

AETNA INC /PA/
Form 4
October 02, 2006

FORM 4

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

OMB APPROVAL

OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
NEWHOUSE JOSEPH P

(Last) (First) (Middle)

HARVARD UNIVERSITY, 180
LONGWOOD AVE

(Street)

BOSTON, MA 02115

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
AETNA INC /PA/ [AET]

3. Date of Earliest Transaction
(Month/Day/Year)
09/29/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				(A) or (D) Code V Amount (D) Price			
Common Stock					2,000	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

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1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	Amount
				Code V	(A) (D)	Date Exercisable Expiration Date	Title	Number Shares
PHANTOM STOCK UNITS ⁽¹⁾	<u>(2)</u>	09/29/2006		A	379.267	<u>(1)</u> <u>(1)</u>	COMMON STOCK	379.2

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
NEWHOUSE JOSEPH P HARVARD UNIVERSITY 180 LONGWOOD AVE BOSTON, MA 02115	X			

Signatures

JOSEPH P. NEWHOUSE, BY PAIGE L. FALASCO, ATTORNEY IN FACT
 Date: 10/02/2006
 Signature of Reporting Person

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
 - ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- UNITS GRANTED UNDER THE AETNA INC. NON-EMPLOYEE DIRECTOR COMPENSATION PLAN (THE "PLAN"). SUBJECT TO TERMS OF PLAN, UNITS MAY BE SETTLED IN AETNA COMMON STOCK, IN CASH OR A COMBINATION OF BOTH UPON REPORTING PERSON'S RETIREMENT.
- (1) TO TERMS OF PLAN, UNITS MAY BE SETTLED IN AETNA COMMON STOCK, IN CASH OR A COMBINATION OF BOTH UPON REPORTING PERSON'S RETIREMENT.
- (2) UNITS CONVERT TO COMMON STOCK ON A ONE FOR ONE BASIS

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

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

Explanation of Responses:

%

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

Explanation of Responses:

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

Explanation of Responses:

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

	U.S.	U.K.	Corporate	Consolidated
	Facilities	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	Total
	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	—	—	22,417	—	22,417
Total equity	2,572,871	3,184,256	2,245,130	(5,429,386)	2,572,871
Total liabilities and equity	\$5,826,666	\$3,482,843	\$2,925,757	\$(5,810,764)	\$ 6,424,502

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Acadia Healthcare Company, Inc.

Condensed Consolidating Statement of Comprehensive Income (Loss)

Three Months Ended September 30, 2018

(In thousands)

	Parent	Combined Subsidiary Guarantors	Combined Non- Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Revenue	\$—	\$ 458,061	\$ 302,855	\$ —	\$ 760,916
Salaries, wages and benefits	5,225	245,599	167,093	—	417,917
Professional fees	—	24,152	35,357	—	59,509
Supplies	—	19,139	10,322	—	29,461
Rents and leases	—	8,294	11,572	—	19,866
Other operating expenses	—	57,495	32,969	—	90,464
Depreciation and amortization	—	18,857	20,802	—	39,659
Interest expense, net	17,225	22,768	6,658	—	46,651
Transaction-related expenses	—	702	1,651	—	2,353
Total expenses	22,450	397,006	286,424	—	705,880
(Loss) income before income taxes	(22,450)	61,055	16,431	—	55,036
Equity in earnings of subsidiaries	62,854	—	—	(62,854)	—
(Benefit from) provision for income taxes	(5,875)	11,666	2,966	—	8,757
Net income (loss)	46,279	49,389	13,465	(62,854)	46,279
Net gain attributable to noncontrolling interests	—	—	(47)	—	(47)
Net income (loss) attributable to Acadia Healthcare Company, Inc.	\$46,279	\$ 49,389	\$ 13,418	\$ (62,854)	\$ 46,232
Other comprehensive (loss) income:					
Foreign currency translation loss	—	—	(31,959)	—	(31,959)
Gain on derivative instruments	7,380	—	—	—	7,380
Other comprehensive income (loss)	7,380	—	(31,959)	—	(24,579)
Comprehensive income (loss) attributable to Acadia Healthcare Company, Inc.	\$53,659	\$ 49,389	\$ (18,541)	\$ (62,854)	\$ 21,653

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Acadia Healthcare Company, Inc.

Condensed Consolidating Statement of Comprehensive Income (Loss)

Three Months Ended September 30, 2017

(In thousands)

	Parent	Combined Subsidiary Guarantors	Combined Non- Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Revenue before provision for doubtful accounts	\$—	\$ 440,423	\$ 288,289	\$ —	\$ 728,712
Provision for doubtful accounts	—	(10,310)	(1,688)	—	(11,998)
Revenue	—	430,113	286,601	—	716,714
Salaries, wages and benefits	4,175	225,001	156,386	—	385,562
Professional fees	—	24,385	28,657	—	53,042
Supplies	—	18,843	9,809	—	28,652
Rents and leases	—	8,127	10,922	—	19,049
Other operating expenses	—	55,077	27,251	—	82,328
Depreciation and amortization	—	16,963	19,479	—	36,442
Interest expense, net	15,933	19,304	9,278	—	44,515
Transaction-related expenses	—	2,211	3,454	—	5,665
Total expenses	20,108	369,911	265,236	—	655,255
(Loss) income before income taxes	(20,108)	60,202	21,365	—	61,459
Equity in earnings of subsidiaries	55,925	—	—	(55,925)	—
(Benefit from) provision for income taxes	(9,672)	21,202	4,440	—	15,970
Net income (loss)	45,489	39,000	16,925	(55,925)	45,489
Net loss attributable to noncontrolling interests	—	—	129	—	129
Net income (loss) attributable to Acadia Healthcare Company, Inc.	\$45,489	\$ 39,000	\$ 17,054	\$ (55,925)	\$ 45,618
Other comprehensive (loss) income:					
Foreign currency translation gain	—	—	69,622	—	69,622
Loss on derivative instruments	(9,402)	—	—	—	(9,402)
Other comprehensive (loss) income	(9,402)	—	69,622	—	60,220
Comprehensive income (loss) attributable to Acadia Healthcare Company, Inc.	\$36,087	\$ 39,000	\$ 86,676	\$ (55,925)	\$ 105,838

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Acadia Healthcare Company, Inc.

Condensed Consolidating Statement of Comprehensive Income (Loss)

Nine Months Ended September 30, 2018

(In thousands)

	Parent	Combined Subsidiary Guarantors	Combined Non- Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Revenue	\$—	\$1,347,468	\$921,427	\$—	\$2,268,895
Salaries, wages and benefits	19,273	724,650	502,263	—	1,246,186
Professional fees	—	73,100	93,888	—	166,988
Supplies	—	57,143	31,815	—	88,958
Rents and leases	—	24,844	35,546	—	60,390
Other operating expenses	—	168,923	97,054	—	265,977
Depreciation and amortization	—	55,640	63,720	—	119,360
Interest expense, net	47,307	69,954	20,445	—	137,706
Debt extinguishment costs	940	—	—	—	940
Transaction-related expenses	—	7,382	2,626	—	10,008
Total expenses	67,520	1,181,636	847,357	—	2,096,513
(Loss) income before income taxes	(67,520)	165,832	74,070	—	172,382
Equity in earnings of subsidiaries	206,204	—	—	(206,204)	—
(Benefit from) provision for income taxes	(17,359)	22,985	10,713	—	16,339
Net income (loss)	156,043	142,847	63,357	(206,204)	156,043
Net gain attributable to noncontrolling interests	—	—	(156)	—	(156)
Net income (loss) attributable to Acadia Healthcare Company, Inc.	\$156,043	\$142,847	\$63,201	\$(206,204)	\$155,887
Other comprehensive (loss) income:					
Foreign currency translation loss	—	—	(82,778)	—	(82,778)
Gain on derivative instruments	16,434	—	—	—	16,434
Other comprehensive income (loss)	16,434	—	(82,778)	—	(66,344)
Comprehensive income (loss) attributable to Acadia Healthcare Company, Inc.	\$172,477	\$142,847	\$(19,577)	\$(206,204)	\$89,543

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Acadia Healthcare Company, Inc.

Condensed Consolidating Statement of Comprehensive Income (Loss)

Nine Months Ended September 30, 2017

(In thousands)

	Parent	Combined Subsidiary Guarantors	Combined Non- Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Revenue before provision for doubtful accounts	\$—	\$1,311,937	\$831,759	\$—	\$2,143,696
Provision for doubtful accounts	—	(28,007)	(3,885)	—	(31,892)
Revenue	—	1,283,930	827,874	—	2,111,804
Salaries, wages and benefits	19,007	675,206	451,365	—	1,145,578
Professional fees	—	69,796	72,976	—	142,772
Supplies	—	56,502	28,498	—	85,000
Rents and leases	—	25,139	32,316	—	57,455
Other operating expenses	—	164,596	84,565	—	249,161
Depreciation and amortization	—	48,918	56,338	—	105,256
Interest expense, net	46,392	57,054	27,331	—	130,777
Debt extinguishment costs	810	—	—	—	810
Transaction-related expenses	—	6,219	12,617	—	18,836
Total expenses	66,209	1,103,430	766,006	—	1,935,645
(Loss) income before income taxes	(66,209)	180,500	61,868	—	176,159
Equity in earnings of subsidiaries	163,931	—	—	(163,931)	—
(Benefit from) provision for income taxes	(32,178)	66,124	12,313	—	46,259
Net income (loss)	129,900	114,376	49,555	(163,931)	129,900
Net loss attributable to noncontrolling interests	—	—	306	—	306
Net income (loss) attributable to Acadia Healthcare Company, Inc.	\$129,900	\$114,376	\$49,861	\$(163,931)	\$130,206
Other comprehensive (loss) income:					
Foreign currency translation gain	—	—	188,744	—	188,744
Loss on derivative instruments	(24,354)	—	—	—	(24,354)
Other comprehensive (loss) income	(24,354)	—	188,744	—	164,390
Comprehensive income (loss) attributable to Acadia Healthcare Company, Inc.	\$105,546	\$114,376	\$238,605	\$(163,931)	\$294,596

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Acadia Healthcare Company, Inc.

Condensed Consolidating Statement of Cash Flows

Nine Months Ended September 30, 2018

(In thousands)

	Parent	Combined Subsidiary Guarantors	Combined Non- Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Operating activities:					
Net income (loss)	\$ 156,043	\$ 142,847	\$ 63,357	\$ (206,204)	\$ 156,043
Adjustments to reconcile net income (loss) to net cash (used in) provided by continuing operating activities:					
Equity in earnings of subsidiaries	(206,204)	—	—	206,204	—
Depreciation and amortization	—	55,640	63,720	—	119,360
Amortization of debt issuance costs	8,065	—	(302)	—	7,763
Equity-based compensation expense	19,273	—	—	—	19,273
Deferred income taxes	74	(2,398)	586	—	(1,738)
Debt extinguishment costs	940	—	—	—	940
Other	1,948	1,219	(142)	—	3,025
Change in operating assets and liabilities:					
Accounts receivable, net	—	(39,644)	(3,608)	—	(43,252)
Other current assets	—	7,898	(4,877)	—	3,021
Other assets	4,596	3,763	105	(4,596)	3,868
Accounts payable and other accrued liabilities	—	7,835	1,395	—	9,230
Accrued salaries and benefits	—	11,100	(51)	—	11,049
Other liabilities	—	4,548	(4,399)	—	149
Net cash (used in) provided by continuing operating activities	(15,265)	192,808	115,784	(4,596)	288,731
Net cash used in discontinued operating activities	—	(2,548)	—	—	(2,548)
Net cash (used in) provided by operating activities	(15,265)	190,260	115,784	(4,596)	286,183
Investing activities:					
Cash paid for capital expenditures	—	(149,402)	(100,587)	—	(249,989)
Cash paid for real estate acquisitions	—	(9,391)	—	—	(9,391)

Explanation of Responses:

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Other	—	(5,718)	2,604	—	(3,114)
Net cash used in investing activities	—	(164,511)	(97,983)	—	(262,494)
Financing activities:					
Principal payments on long-term debt	(31,492)	(169)	(4,427)	4,596	(31,492)
Common stock withheld for minimum statutory taxes, net	(2,272)	—	—	—	(2,272)
Other	(1,742)	(2,885)	(2,346)	—	(6,973)
Cash provided by (used in) intercompany activity	50,771	(37,257)	(13,514)	—	—
Net provided by (used in) in financing activities	15,265	(40,311)	(20,287)	4,596	(40,737)
Effect of exchange rate changes on cash	—	—	(1,314)	—	(1,314)
Net decrease in cash and cash equivalents	—	(14,562)	(3,800)	—	(18,362)
Cash and cash equivalents at beginning of the period	—	46,860	20,430	—	67,290
Cash and cash equivalents at end of the period	\$—	\$32,298	\$16,630	\$—	\$48,928

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Acadia Healthcare Company, Inc.

Condensed Consolidating Statement of Cash Flows

Nine Months Ended September 30, 2017

(In thousands)

	Parent	Combined Subsidiary Guarantors	Combined Non- Guarantors	Consolidating Adjustments	Total Consolidated Amounts
Operating activities:					
Net income (loss)	\$ 129,900	\$ 114,376	\$ 49,555	\$ (163,931)	\$ 129,900
Adjustments to reconcile net income (loss) to					
net cash provided by (used in) continuing					
operating activities:					
Equity in earnings of subsidiaries	(163,931)	—	—	163,931	—
Depreciation and amortization	—	48,918	56,338	—	105,256
Amortization of debt issuance costs	7,652	—	(312)	—	7,340
Equity-based compensation expense	19,007	—	—	—	19,007
Deferred income taxes	156	22,401	6,859	—	29,416
Debt extinguishment costs	810	—	—	—	810
Other	4,216	1,727	4,729	—	10,672
Change in operating assets and liabilities:					
Accounts receivable, net	—	(21,183)	(7,498)	—	(28,681)
Other current assets	—	1,126	24,973	—	26,099
Other assets	3,479	(705)	139	(3,479)	(566)
Accounts payable and other accrued liabilities	—	(22,372)	(4,009)	—	(26,381)
Accrued salaries and benefits	—	(4,759)	(3,178)	—	(7,937)
Other liabilities	—	4,084	3,593	—	7,677
Net cash provided by (used in) continuing					
operating					
activities	1,289	143,613	131,189	(3,479)	272,612
Net cash used in discontinued operating activities	—	(1,261)	—	—	(1,261)
Net cash provided by (used in) operating					
activities					
	1,289	142,352	131,189	(3,479)	271,351
Investing activities:					
Cash paid for capital expenditures	—	(114,130)	(79,687)	—	(193,817)

Explanation of Responses:

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Cash paid for real estate acquisitions	—	(33,297)	—	—	(33,297)
Other	—	(7,984)	1,922	—	(6,062)
Net cash used in investing activities	—	(155,411)	(77,765)	—	(233,176)
Financing activities:					
Principal payments on long-term debt	(25,913)	—	(3,479)	3,479	(25,913)
Common stock withheld for minimum statutory taxes, net	(3,278)	—	—	—	(3,278)
Other	—	1,649	—	—	1,649
Cash provided by (used in) intercompany activity	27,902	39,443	(67,345)	—	—
Net (used in) provided by in financing activities	(1,289)	41,092	(70,824)	3,479	(27,542)
Effect of exchange rate changes on cash	—	—	7,965	—	7,965
Net increase (decrease) in cash and cash equivalents	—	28,033	(9,435)	—	18,598
Cash and cash equivalents at beginning of the period	—	15,681	41,382	—	57,063
Cash and cash equivalents at end of the period	\$—	\$43,714	\$31,947	\$—	\$75,661

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19. Subsequent Events

On October 22, 2018, the Company sent a notice of conditional redemption to the trustee of the 9.0% and 9.5% Revenue Bonds indicating that the Company is conditionally exercising its option to redeem in whole the 9.0% and 9.5% Revenue Bonds on December 1, 2018 (the “Redemption Date”) at a redemption price equal to the sum of 104% of the principal amount of the 9.0% and 9.5% Revenue Bonds plus accrued and unpaid interest (the “Redemption Price”). The redemption is expressly conditional on the Company depositing sufficient moneys with the trustee on or prior to the Redemption Date, which amounts, together with funds already on deposit with the trustee, are sufficient to satisfy the Redemption Price. The Company expects to borrow the funds needed for the redemption under its revolving line of credit pursuant to the Amended and Restated Credit Agreement.

On October 23, 2018 the Company signed a definitive agreement for the acquisition of Mission Treatment (“Mission Treatment”) for cash consideration of approximately \$22.5 million and a working capital settlement. Mission Treatment operates nine comprehensive treatment centers in California, Nevada, Arizona and Oklahoma.

On October 31, 2018 the Company signed a definitive agreement for 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. Whittier is part of the Whittier Health Network, a family owned and operated healthcare system that has provided hospital and community services since 1982.

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

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

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

- our significant indebtedness, our ability to meet our debt obligations, and our ability to incur substantially more debt;
- difficulties in successfully integrating the operations of acquired facilities or realizing the potential benefits and synergies of our acquisitions and joint ventures;
- our ability to implement our business strategies in the U.S. and the U.K. and adapt to the regulatory and business environment in the U.K.;
- potential difficulties operating our business in light of political and economic instability in the U.K. and globally relating to the U.K.'s departure from the European Union;
- the impact of fluctuations in foreign exchange rates, including the devaluations of the GBP relative to the USD;
 - the impact of payments received from the government and third-party payors on our revenue and results of operations including the significant dependence of our U.K. facilities on payments received from the NHS;
- our ability to recruit and retain quality psychiatrists and other physicians;
- the impact of competition for staffing on our labor costs and profitability;
- the impact of increases to our labor costs in the U.S. and the U.K.;
- the occurrence of patient incidents, which could result in negative media coverage, adversely affect the price of our securities and result in incremental regulatory burdens and governmental investigations;
- our future cash flow and earnings;
- our restrictive covenants, which may restrict our business and financing activities;
- our ability to make payments on our financing arrangements;
- the impact of the economic and employment conditions in the U.S. and the U.K. on our business and future results of operations;
- compliance with laws and government regulations;
- the impact of claims brought against us or our facilities including claims for damages for personal injuries, medical malpractice, overpayments, breach of contract, securities law violations, tort and employee related claims;
- the impact of governmental investigations, regulatory actions and whistleblower lawsuits;
- the impact of healthcare reform in the U.S. and abroad, including the potential repeal, replacement or modification of the Patient Protection and Affordable Care Act;
- the impact of our highly competitive industry on patient volumes;
- our dependence on key management personnel, key executives and local facility management personnel;
- our acquisition, joint venture and de novo strategies, which expose us to a variety of operational and financial risks, as well as legal and regulatory risks;
-

the impact of state efforts to regulate the construction or expansion of healthcare facilities on our ability to operate and expand our operations;

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- our potential inability to extend leases at expiration;
- the impact of controls designed to reduce inpatient services on our revenue;
- the impact of different interpretations of accounting principles on our results of operations or financial condition;
- the impact of environmental, health and safety laws and regulations, especially in locations where we have concentrated operations;
- the impact of an increase in uninsured and underinsured patients or the deterioration in the collectability of the accounts of such patients on our results of operations;
- the risk of a cyber-security incident and any resulting violation of laws and regulations regarding information privacy or other negative impact;
- the impact of laws and regulations relating to privacy and security of patient health information and standards for electronic transactions;
- our ability to cultivate and maintain relationships with referral sources;
- the impact of a change in the mix of our U.S. and U.K. earnings, adverse changes in our effective tax rate and adverse developments in tax laws generally;
- changes in interpretations, assumptions and expectations regarding the Tax Act, including additional guidance that may be issued by federal and state taxing authorities;
- failure to maintain effective internal control over financial reporting;
- the impact of fluctuations in our operating results, quarter to quarter earnings and other factors on the price of our securities;
- the impact of the trend for insurance companies and managed care organizations to enter into sole source contracts on our ability to obtain patients;
- the impact of value-based purchasing programs on our revenue; and
- those risks and uncertainties described from time to time in our filings with the SEC.

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

Overview

Our business strategy is to acquire and develop behavioral healthcare facilities and improve our operating results within our facilities and our other behavioral healthcare operations. We strive to improve the operating results of our facilities by providing high-quality services, expanding referral networks and marketing initiatives while meeting the increased demand for behavioral healthcare services through expansion of our current locations as well as developing new services within existing locations. At September 30, 2018, we operated 586 behavioral healthcare facilities with approximately 18,000 beds in 40 states, the U.K. and Puerto Rico. During the nine months ended September 30, 2018, we added 408 beds, including 256 added to existing facilities and 152 added through the opening of two de novo facilities. For the year ending December 31, 2018, we expect to add more than 800 total beds exclusive of acquisitions.

We are the leading publicly traded pure-play provider of behavioral healthcare services, with operations in the U.S. and the U.K. Management believes that we are positioned as a leading platform in a highly fragmented industry under the direction of an experienced management team that has significant industry expertise. Management expects to take advantage of several strategies that are more accessible as a result of our increased size and geographic scale, including continuing a national marketing strategy to attract new patients and referral sources, increasing our volume of out-of-state referrals, providing a broader range of services to new and existing patients and clients and selectively

pursuing opportunities to expand our facility and bed count in the U.S and U.K. through acquisitions, joint ventures and bed additions in existing facilities.

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Results of Operations

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

	Three Months Ended				Nine Months Ended			
	September 30, 2018		2017		September 30, 2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
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	100.0%	716,714	100.0%	2,268,895	100.0%	2,111,804	100.0%
Salaries, wages and benefits	417,917	54.9 %	385,562	53.8 %	1,246,186	54.9 %	1,145,578	54.2 %
Professional fees	59,509	7.8 %	53,042	7.4 %	166,988	7.4 %	142,772	6.8 %
Supplies	29,461	3.9 %	28,652	4.0 %	88,958	3.9 %	85,000	4.0 %
Rents and leases	19,866	2.6 %	19,049	2.6 %	60,390	2.7 %	57,455	2.7 %
Other operating expenses	90,464	11.9 %	82,328	11.5 %	265,977	11.7 %	249,161	11.8 %
Depreciation and amortization	39,659	5.2 %	36,442	5.1 %	119,360	5.3 %	105,256	5.0 %
Interest expense	46,651	6.1 %	44,515	6.2 %	137,706	6.1 %	130,777	6.2 %
Debt extinguishment costs	—	0.0 %	-	0.0 %	940	0.0 %	810	0.1 %
Transaction-related expenses	2,353	0.3 %	5,665	0.8 %	10,008	0.4 %	18,836	0.9 %
Total expenses	705,880	92.7 %	655,255	91.4 %	2,096,513	92.4 %	1,935,645	91.7 %
Income before income taxes	55,036	7.3 %	61,459	8.6 %	172,382	7.6 %	176,159	8.3 %
Provision for income taxes	8,757	1.2 %	15,970	2.2 %	16,339	0.7 %	46,259	2.1 %
Net income	\$46,279	6.1 %	\$45,489	6.4 %	\$156,043	6.9 %	\$129,900	6.2 %

Segments

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.

The following table sets forth percent changes in same facility operating data for our U.S. Facilities for the three and nine months ended September 30, 2018 compared to the same periods in 2017:

	Three Months Ended	Nine Months Ended
	September 30, 2018	September 30, 2018
U.S. Same Facility Results (a)		
Revenue growth	7.2%	6.1%

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Patient days growth	3.3%	2.4%
Admissions growth	5.9%	3.9%
Average length of stay change (b)	-2.5%	-1.5%
Revenue per patient day growth	3.8%	3.6%
EBITDA margin change (c)	60 bps	20 bps

(a) Results for the periods presented include facilities we have operated more than one year and exclude certain closed services.

(b) Average length of stay is defined as patient days divided by admissions.

(c) 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. Management uses Segment EBITDA as an analytical indicator to measure the performance of our 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.

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The following table sets forth percent changes in same facility operating data for our U.K. Facilities for the three and nine months ended September 30, 2018 compared to the same periods in 2017:

	Three Months Ended	Nine Months Ended
	September 30, 2018	September 30, 2018
U.K. Same Facility Results (a,c)		
Revenue growth	4.4%	4.8%
Patient days growth	1.3%	1.6%
Admissions growth	-1.4%	1.7%
Average length of stay change (b)	2.7%	-0.1%
Revenue per patient day growth	3.1%	3.2%
EBITDA margin change (d)	-450 bps	-180 bps

- (a) Results for the periods presented include facilities we have operated more than one year and exclude the elderly care division and certain closed services.
- (b) Average length of stay is defined as patient days divided by admissions.
- (c) Revenue and revenue per patient day for the three and nine months ended September 30, 2017 is adjusted to reflect the foreign currency exchange rate for the comparable periods of 2018 in order to eliminate the effect of changes in the exchange rate. The exchange rate used in the adjusted revenue and revenue per patient day amounts for three and nine months ended September 30, 2017 is 1.30 and 1.35, respectively.
- (d) See definition of Segment EBITDA in U.S. Same Facility Results table above.
- (e) U.K. EBITDA margin was affected by lower census and higher operating expenses, contract labor in particular. Our census did not reach a sufficient level to absorb the higher wages and operating costs, which adversely affected our margins.

Three months ended September 30, 2018 compared to the three months ended September 30, 2017

Revenue. Revenue increased \$44.2 million, or 6.2%, to \$760.9 million for the three months ended September 30, 2018 from \$716.7 million for the three months ended September 30, 2017 resulting from same facility revenue growth of 6.2% and the slight decrease in the exchange rate between USD and GBP of \$1.2 million. During the three months ended September 30, 2018, we generated \$488.6 million of revenue, or 64.2% of our total revenue, from our U.S. Facilities and \$272.3 million of revenue, or 35.8% of our total revenue, from our U.K. Facilities. During the three months ended September 30, 2017, we generated \$453.7 million of revenue, or 63.3% of our total revenue, from our U.S. Facilities and \$263.0 million of revenue, or 36.7% of our total revenue, from our U.K. Facilities.

U.S. same facility revenue increased by \$32.1 million, or 7.2%, for the three months ended September 30, 2018 compared to the three months ended September 30, 2017, resulting from same facility growth in patient days of 3.3% and an increase in same facility revenue per day of 3.8%. U.K. same facility revenue increased by \$10.3 million, or 4.4%, for the three months ended September 30, 2018 compared to the three months ended September 30, 2017, resulting from same facility growth in patient days of 1.3% and an increase in same facility revenue per day of 3.1%. Consistent with the same facility patient day growth in 2017, the growth in same facility patient days for the three months ended September 30, 2018 compared to the three months ended September 30, 2017, resulted from the addition of beds to our existing facilities and ongoing demand for our services.

Salaries, wages and benefits. Salaries, wages and benefits (“SWB”) expense was \$417.9 million for the three months ended September 30, 2018 compared to \$385.6 million for the three months ended September 30, 2017, an increase of \$32.3 million. SWB expense included \$5.2 million and \$4.2 million of equity-based compensation expense for the three months ended September 30, 2018 and 2017, respectively. Excluding equity-based compensation expense, SWB expense was \$412.7 million, or 54.2% of revenue, for the three months ended September 30, 2018, compared to \$381.4 million, or 53.2% of revenue, for the three months ended September 30, 2017. Same facility SWB expense was \$372.7 million for the three months ended September 30, 2018, or 51.5% of revenue, compared to \$348.1 million for the three months ended September 30, 2017, or 51.0% of revenue.

Professional fees. Professional fees were \$59.5 million for the three months ended September 30, 2018, or 7.8% of revenue, compared to \$53.0 million for the three months ended September 30, 2017, or 7.4% of revenue. The \$6.5 million increase was primarily attributable to higher contract labor costs in our U.K. Facilities. Contract labor costs in our U.K. Facilities were higher primarily due to the ongoing nursing and clinical labor shortage and our dependence on higher cost agency labor. Same facility professional fees were \$51.5 million for the three months ended September 30, 2018, or 7.1% of revenue, compared to \$44.9 million, for the three months ended September 30, 2017, or 6.6% of revenue.

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Supplies. Supplies expense was \$29.5 million for the three months ended September 30, 2018, or 3.9% of revenue, compared to \$28.7 million for the three months ended September 30, 2017, or 4.0% of revenue. Same facility supplies expense was \$27.4 million for the three months ended September 30, 2018, or 3.8% of revenue, compared to \$26.7 million for the three months ended September 30, 2017, or 3.9% of revenue.

Rents and leases. Rents and leases were \$19.9 million for the three months ended September 30, 2018, or 2.6% of revenue, compared to \$19.0 million for the three months ended September 30, 2017, or 2.6% of revenue. Same facility rents and leases were \$16.0 million for the three months ended September 30, 2018, or 2.2% of revenue, compared to \$15.2 million for the three months ended September 30, 2017, or 2.2% of revenue.

Other operating expenses. Other operating expenses consisted primarily of purchased services, utilities, insurance, travel and repairs and maintenance expenses. Other operating expenses were \$90.5 million for the three months ended September 30, 2018, or 11.9% of revenue, compared to \$82.3 million for the three months ended September 30, 2017, or 11.5% of revenue. Same facility other operating expenses were \$83.9 million for the three months ended September 30, 2018, or 11.6% of revenue, compared to \$77.1 million for the three months ended September 30, 2017, or 11.3% of revenue.

Depreciation and amortization. Depreciation and amortization expense was \$39.7 million for the three months ended September 30, 2018, or 5.2% of revenue, compared to \$36.4 million for the three months ended September 30, 2017, or 5.1% of revenue. The increase in depreciation and amortization was attributable to depreciation associated with capital expenditures and real estate acquisitions during 2017 and 2018.

Interest expense. Interest expense was \$46.7 million for the three months ended September 30, 2018 compared to \$44.5 million for the three months ended September 30, 2017. The increase in interest expense was primarily a result of higher interest rates applicable to our variable rate debt slightly offset by the lower interest rates in connection with amendments to the Repricing Facilities to the Amended and Restated Credit Agreement.

Transaction-related expenses. Transaction-related expenses were \$2.4 million for the three months ended September 30, 2018 compared to \$5.7 million for the three months ended September 30, 2017. Transaction-related expenses represent costs incurred in the respective periods primarily related to our acquisitions and related integrated efforts, as summarized below (in thousands):

	Three Months Ended	
	September 30,	
	2018	2017
Severance and contract termination costs	\$ 1,403	\$ 1,820
Legal, accounting and other costs	950	3,845
	\$ 2,353	\$ 5,665

Provision for income taxes. For the three months ended September 30, 2018, the provision for income taxes was \$8.8 million, reflecting an effective tax rate of 15.9%, compared to \$16.0 million, reflecting an effective tax rate of 26.0%, for the three months ended September 30, 2017. The decrease in the effective tax rate for the three months ended September 30, 2018 was primarily attributable to the application of the Tax Act.

Nine months ended September 30, 2018 compared to the nine months ended September 30, 2017

Revenue. Revenue increased \$157.1 million, or 7.4%, to \$2.3 billion for the nine months ended September 30, 2018 from \$2.1 billion for the nine months ended September 30, 2017 resulting from same facility revenue growth of 5.7% and the increase in the exchange rate between USD and GBP of \$44.5 million. During the nine months ended September 30, 2018, we generated \$1.4 billion of revenue, or 63.1% of our total revenue, from our U.S. Facilities and \$836.4 million of revenue, or 36.9% of our total revenue, from our U.K. Facilities. During the nine months ended September 30, 2017, we generated \$1.4 billion of revenue, or 64.2% of our total revenue, from our U.S. Facilities and \$756.5 million of revenue, or 35.8% of our total revenue, from our U.K. Facilities.

U.S. same facility revenue increased by \$81.0 million, or 6.1%, for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, resulting from same facility growth in patient days of 2.4% and an increase in same facility revenue per day of 3.6%. U.K. same facility revenue increased by \$34.8 million, or 4.8%, for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, resulting from same facility growth in patient days of 1.6% and an increase in same facility revenue per day of 3.2%. Consistent with the same facility patient day growth in 2017, the growth in same facility patient days for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 resulted from the addition of beds to our existing facilities and ongoing demand for our services.

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Salaries, wages and benefits. Salaries, wages and benefits (“SWB”) expense was \$1.2 billion for the nine months ended September 30, 2018 compared to \$1.1 billion for the nine months ended September 30, 2017, an increase of \$100.6 million. SWB expense included \$19.3 million and \$19.0 million of equity-based compensation expense for the nine months ended September 30, 2018 and 2017, respectively. Excluding equity-based compensation expense, SWB expense was \$1.2 billion, or 54.1% of revenue, for the nine months ended September 30, 2018, compared to \$1.1 billion, or 53.3% of revenue, for the nine months ended September 30, 2017. Same facility SWB expense was \$1.1 billion for the nine months ended September 30, 2018, or 51.3% of revenue, compared to \$1.0 billion for the nine months ended September 30, 2017, or 51.0% of revenue.

Professional fees. Professional fees were \$167.0 million for the nine months ended September 30, 2018, or 7.4% of revenue, compared to \$142.8 million for the nine months ended September 30, 2017, or 6.8% of revenue. The \$24.2 million increase was primarily attributable to higher contract labor costs in our U.K. Facilities. Contract labor costs in our U.K. Facilities were higher primarily due to the ongoing nursing and clinical labor shortage and our dependence on higher cost agency labor. Same facility professional fees were \$143.6 million for the nine months ended September 30, 2018, or 6.6% of revenue, compared to \$124.6 million, for the nine months ended September 30, 2017, or 6.1% of revenue.

Supplies. Supplies expense was \$89.0 million for the nine months ended September 30, 2018, or 3.9% of revenue, compared to \$85.0 million for the nine months ended September 30, 2017, or 4.0% of revenue. Same facility supplies expense was \$82.7 million for the nine months ended September 30, 2018, or 3.8% of revenue, compared to \$80.5 million for the nine months ended September 30, 2017, or 3.9% of revenue.

Rents and leases. Rents and leases were \$60.4 million for the nine months ended September 30, 2018, or 2.7% of revenue, compared to \$57.5 million for the nine months ended September 30, 2017, or 2.7% of revenue. Same facility rents and leases were \$48.4 million for the nine months ended September 30, 2018, or 2.2% of revenue, compared to \$47.5 million for the nine months ended September 30, 2017, or 2.3% of revenue.

Other operating expenses. Other operating expenses consisted primarily of purchased services, utilities, insurance, travel and repairs and maintenance expenses. Other operating expenses were \$266.0 million for the nine months ended September 30, 2018, or 11.7% of revenue, compared to \$249.2 million for the nine months ended September 30, 2017, or 11.8% of revenue. Same facility other operating expenses were \$247.0 million for the nine months ended September 30, 2018, or 11.4% of revenue, compared to \$237.7 million for the nine months ended September 30, 2017, or 11.6% of revenue.

Depreciation and amortization. Depreciation and amortization expense was \$119.4 million for the nine months ended September 30, 2018, or 5.3% of revenue, compared to \$105.3 million for the nine months ended September 30, 2017, or 5.0% of revenue. The increase in depreciation and amortization was attributable to depreciation associated with capital expenditures and real estate acquisitions during 2017 and 2018.

Interest expense. Interest expense was \$137.7 million for the nine months ended September 30, 2018 compared to \$130.8 million for the nine months ended September 30, 2017. The increase in interest expense was primarily a result of higher interest rates applicable to our variable rate debt slightly offset by the lower interest rates in connection with amendments to the Repricing Facilities Amendments to the Amended and Restated Credit Agreement.

Debt extinguishment costs. Debt extinguishment costs for the nine months ended September 30, 2018 represented \$0.6 million of cash charges and \$0.3 million of non-cash charges recorded in connection with the Repricing Facilities Amendments to the Amended and Restated Credit Agreement. Debt extinguishment costs for the nine months ended

September 30, 2017 represented \$0.5 million of cash charges and \$0.3 million of non-cash charges recorded in connection with the Third Repricing Amendment to the Amended and Restated Credit Facility.

Transaction-related expenses. Transaction-related expenses were \$10.0 million for the nine months ended September 30, 2018 compared to \$18.8 million for the nine months ended September 30, 2017. Transaction-related expenses represent costs incurred in the respective periods primarily related to our acquisitions and related integrated efforts, as summarized below (in thousands):

	Nine Months Ended	
	September 30, 2018	2017
Severance and contract termination costs	\$ 5,584	\$ 11,550
Legal, accounting and other costs	4,424	7,286
	\$ 10,008	\$ 18,836

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Provision for income taxes. For the nine months ended September 30, 2018, the provision for income taxes was \$16.3 million, reflecting an effective tax rate of 9.5%, compared to \$46.3 million, reflecting an effective tax rate of 26.3%, for the nine months ended September 30, 2017. The decrease in the effective tax rate for the nine months ended September 30, 2018 was primarily attributable to the application of 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 provisional amount recorded at December 31, 2017.

Revenue

In May 2014, the FASB and the International Accounting Standards Board issued 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 we expect to be entitled in exchange for those goods or services. We adopted ASU 2014-09 using the modified retrospective method effective January 1, 2018. As a result of certain changes required by ASU 2014-09, the majority of our 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 did not have a significant impact on our consolidated financial statements.

Our revenue is primarily derived from services rendered to patients for inpatient psychiatric and substance abuse care, outpatient psychiatric care and adolescent residential treatment. We receive payments from the following sources for services rendered in our facilities: (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers; (iii) the federal government under the Medicare program administered by CMS; (iv) publicly funded sources in the U.K. (including the NHS, CCGs and local authorities in England, Scotland and Wales) and (v) individual patients and clients. We determine 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.

The following table presents revenue by payor type and as a percentage of revenue in our U.S. Facilities for the three and nine months ended September 30, 2018 and 2017 (dollars in thousands):

	Three Months Ended				Nine Months Ended			
	September 30, 2018		2017		September 30, 2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Commercial	\$146,439	30.0 %	\$142,870	30.7 %	\$431,337	30.1 %	\$431,818	31.1 %
Medicare	73,528	15.0 %	73,593	15.8 %	210,307	14.7 %	212,992	15.4 %
Medicaid	229,390	46.9 %	199,592	42.9 %	668,236	46.6 %	587,705	42.4 %
Self-Pay	33,559	6.9 %	43,685	9.3 %	103,845	7.3 %	130,928	9.4 %
Other	5,710	1.2 %	5,936	1.3 %	18,776	1.3 %	23,758	1.7 %
Revenue before provision for doubtful accounts	488,626	100.0%	465,676	100.0%	1,432,501	100.0%	1,387,201	100.0%
	—		(11,998)		—		(31,886)	

Provision for doubtful accounts				
Revenue	\$488,626	\$453,678	\$1,432,501	\$1,355,315

The following table presents revenue by payor type and as a percentage of revenue in our U.K. Facilities for the three and nine months ended September 30, 2018 and 2017 (dollars in thousands):

	Three Months Ended				Nine Months Ended			
	September 30, 2018		2017		September 30, 2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
U.K. public funded sources	\$245,919	90.3 %	\$236,778	90.0 %	\$756,094	90.4 %	\$678,623	89.7 %
Self-Pay	26,159	9.6 %	24,572	9.4 %	78,499	9.4 %	70,662	9.3 %
Other	212	0.1 %	1,686	0.6 %	1,801	0.2 %	7,210	1.0 %
Revenue before provision for doubtful accounts	272,290	100.0 %	263,036	100.0 %	836,394	100.0 %	756,495	100.0 %
Provision for doubtful accounts	—		—		—		(6)	
Revenue	\$272,290		\$263,036		\$836,394		\$756,489	

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The following tables present a summary of our aging of accounts receivable at September 30, 2018 and December 31, 2017:

September 30, 2018

	Current	30-90	90-150	>150	Total
Commercial	16.8 %	6.0 %	2.2 %	5.0 %	30.0 %
Medicare	10.8 %	1.5 %	0.4 %	0.8 %	13.5 %
Medicaid	23.3 %	5.8 %	2.6 %	6.1 %	37.8 %
U.K. public funded sources	7.2 %	1.4 %	0.1 %	0.2 %	8.9 %
Self-Pay	1.9 %	1.8 %	1.6 %	3.2 %	8.5 %
Other	0.5 %	0.2 %	0.2 %	0.4 %	1.3 %
Total	60.5 %	16.7 %	7.1 %	15.7 %	100.0 %

December 31, 2017

	Current	30-90	90-150	>150	Total
Commercial	15.3 %	8.7 %	3.2 %	6.9 %	34.1 %
Medicare	9.4 %	1.6 %	0.5 %	1.1 %	12.6 %
Medicaid	19.8 %	6.4 %	2.5 %	5.2 %	33.9 %
U.K. public funded sources	7.0 %	3.4 %	0.2 %	0.0 %	10.6 %
Self-Pay	1.8 %	1.4 %	1.4 %	3.2 %	7.8 %
Other	0.3 %	0.3 %	0.2 %	0.2 %	1.0 %
Total	53.6 %	21.8 %	8.0 %	16.6 %	100.0 %

Liquidity and Capital Resources

Cash provided by continuing operating activities for the nine months ended September 30, 2018 was \$288.7 million compared to \$272.6 million for the nine months ended September 30, 2017. The increase in cash provided by continuing operating activities was primarily attributable to the growth in same facility operations. Days sales outstanding were 42 days at September 30, 2018 compared to 38 days at December 31, 2017. At September 30, 2018 and December 31, 2017, we had working capital of \$100.0 million and \$94.2 million, respectively.

Cash used in investing activities for the nine months ended September 30, 2018 was \$262.5 million compared to \$233.2 million for the nine months ended September 30, 2017. Cash used in investing activities for the nine months ended September 30, 2018 primarily consisted of \$250.0 million of cash paid for capital expenditures and \$9.4 million of cash paid for real estate. Cash paid for capital expenditures for the nine months ended September 30, 2018 consisted of \$53.0 million of routine capital expenditures and \$197.0 million of expansion capital expenditures. We define expansion capital expenditures as those that increase the capacity of our facilities or otherwise enhance

Explanation of Responses:

revenue. Routine or maintenance capital expenditures were 2.3% of revenue for the nine months ended September 30, 2018. Cash used in investing activities for the nine months ended September 30, 2017 primarily consisted of \$52.0 million of cash paid for routine capital expenditures, \$141.8 million of cash paid for expansion capital expenditures and \$33.3 million of cash paid for real estate.

Cash used in financing activities for the nine months ended September 30, 2018 was \$40.7 million compared to cash used in financing activities of \$27.5 million for the nine months ended September 30, 2017. Cash used in financing activities for the nine months ended September 30, 2018 consisted of principal payments of long-term debt of \$31.5 million, common stock withheld for minimum statutory taxes of \$2.3 million and other of \$7.0 million. Cash used in financing activities for the nine months ended September 30, 2017 primarily consisted of principal payments on long-term debt of \$25.9 million and common stock withheld for minimum statutory taxes of \$3.3 million.

We had total available cash and cash equivalents of \$48.9 million and \$67.3 million at September 30, 2018 and December 31, 2017, respectively, of which approximately \$16.6 million and \$20.4 million was held by our foreign subsidiaries, respectively. Our strategic plan does not require the repatriation of foreign cash in order to fund our operations in the U.S., and it is our current intention to permanently reinvest our foreign cash and cash equivalents outside of the U.S. While we are still evaluating the full impact of the Tax Act on the Company, we expect the substantial reduction of the federal corporate tax rate to benefit our financial results and cash flow in future periods. We believe the change will not result in a U.S. tax liability on those foreign earnings

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which have not previously been repatriated to the U.S., with future foreign earnings potentially not subject to U.S. income taxes when repatriated.

Amended and Restated Senior Credit Facility

We entered into the Senior Secured Credit Facility on April 1, 2011. On December 31, 2012, we entered into the Amended and Restated Credit Agreement which amended and restated the Senior Secured Credit Facility. We have amended the Amended and Restated Credit Agreement from time to time as described in our prior filings with the SEC.

On May 10, 2017, we entered into a Third Repricing Amendment to the Amended and Restated Credit Agreement. The Third Repricing Amendment reduced the Applicable Rate with respect to the Tranche B-1 Facility and the Tranche B-2 Facility from 3.0% to 2.75% in the case of Eurodollar Rate loans and from 2.0% to 1.75% in the case of Base Rate Loans. In connection with the Third Repricing Amendment, we 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, we entered into a 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 Tranche B-3 Facility and a new 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, we entered into a Third Repricing Facilities Amendment to the Amended and Restated Credit Agreement. The Third Repricing Facilities Amendment replaced the existing revolving credit facility and TLA Facility with a new revolving credit facility and TLA Facility, respectively. Our line of credit on the 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 for the revolving credit facility and the TLA Facility by amending the definition of "Applicable Rate" and replacing the rate table therein with the table set forth below.

In connection with the Repricing Facilities Amendments, we 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.

We 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 our 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. We are 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. We are 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, we 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, we 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 Credit Agreement are guaranteed by each of our wholly-owned domestic subsidiaries (other than certain excluded subsidiaries) and are secured by a lien on substantially all of the Company and such subsidiaries' assets. Borrowings with respect to the TLA Facility and our revolving credit facility (collectively, "Pro Rata Facilities") under the Amended and Restated Credit Agreement bear interest at a rate tied to our 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 plus the Eurodollar Rate (as defined in the Amended and Restated Credit Agreement) (based upon the LIBOR Rate (as defined in the Amended and Restated Credit Agreement) prior to commencement of the interest rate period). Base Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%.

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At September 30, 2018, the Pro Rata Facilities bore interest at a rate of LIBOR plus 2.50%. In addition, we are required to pay a commitment fee on undrawn amounts under our revolving credit facility.

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

		Eurodollar Rate	Base Rate	Commitment Fee
Pricing Tier	Consolidated Leverage Ratio	Loans	Loans	Fee
1	< 3.50:1.0	1.50	0.50	0.20
2	>3.50:1.0 but < 4.00:1.0	1.75	0.75	0.25
3	>4.00:1.0 but < 4.50:1.0	2.00	1.00	0.30
4	>4.50:1.0 but < 5.25:1.0	2.25	1.25	0.35
5	>5.25:1.0	2.50	1.50	0.40

Eurodollar Rate Loans with respect to the Tranche B-3 Facility bear interest at the Tranche B-3 Facility Applicable Rate (as defined below) plus the Eurodollar Rate (subject to a floor of 0.75% and based upon the LIBOR Rate prior to commencement of the interest rate period). Base Rate Loans bear interest at the Tranche B-3 Facility Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As used herein, the term “Tranche B-3 Facility Applicable Rate” means, with respect to Eurodollar Rate Loans, 2.50%, and with respect to Base Rate Loans, 1.50%. The Tranche B-4 Facility bears interest as follows: Eurodollar Rate Loans bear interest at the Applicable Rate (as defined in the Amended and Restated Credit Agreement) plus the Eurodollar Rate (subject to a floor of 0.75% and based upon the LIBOR Rate prior to commencement of the interest rate period) and Base Rate Loans bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As used herein, the term “Applicable Rate” means, with respect to Eurodollar Rate Loans, 2.50%, and with respect to Base Rate Loans, 1.50%.

The lenders who provided the Tranche B-3 Facility and Tranche B-4 Facility are not entitled to benefit from our maintenance of its financial covenants under the Amended and Restated Credit Agreement. Accordingly, if we fail to maintain its financial covenants, such failure shall not constitute an event of default under the Amended and Restated Credit Agreement with respect to the Tranche B-3 Facility or Tranche B-4 Facility until and unless the Amended and Restated Senior Credit Facility is accelerated or the commitment of the lenders to make further loans is terminated.

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

- a) the affirmative covenants include the following: (i) delivery of financial statements and other customary financial information; (ii) notices of events of default and other material events; (iii) maintenance of existence, ability to conduct business, properties, insurance and books and records; (iv) payment of taxes; (v) lender inspection rights;

(vi) compliance with laws; (vii) use of proceeds; (viii) further assurances; and (ix) additional collateral and guarantor requirements.

b) the negative covenants include limitations on the following: (i) liens; (ii) debt (including guaranties); (iii) investments; (iv) fundamental changes (including mergers, consolidations and liquidations); (v) dispositions; (vi) sale leasebacks; (vii) affiliate transactions; (viii) burdensome agreements; (ix) restricted payments; (x) use of proceeds; (xi) ownership of subsidiaries; (xii) changes to line of business; (xiii) changes to organizational documents, legal name, state of formation, form of entity and fiscal year; (xiv) prepayment or redemption of certain senior unsecured debt; and (xv) amendments to certain material agreements. We are generally not permitted to issue dividends or distributions other than with respect to the following: (w) certain tax distributions; (x) the repurchase of equity held by employees, officers or directors upon the occurrence of death, disability or termination subject to cap of \$500,000 in any fiscal year and compliance with certain other conditions; (y) in the form of capital stock; and (z) scheduled payments of deferred purchase price, working capital adjustments and similar payments pursuant to the merger agreement or any permitted acquisition.

c) The financial covenants include maintenance of the following:

the fixed charge coverage ratio may not be less than 1.25:1.00 as of the end of any fiscal quarter;

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

	March 31	June 30	September 30	December 31
2018	6.50x	6.25x	6.00x	6.00x
2019	5.75x	5.75x	5.50x	5.50x
2020	5.25x	5.25x	5.25x	5.00x

the secured leverage ratio may not be greater than 3.50x as of the end of each fiscal quarter beginning September 30, 2018 and each fiscal quarter thereafter.

At September 30, 2018, we were in compliance with all of the above covenants.

Senior Notes

6.125% Senior Notes Due 2021

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

5.125% Senior Notes due 2022

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

5.625% Senior Notes due 2023

On February 11, 2015, we issued \$375.0 million of 5.625% Senior Notes due 2023. On September 21, 2015, we 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, we have 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, we issued \$390.0 million of 6.500% Senior Notes due 2024. 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 Senior Notes contain covenants that, among other things, limit our 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 our assets; and (vii) create liens on assets.

The Senior Notes issued by us are guaranteed by each of our subsidiaries that guarantee our obligations under the Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

We 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 Park Royal, we assumed debt of \$23.0 million. The fair market value of the debt assumed was \$25.6 million and resulted in a debt premium balance being recorded as of the acquisition date. The debt consisted of \$7.5 million and \$15.5 million of Lee County (Florida) Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 with stated interest rates of 9.0% and 9.5%, respectively. The 9.0% bonds in the amount of \$7.5 million have a maturity date of December 1, 2030 and require yearly principal payments beginning in 2013. The 9.5% bonds in the amount of \$15.5 million have a maturity date of December 1, 2040 and require yearly principal payments beginning in 2031. The principal

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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 9.0% and 9.5% Revenue Bonds using the effective interest method.

On October 22, 2018, we sent a notice of conditional redemption to the trustee of the 9.0% and 9.5% Revenue Bonds indicating that we are conditionally exercising our option to redeem in whole the 9.0% and 9.5% Revenue Bonds on December 1, 2018 at a redemption price equal to the sum of 104% of the principal amount of the 9.0% and 9.5% Revenue Bonds plus accrued and unpaid interest. The redemption is expressly conditional on the Company depositing sufficient moneys with the trustee on or prior to the Redemption Date, which amounts, together with funds already on deposit with the trustee, are sufficient to satisfy the Redemption Price. We expect to borrow the funds needed for the redemption under our revolving line of credit pursuant to the Amended and Restated Credit Agreement.

Contractual Obligations

The following table presents a summary of contractual obligations at September 30, 2018 (dollars in thousands):

	Payments Due by Period				
	Less Than				More Than
	1 Year	1-3 Years	3-5 Years	5 Years	Total
Long-term debt (a)	\$206,331	\$575,872	\$2,772,767	\$444,547	\$3,999,517
Operating leases	66,201	119,325	99,178	782,538	1,067,242
Purchase and other obligations (b)	4,132	37,357	1,980	26,342	69,811
Total obligations and commitments	\$276,664	\$732,554	\$2,873,925	\$1,253,427	\$5,136,570

(a) Amounts include required principal and interest payments. The projected interest payments reflect the interest rates in place on our variable-rate debt at September 30, 2018.

(b) Amounts relate to purchase obligations, including capital lease payments.

Off-Balance Sheet Arrangements

At September 30, 2018, we had standby letters of credit outstanding of \$5.9 million related to security for the payment of claims as required by our workers' compensation insurance program.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our interest expense is sensitive to changes in market interest rates. Our long-term debt outstanding at September 30, 2018 was composed of \$1.5 billion of fixed-rate debt and \$1.7 billion of variable-rate debt with interest based on LIBOR plus an applicable margin. A hypothetical 10% increase in interest rates (which would equate to a 0.47% higher rate on our variable rate debt) would decrease our net income and cash flows by \$6.5 million on an annual basis based upon our borrowing level at September 30, 2018.

Foreign Currency Risk

The functional currency for our U.K. facilities is the British pound or GBP. Our revenue and earnings are sensitive to changes in the GBP to USD exchange rate from the translation of our earnings into USD at exchange rates that may fluctuate. Based upon the level of our U.K. operations relative to the Company as a whole, a hypothetical 10% change in the exchange rate (which would equate to an increase or decrease in the exchange rate of 0.13) would cause a change in our net income of \$9.5 million on an annual basis.

In May 2016, we entered into multiple cross currency swap agreements with an aggregate notional amount of \$650.0 million to manage foreign currency exchange risk by effectively converting a portion of our fixed-rate USD denominated senior notes, including the semi-annual interest payments thereunder, to fixed-rate, GBP-denominated debt of £449.3 million. The cross currency swap agreements limit the impact of changes in the exchange rate on our cash flows and leverage.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management conducted an evaluation, with the participation of our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended September 30, 2018 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are, 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 our individual facilities have received, and from time to time, other facilities may receive, subpoenas, civil investigative demands, audit reports 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. We are cooperating with the government’s investigation but are not able to quantify any potential liability in connection with this investigation.

Item 1A. Risk Factors

In addition to the other information set forth in this report, an investor should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. The risks, as described in in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, are not the only risks facing the Company. Additional risks and uncertainties not currently known to management or that management currently deems immaterial also may materially, adversely affect the Company’s business, financial condition, operating results or cash flows.

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

During the three months ended September 30, 2018, the Company withheld shares of Company common stock to satisfy employee minimum statutory tax withholding obligations payable upon the vesting of restricted stock, as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be

				Purchased Under the Plans or Programs
July 1 – July 31	4,163	\$ 41.49	—	—
August 1 – August 31	1,044	39.69	—	—
September 1 – September 30	175	37.30	—	—
Total	5,382			

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Item 6. Exhibits

Exhibit No. Exhibit Description

- 3.1 Amended and Restated Certificate of Incorporation, as amended. (1)
- 3.2 Amended and Restated Bylaws of the Company, as amended. (1)
- 31.1* Certification of the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32* Certification of Chief Executive Officer and Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS** XBRL Instance Document.
- 101.SCH** XBRL Taxonomy Extension Schema Document.
- 101.CAL** XBRL Taxonomy Calculation Linkbase Document.
- 101.DEF** XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB** XBRL Taxonomy Labels Linkbase Document.
- 101.PRE** XBRL Taxonomy Presentation Linkbase Document.

(1) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed May 25, 2017 (File No. 001-35331).

* Filed herewith.

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

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SIGNATURES

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

Acadia Healthcare Company,
Inc.

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

Dated: November 6, 2018