency forward contracts limit the economic risk of changes in the exchange rate between U.S. Dollars ("USD") and British Pounds ("GBP") associated with cash transfers.

In May 2016, the Company entered into multiple cross currency swap agreements with an aggregate notional amount of \$650.0 million to manage foreign currency risk by effectively converting a portion of its fixed-rate USD-denominated senior notes, including the semi-annual interest payments thereunder, to fixed-rate GBP-denominated debt of £449.3 million. During the term of the swap agreements, the Company will receive semi-annual interest payments in USD from the counterparties at fixed interest rates, and the Company will make semi-annual interest payments in GBP to the counterparties at fixed interest rates. The interest payments under the cross-currency swap agreements result in £24.7 million of annual cash flows, from the Company's U.K. business being converted to \$35.8 million (at a 1.45 exchange rate).

The Company has designated the cross currency swap agreements and forward contracts entered into during 2017 and the nine months ended September 30, 2018 as qualifying hedging instruments and is accounting for these as net investment hedges. The fair value of these derivatives of \$33.1 million is recorded as derivative instrument assets on the condensed consolidated balance sheets. The gains and losses resulting from fair value adjustments to the cross currency swap agreements are recorded in accumulated other comprehensive loss as the swaps are effective in hedging the designated risk. Cash flows related to the cross currency swap derivatives are included in operating activities in the condensed consolidated statements of cash flows.

11. Fair Value Measurements

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

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The carrying amounts and fair values of the Company's Amended and Restated Senior Credit Facility, 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes, 6.500% Senior Notes, 9.0% and 9.5% Revenue Bonds and derivative instruments at September 30, 2018 and December 31, 2017 were as follows (in thousands):

	Carrying Amount		Fair Value	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Amended and Restated Senior Credit Facility	\$1,722,010	\$1,749,185	\$1,722,010	\$1,749,185
6.125% Senior Notes due 2021	\$148,514	\$148,098	\$149,257	\$150,134
5.125% Senior Notes due 2022	\$296,750	\$296,174	\$296,008	\$296,914
5.625% Senior Notes due 2023	\$642,932	\$641,891	\$647,561	\$651,519
6.500% Senior Notes due 2024	\$383,033	\$382,251	\$395,960	\$397,541
9.0% and 9.5% Revenue Bonds	\$21,987	\$22,289	\$21,987	\$22,289
Derivative instrument assets	\$33,084	\$12,997	\$33,084	\$12,997

The Company's Amended and Restated Senior Credit Facility, 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes, 6.500% 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 values of the derivative instruments were categorized as Level 2 in the GAAP fair value hierarchy and were based on observable market inputs including applicable exchange rates and interest rates.

12. Commitments and Contingencies

Professional and General Liability

A portion of the Company's professional liability risks are insured through a wholly-owned insurance subsidiary. The Company is self-insured for professional liability claims up to \$3.0 million per claim and has obtained reinsurance coverage from a third party to cover claims in excess of the retention limit. The reinsurance policy has a coverage limit of \$75.0 million in the aggregate. The Company's reinsurance receivables are recognized consistent with the related liabilities and include known claims and any incurred but not reported claims that are covered by current insurance policies in place.

Legal Proceedings

The Company is, from time to time, subject to various claims, lawsuits, governmental investigations and regulatory actions, including claims for damages for personal injuries, medical malpractice, overpayments, breach of contract, securities law violations, 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 addition, healthcare companies are subject to numerous investigations by various governmental agencies. Certain of the Company's individual facilities have received, and from time to time, other facilities may receive, subpoenas, civil

investigative demands, audit requests and other inquiries from, and may be subject to investigation by, federal and state agencies. These investigations can result in repayment obligations, and violations of the False Claims Act can result in substantial monetary penalties and fines, the imposition of a corporate integrity agreement and exclusion from participation in governmental health programs. In addition, the federal False Claims Act permits private parties to bring qui tam, or “whistleblower,” suits against companies that submit false claims for payments to, or improperly retain overpayments from, the government. Some states have adopted similar state whistleblower and false claims provisions.

During the third quarter of 2018, the U.S. Attorney’s Office for the Southern District of West Virginia served subpoenas on seven of our comprehensive treatment centers located in West Virginia requesting various documents from January 2012 to present. The U.S. Attorney’s Office has advised us that the civil aspect of the investigation is a False Claims Act investigation focused on claims submitted by the centers for certain lab services. The Company is cooperating with the government’s investigation but is not able to quantify any potential liability in connection with this investigation.

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13. Noncontrolling Interests

Noncontrolling interests in the consolidated financial statements represents the portion of equity held by noncontrolling partners in non-wholly owned subsidiaries the Company controls. At September 30, 2018, certain of these non-wholly owned subsidiaries operated four facilities. The Company owns between 60% and 80% of the equity interests in the entity that owns each facility, and noncontrolling partners own the remaining equity interests. The initial value of the noncontrolling interests is based on the fair value of contributions, and the Company consolidates the operations of each facility based on its equity ownership and its control of the entity. The noncontrolling interests are reflected as redeemable noncontrolling interests on the condensed consolidated balance sheets based on put rights that could require the Company to purchase the noncontrolling interests upon the occurrence of a change in control.

The components of redeemable noncontrolling interests are as follows (in thousands):

Balance at December 31, 2017	\$22,417
Contribution of redeemable noncontrolling interests	6,125
Net income attributable to noncontrolling interests	156
Balance at September 30, 2018	\$28,698

14. Other Current Assets

Other current assets consisted of the following (in thousands):

	September 30, December 31,	
	2018	2017
Prepaid expenses	\$ 35,682	\$ 27,320
Other receivables	30,203	30,455
Income taxes receivable	11,326	15,056
Workers' compensation deposits – current portion	10,000	10,000
Inventory	5,021	4,787
Insurance receivable-current portion	2,049	17,588
Other	1,865	2,129
Other current assets	\$ 96,146	\$ 107,335

15. Other Accrued Liabilities

Other accrued liabilities consisted of the following (in thousands):

	September 30, December 31,	
	2018	2017
Accrued expenses	\$ 42,876	\$ 37,268

Unearned income	31,581	31,342
Accrued interest	12,835	36,370
Income taxes payable	11,312	1,012
Insurance liability – current portion	4,956	22,788
Accrued property taxes	5,570	3,945
Other	5,284	8,488
Other accrued liabilities	\$ 114,414	\$ 141,213

16. Segment Information

The Company operates in one line of business, which is operating acute inpatient psychiatric facilities, specialty treatment facilities, residential treatment centers and facilities providing outpatient behavioral healthcare services. As management reviews the operating results of its facilities in the U.S. and its facilities in the U.K. separately to assess performance and make decisions, the Company's operating segments include our U.S. Facilities and U.K. Facilities. At September 30, 2018, the U.S. Facilities segment included 215 behavioral healthcare facilities with approximately 9,200 beds in 40 states and Puerto Rico, and the U.K. Facilities segment included 371 behavioral healthcare facilities with approximately 8,800 beds in the U.K.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue:				
U.S. Facilities	\$488,626	\$453,678	\$1,432,501	\$1,355,315
U.K. Facilities	272,290	263,036	836,394	756,489
Corporate and Other	—	—	—	—
	\$760,916	\$716,714	\$2,268,895	\$2,111,804
Segment EBITDA (1):				
U.S. Facilities	\$128,537	\$118,744	\$375,663	\$359,250
U.K. Facilities	40,735	50,665	146,081	146,941
Corporate and Other	(20,348)	(17,153)	(62,075)	(55,346)
	\$148,924	\$152,256	\$459,669	\$450,845

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Segment EBITDA (1)	\$148,924	\$152,256	\$459,669	\$450,845
Plus (less):				
Equity-based compensation expense	(5,225)	(4,175)	(19,273)	(19,007)
Transaction-related expenses	(2,353)	(5,665)	(10,008)	(18,836)
Debt extinguishment costs	—	—	(940)	(810)
Interest expense, net	(46,651)	(44,515)	(137,706)	(130,777)
Depreciation and amortization	(39,659)	(36,442)	(119,360)	(105,256)
Income before income taxes	\$55,036	\$61,459	\$172,382	\$176,159

			Corporate		Consolidated
	U.S. Facilities	U.K. Facilities	and Other		
Goodwill:					
Balance at January 1, 2018	\$2,042,592	\$708,582	\$ —		\$2,751,174
Increase from contribution of redeemable noncontrolling interests	2,244	—	—		2,244
Foreign currency translation loss	—	(24,239)	—		(24,239)
Prior year purchase price adjustments	—	762	—		762
Balance at September 30, 2018	\$2,044,836	\$685,105	\$ —		\$2,729,941

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	September 30,	December 31,
	2018	2017
Assets (2):		
U.S. Facilities	\$ 3,753,345	\$ 3,567,126
U.K. Facilities	2,568,318	2,647,150
Corporate and Other	207,921	210,226
	\$ 6,529,584	\$ 6,424,502

- (1) Segment EBITDA is defined as income before provision for income taxes, equity-based compensation expense, transaction-related expenses, debt extinguishment costs, interest expense and depreciation and amortization. The Company uses Segment EBITDA as an analytical indicator to measure the performance of the Company's segments and to develop strategic objectives and operating plans for those segments. Segment EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. Segment EBITDA should not be considered as a measure of financial performance under GAAP, and the items excluded from Segment EBITDA are significant components in understanding and assessing financial performance. Because Segment EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.
- (2) Assets include property and equipment for the U.S. Facilities of \$1.3 billion, U.K. Facilities of \$1.8 billion and corporate and other of \$53.9 million at September 30, 2018. Assets include property and equipment for the U.S. Facilities of \$1.2 billion, U.K. Facilities of \$1.8 billion and corporate and other of \$49.2 million at December 31, 2017.

17. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows (in thousands):

	Change in Fair			
	Foreign Currency	Value of		
	Translation	Derivative		Pension
	Adjustments	Instruments	Plan	Total
Balance at December 31, 2017	\$ (376,740)	\$ 7,167	\$(4,545)	\$(374,118)
Foreign currency translation (loss) gain	(82,935)	—	157	(82,778)
Gain on derivative instruments, net of tax of \$5.6 million	—	16,434	—	16,434
Balance at September 30, 2018	\$ (459,675)	\$ 23,601	\$(4,388)	\$(440,462)

18. Financial Information for the Company and Its Subsidiaries

The Company conducts substantially all of its business through its subsidiaries. The 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes and 6.500% Senior Notes are jointly and severally guaranteed on an unsecured senior basis by all of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. Presented below is condensed consolidating financial information for the Company and its subsidiaries at September 30, 2018 and December 31, 2017, and for the three and nine months ended September 30, 2018 and 2017. The information segregates the parent company (Acadia Healthcare Company, Inc.), the combined wholly-owned subsidiary guarantors, the combined non-guarantor subsidiaries and eliminations.

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Acadia Healthcare Company, Inc.

Condensed Consolidating Balance Sheets

September 30, 2018

(In thousands)

	Parent	Combined Subsidiary Guarantors	Combined Non- Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Current assets:					
Cash and cash equivalents	\$—	\$32,298	\$16,630	\$—	\$48,928
Accounts receivable, net	—	270,535	75,124	—	345,659
Other current assets	—	70,260	25,886	—	96,146
Total current assets	—	373,093	117,640	—	490,733
Property and equipment, net	—	1,197,218	1,929,424	—	3,126,642
Goodwill	—	1,936,057	793,884	—	2,729,941
Intangible assets, net	—	58,405	32,854	—	91,259
Deferred tax assets	2,296	—	3,630	(2,296)	3,630
Derivative instruments assets	33,084	—	—	—	33,084
Investment in subsidiaries	5,523,816	—	—	(5,523,816)	—
Other assets	326,442	42,688	8,833	(323,668)	54,295
Total assets	\$5,885,638	\$3,607,461	\$2,886,265	\$(5,849,780)	\$6,529,584
Current liabilities:					
Current portion of long-term debt	\$32,984	\$—	\$280	\$—	\$33,264
Accounts payable	—	90,497	43,417	—	133,914
Accrued salaries and benefits	—	80,156	28,995	—	109,151
Other accrued liabilities	12,150	34,908	67,356	—	114,414
Total current liabilities	45,134	205,561	140,048	—	390,743
Long-term debt	3,160,255	—	345,375	(323,668)	3,181,962
Deferred tax liabilities	—	31,180	53,385	(2,296)	82,269
Other liabilities	—	109,181	56,482	—	165,663
Total liabilities	3,205,389	345,922	595,290	(325,964)	3,820,637
Redeemable noncontrolling interests	—	—	28,698	—	28,698
Total equity	2,680,249	3,261,539	2,262,277	(5,523,816)	2,680,249
Total liabilities and equity	\$5,885,638	\$3,607,461	\$2,886,265	\$(5,849,780)	\$6,529,584

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Acadia Healthcare Company, Inc.

Condensed Consolidating Balance Sheets

December 31, 2017

(In thousands)

	Parent	Combined Subsidiary Guarantors	Combined Non- Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Current assets:					
Cash and cash equivalents	\$—	\$46,860	\$20,430	\$—	\$ 67,290
Accounts receivable, net	—	230,890	66,035	—	296,925
Other current assets	—	85,746	21,589	—	107,335
Total current assets	—	363,496	108,054	—	471,550
Property and equipment, net	—	1,086,802	1,961,328	—	3,048,130
Goodwill	—	1,936,057	815,117	—	2,751,174
Intangible assets, net	—	57,628	29,720	—	87,348
Deferred tax assets	2,370	—	3,731	(2,370)	3,731
Derivative instruments assets	12,997	—	—	—	12,997
Investment in subsidiaries	5,429,386	—	—	(5,429,386)	—
Other assets	381,913	38,860	7,807	(379,008)	49,572
Total assets	\$5,826,666	\$3,482,843	\$2,925,757	\$(5,810,764)	\$ 6,424,502
Current liabilities:					
Current portion of long-term debt	\$34,550	\$—	\$280	\$—	\$ 34,830
Accounts payable	—	70,767	31,532	—	102,299
Accrued salaries and benefits	—	69,057	29,990	—	99,047
Other accrued liabilities	36,196	27,676	77,341	—	141,213
Total current liabilities	70,746	167,500	139,143	—	377,389
Long-term debt	3,183,049	—	401,017	(379,008)	3,205,058
Deferred tax liabilities	—	27,975	54,728	(2,370)	80,333
Other liabilities	—	103,112	63,322	—	166,434
Total liabilities	3,253,795	298,587	658,210	(381,378)	3,829,214
Redeemable noncontrolling interests					