Acadia Healthcare Company, Inc.
Form 424B5
January 05, 2016
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**Filed Pursuant to Rule 424(b)(5)**
**Registration No. 333-196611**

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell, and we are not soliciting an offer to buy, these securities in any jurisdiction where the offer or sale is not permitted.

**Subject to Completion**

**Preliminary Prospectus Supplement dated January 5, 2016**

**PROSPECTUS SUPPLEMENT**

**(To prospectus dated June 9, 2014)**

# 10,000,000 Shares

# Acadia Healthcare Company, Inc.

## Common Stock

We are selling 10,000,000 shares of our common stock.

Our shares trade on The NASDAQ Global Select Market under the symbol ACHC. On January 4, 2016, the last reported sale price of our common stock on The NASDAQ Global Select Market was $64.23 per share.

**Investing in shares of our common stock involves substantial risks that are described in the Risk Factors sections beginning on page S-14 of this prospectus supplement and in our Annual Report on Form 10-K for the**

**year ended December 31, 2014, which we have filed with the Securities and Exchange Commission and which is incorporated by reference in this prospectus supplement and the accompanying prospectus.**

| | Per Share | Total |
|---|---|---|
| Public offering price | $ | $ |
| Underwriting discount | $ | $ |
| Proceeds, before expenses, to us | $ | $ |

The underwriters may also exercise their option to purchase up to an additional 1,500,000 shares of our common stock from us at the public offering price, less the underwriting discount, for 30 days after the date of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares will be ready for delivery on or about , 2016.

*Joint Book-Running Managers*

**BofA Merrill Lynch** **Jefferies**

The date of this prospectus supplement is , 2016.

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## ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement is a supplement to the accompanying prospectus. This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, utilizing a shelf registration process. Under this shelf registration process, we may sell from time to time the securities described in the accompanying prospectus in one or more offerings such as this offering. This prospectus supplement provides you with specific information about our common stock that we are selling in this offering. Both this prospectus supplement and the accompanying prospectus include important information about us and other information you should know before investing. This prospectus supplement also adds to, updates and changes information contained in the accompanying prospectus. To the extent the information in this prospectus supplement is different from that in the accompanying prospectus, you should rely on the information in this prospectus supplement. You should read both this prospectus supplement and the accompanying prospectus, together with the additional information described in the sections entitled Where You Can Find More Information and Incorporation of Certain Documents by Reference of this prospectus supplement, before investing in our common stock.

**We have not, and the underwriters have not, authorized any person to provide you with any information other than that contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus or that is contained in any free writing prospectus issued by us. We and the underwriters take no responsibility for, and can provide no assurances as to the reliability of, any other information that others may give to you. This prospectus supplement and the accompanying prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any jurisdiction where the offer or sale is not permitted. The information in this prospectus supplement and the accompanying prospectus is complete and accurate as of the date on the front cover of this prospectus supplement, but the information and our business, cash flows, condition (financial and otherwise), prospects and results of operations may have changed since that date.**

You should not consider any information in this prospectus supplement or the accompanying prospectus to be investment, legal or tax advice. You should consult your own counsel, accountants and other advisers for legal, tax, business, financial and related advice regarding the purchase of shares of our common stock.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contain and incorporate by reference forward-looking statements. 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, be continue, expect, intend, estimate, project, plan and similar expressions identify forward-looking statements. In particular, statements abo expectations, beliefs, plans, objectives, assumptions or future events or performance contain 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 ability to close our planned acquisition of Priory Group No. 1 Limited, or Priory, in a timely manner or at all;
- our ability to obtain the necessary financing for the planned acquisition of Priory on anticipated terms or at all;

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

difficulties in successfully integrating the operations of acquired facilities, including those acquired in the Priory and CRC Health Group, Inc., or CRC, acquisitions, or realizing the potential benefits and synergies of these acquisitions;

our ability to implement our business strategies in the United Kingdom and adapt to the regulatory and business environment in the United Kingdom;

the impact of payments received from the government and third-party payors on our revenues and results of operations, including the significant dependence of the Priory and Partnerships in Care facilities on payments received from the National Health Service in the United Kingdom, or the NHS;

the occurrence of patient incidents, which could result in negative media coverage, adversely affect the price of our securities and result in incremental regulatory burdens and governmental investigations;

our future cash flow and earnings;

our restrictive covenants, which may restrict our business and financing activities;

our ability to make payments on our financing arrangements;

the impact of the economic and employment conditions in the United States and the United Kingdom on our business and future results of operations;

compliance with laws and government regulations;

the impact of claims brought against our facilities;

the impact of governmental investigations, regulatory actions and whistleblower lawsuits;

the impact of healthcare reform in the United States and abroad;

the impact of our highly competitive industry on patient volumes;

our ability to recruit and retain quality psychiatrists and other physicians;

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

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

our acquisition strategy, which exposes us to a variety of operational and financial risks, as well as legal and regulatory risks (e.g., exposure to the new regulatory regimes such as the United Kingdom for Priory and Partnerships in Care and various investigations relating to CRC);

the impact of state efforts to regulate the construction or expansion of healthcare facilities (including those from Priory, CRC and Partnerships in Care) on our ability to operate and expand our operations;

our potential inability to extend leases at expiration;

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- the impact of controls designed to reduce inpatient services on our revenues;
- the impact of different interpretations of accounting principles on our results of operations or financial condition;
- the impact of environmental, health and safety laws and regulations, especially in states where we have concentrated operations;
- the impact of an increase in uninsured and underinsured patients or the deterioration in the collectability of the accounts of such patients on our results of operations;
- the risk of a cyber-security incident and any resulting violation of laws and regulations regarding information privacy or other negative impact;
- the impact of laws and regulations relating to privacy and security of patient health information and standards for electronic transactions;
- the impact of a change in the mix of our earnings, and changes in tax rates and laws generally;
- failure to maintain effective internal control over financial reporting;
- the impact of fluctuations in our operating results, quarter to quarter earnings and other factors on the price of our securities;
- the impact of our equity sponsor s rights over certain company matters;
- the impact of the trend for insurance companies and managed care organizations to enter into sole source contracts on our ability to obtain patients;
- the impact of fluctuations in foreign exchange rates; and
- the other risks described under the heading Risk Factors in this prospectus supplement and the accompanying prospectus and in similarly titled sections in our other reports that we file with the SEC that are incorporated by reference into this prospectus supplement and the accompanying prospectus.

This list of risks and uncertainties, however, is only a summary of some of the most important factors and is not intended to be exhaustive. 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 prospectus supplement. Except as otherwise required by applicable law, we do not undertake and expressly disclaim 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. All subsequent written and oral forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

## CAUTIONARY NOTE REGARDING FINANCIAL INFORMATION

The audited consolidated financial statements as of and for the financial years ended December 31, 2013, 2012 and 2011 and the unaudited consolidated financial statements as of and for the six months ended June 30, 2014 relating to Partnerships in Care that are included in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus have been prepared in accordance with United

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Kingdom Accounting Standards, or U.K. GAAP. U.K. GAAP differs in certain respects from generally accepted accounting principles in the United States, or U.S. GAAP. The audited consolidated financial statements as of and for the financial years ended December 31, 2014, 2013 and 2012, and the unaudited consolidated financial statements as of and for the nine months ended September 30, 2015 and 2014 relating to Priory that are included in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. IFRS differs in certain respects from U.S. GAAP. Neither Priory nor Partnerships in Care has prepared or intends to prepare its financial statements in accordance with U.S. GAAP. A reconciliation to U.S. GAAP is included in the Partnerships in Care financial statements. Acadia completed the acquisition of Partnerships in Care on July 1, 2014 and all results of operations of Partnerships in Care subsequent to such date are reflected in Acadia s financial statements. Unless otherwise noted, all references to GAAP in this prospectus supplement and the accompanying prospectus refer to U.S. GAAP.

This prospectus supplement contains certain unaudited information, including revenue and operating statistics based on revenue, that is presented on a pro forma basis assuming that the Priory, CRC and Partnerships in Care acquisitions, as well as certain other immaterial acquisitions, occurred as of January 1, 2014. The unaudited pro forma financial information has been prepared using the acquisition method of accounting for business combinations under GAAP. The unaudited pro forma financial information is for illustrative purposes only and does not purport to represent what our financial condition or results of operations actually would have been had the events in fact occurred on the assumed date or to project our financial condition or results of operations for any future date or future period. The unaudited pro forma financial information should be read in conjunction with the consolidated financial statements and notes thereto elsewhere in this prospectus supplement and the financial statements of Acadia in other reports that we have filed with the SEC and incorporated by reference herein. In addition, prospective investors should take note that this offering is being conducted in advance of, and is not conditioned upon, closing of the Priory acquisition. Accordingly, the pro forma financial information may not be representative of future results.

## MARKET AND INDUSTRY DATA

We obtained the market and competitive position data used throughout this prospectus supplement and in the documents incorporated by reference herein from our own research, surveys or studies conducted by third parties and industry or general publications. Such surveys, studies and publications generally state that they have obtained information from sources believed to be reliable, but do not guarantee the accuracy and completeness of such information. While we believe that each of these studies and publications is reliable, we have not independently verified the information, and we have not ascertained the underlying economic assumptions relied upon therein, and we do not make any representation as to the accuracy of such information. Similarly, we believe our internal research is reliable, but it has not been verified by any independent sources. Our estimates involve risks and uncertainties, and are subject to change based on various factors, including those discussed under the heading Risk Factors in this prospectus supplement and in similarly titled sections in our other reports that we file with the SEC.

## TRADEMARKS AND TRADE NAMES

This prospectus supplement includes our trademarks, which are protected under applicable intellectual property laws and are the property of Acadia Healthcare Company, Inc. or its subsidiaries. This prospectus supplement also contains trademarks, service marks, trade names and copyrights of other companies, which are the property of their respective owners. Solely for convenience, trademarks and trade names referred to in this prospectus supplement may appear without the ® or TM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks and trade names.

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## NON-GAAP FINANCIAL MEASURES

We have included certain financial measures in this prospectus supplement, including EBITDA, adjusted EBITDA, pro forma EBITDA and pro forma adjusted EBITDA, which are non-GAAP financial measures as defined under the rules and regulations promulgated by the SEC. We define EBITDA and pro forma EBITDA as net income adjusted for loss from discontinued operations or pro forma net income adjusted for loss from discontinued operations (as applicable), net of income taxes, net interest expense, income tax provision (benefit) and depreciation and amortization. We define adjusted EBITDA and pro forma adjusted EBITDA as EBITDA or pro forma EBITDA (as applicable) adjusted for equity-based compensation expense, cost savings synergies, debt extinguishment costs and certain other items. For a reconciliation of net income to adjusted EBITDA and pro forma net income to pro forma adjusted EBITDA, see Prospectus Supplement Summary Summary Historical Condensed Consolidated Financial Data and Unaudited Pro Forma Condensed Combined Financial Data.

EBITDA, adjusted EBITDA, pro forma EBITDA and pro forma adjusted EBITDA, as presented in this prospectus supplement, are supplemental measures of our performance and are not required by, or presented in accordance with, GAAP. EBITDA, adjusted EBITDA, pro forma EBITDA and pro forma adjusted EBITDA are not measures of our financial performance under GAAP and should not be considered as alternatives to net income or any other performance measures derived in accordance with GAAP or as an alternative to cash flow from operating activities as measures of our liquidity. Our measurements of EBITDA, adjusted EBITDA, pro forma EBITDA and pro forma adjusted EBITDA may not be calculated similarly to, and therefore may not be comparable to, similarly titled measures of other companies and are not measures of performance calculated in accordance with GAAP. We have included information concerning EBITDA, adjusted EBITDA, pro forma EBITDA and pro forma adjusted EBITDA in this prospectus supplement because we believe that such information is used by certain investors as measures of a company s historical performance and by securities analysts, investors and other interested parties in the evaluation of issuers of equity securities, many of which present EBITDA and adjusted EBITDA when reporting their results. Our presentation of EBITDA, adjusted EBITDA, pro forma EBITDA and pro forma adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

We also have included in this prospectus supplement certain non-IFRS measures used historically by Priory, including EBITDA, Adjusted EBITDA, EBITDAR, and Adjusted EBITDAR, which are not required by, or presented in accordance with IFRS. Priory defines (a) EBITDA as operating profit (which does not include interest or taxes) before depreciation of tangible fixed assets and amortization, (b) EBITDAR as EBITDA before rent expense, (c) Adjusted EBITDA as EBITDA as adjusted to remove the effects of certain exceptional items as described in the notes to Priory s consolidated financial statements incorporated by reference into this prospectus supplement and (d) Adjusted EBITDAR as EBITDAR as adjusted to remove the effects of certain exceptional items as described in the notes to Priory s consolidated financial statements incorporated by reference into this prospectus supplement. Priory has presented Adjusted EBITDA as a useful indicator of its ability to incur and service its indebtedness and to assist certain investors, security analysts and other interested parties in evaluating the company. EBITDAR is a common measure in Priory s industry because it allows comparability across the sector for operations regardless of whether a business leases or owns its properties. Adjusted EBITDA and Adjusted EBITDAR are believed to be relevant measures for assessing performance because they are adjusted for certain items which are not indicative of underlying operating performance and thus aid in an understanding of EBITDA and EBITDAR, respectively.

EBITDA, EBITDAR, Adjusted EBITDA and Adjusted EBITDAR and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. EBITDA, EBITDAR, Adjusted EBITDA and Adjusted EBITDAR have limitations as analytical tools, and you should not consider them in isolation. Some of these limitations include (a) they do not reflect cash expenditures or future requirements for capital expenditures or contractual commitments; (b) they do not reflect changes in, or cash requirements for, working capital needs; (c) they do not reflect the significant interest

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expense, or the cash requirements necessary, to service interest or principal payments on debts; (d) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often need to be replaced in the future and EBITDA, EBITDAR, Adjusted EBITDA and Adjusted EBITDAR do not reflect any cash requirements that would be required for such replacements; (d) some of the exceptional items that Priory eliminates in calculating EBITDA, EBITDAR, Adjusted EBITDA and Adjusted EBITDAR reflect cash payments that were made, or will in the future be made; and (e) the fact that other companies in Priory s industry may calculate EBITDA, EBITDAR, Adjusted EBITDA and Adjusted EBITDAR differently than Priory does, which limits their usefulness as comparative measures.

## CURRENCY EXCHANGE RATE

This prospectus supplement contains translations of amounts denominated in British Pounds Sterling into U.S. dollars at specific rates solely for the convenience of the potential investor. Unless otherwise noted, all translations from British pounds to U.S. dollars and from U.S. dollars to British pounds in this prospectus supplement were made at an assumed rate of (£0.68) British Pound Sterling for one ($1.00) U.S. Dollar or U.S. $1.48 for one (£1) British Pound Sterling, the exchange rate assumption used for certain purposes in the unaudited pro forma condensed combined financial statements in this prospectus supplement, or, for certain historical periods, the respective exchange rate listed in the notes to such pro forma financial statements. Certain financial information for Priory and Partnerships in Care presented herein is translated to U.S. dollars based on the historical exchange rates set forth in the financial statements of Priory and Partnerships in Care appearing in this prospectus supplement or incorporated by reference herein. We make no representation that any amounts denominated in either British Pounds Sterling or U.S. dollars could have been, or could be, converted into either British Pounds Sterling or U.S. dollars, as applicable, at any particular rate, at the rates stated above, or at all.

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## PROSPECTUS SUPPLEMENT SUMMARY

*The information below is a summary of the more detailed information included elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. You should read carefully the following summary together with the more detailed information contained in this prospectus supplement, the accompanying prospectus and the information incorporated by reference into those documents, including the Risk Factors section of this prospectus supplement and the Risk Factors section in the accompanying prospectus, in our Annual Report on Form 10-K for the year ended December 31, 2014 and in our other reports that we file with the SEC. This summary is not complete and does not contain all of the information you should consider when making your investment decision.*

*In this prospectus supplement, unless the context requires otherwise, references to Acadia, the Company, we, us or our refer to Acadia Healthcare Company, Inc., together with its consolidated subsidiaries. When we refer to our operations or results on a pro forma basis, unless the context otherwise requires, we mean the statement is made as if the Priory acquisition and/or other acquisitions described herein or in the pro forma financial statements set forth under the heading Unaudited Pro Forma Condensed Combined Financial Information had been completed as of the date stated or as of the beginning of the period referenced.*

### Our Company

We are the leading publicly traded pure-play provider of behavioral healthcare services, with operations in the United States and the United Kingdom. As of September 30, 2015, we operated 233 behavioral healthcare facilities with over 9,600 beds in 37 states, the United Kingdom and Puerto Rico. We believe that our primary focus on the provision of behavioral healthcare services allows us to operate more efficiently and provide higher quality care than our competitors. For the year ended December 31, 2014, we generated revenue of $1.0 billion. On a pro forma basis for the nine months ended September 30, 2015 and the year ended December 31, 2014, giving effect to the acquisitions of Priory and CRC and several immaterial acquisitions, we would have generated pro forma revenue of approximately $2.1 billion and approximately $2.7 billion, respectively, pro forma income from continuing operations of approximately $136.5 million and approximately $172.6 million, respectively, and pro forma adjusted EBITDA of approximately $498.3 million and approximately $660.7 million, respectively. A reconciliation of pro forma net income to pro forma adjusted EBITDA appears under the heading Summary Historical Condensed Consolidated Financial Data and Unaudited Pro Forma Condensed Financial Data in this prospectus supplement.

Our inpatient facilities offer a wide range of inpatient behavioral healthcare services for children, adolescents and adults. We offer these services through a combination of acute inpatient psychiatric and specialty facilities and residential treatment centers, or RTCs. Our acute inpatient psychiatric and specialty facilities provide the most intensive level of care, including 24-hour skilled nursing observation and care, daily interventions and oversight by a psychiatrist and intensive, highly coordinated treatment by a physician-led team of mental health professionals. Our RTCs offer longer-term treatment programs primarily for children and adolescents with long-standing chronic behavioral health problems. Our RTCs provide physician-led, multi-disciplinary treatments that address the overall medical, psychiatric, social and academic needs of the patient. During the year ended December 31, 2014, we acquired 27 facilities and added 378 new beds to our existing facilities. During the nine months ended September 30, 2015, we acquired 152 facilities and added 521 new beds, including 311 to existing facilities and 210 in two de novo facilities. For the year ending December 31, 2015, we expect to add approximately 500 total beds to facilities we owned as of December 31, 2014.

Our outpatient community-based services provide therapeutic treatment to children and adolescents who have a clinically defined emotional, psychiatric or chemical dependency disorder while enabling patients to remain at home and within their community. Many patients who participate in community-based programs have transitioned out of a residential facility or have a disorder that does not require placement in a facility that provides 24-hour care.

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**Acquisition of Priory**

We are conducting this offering of common stock in connection with the acquisition of Priory which we refer to in this prospectus supplement as the Acquisition.

*Overview*. On December 31, 2015, Whitewell UK Investments 1 Limited, a subsidiary of Acadia, or the Purchaser, agreed to acquire the entire issued share capital of Priory Group No. 1 Limited, a company incorporated in England and Wales, pursuant to a sale and purchase deed, or the Purchase Agreement, by and among the Purchaser, Acadia, Priory and the shareholders of Priory listed on Schedule 1 thereto. Investment funds affiliated with Advent International Corporation, or Advent, own approximately 88% of Priory. Acadia joined the Purchase Agreement for the purpose of guarantying the Purchaser s obligations arising under the Purchase Agreement. Under the terms of the Purchase Agreement, (i) the Purchaser will pay cash consideration of approximately £1.275 billion, which includes approximately £925 million to be used to repay the outstanding balances of the debt facilities of the target companies, and (ii) an aggregate of 5,363,000 shares of our common stock, $0.01 par value per share, will be issued to Advent, which we refer to as the equity consideration. There may be minor adjustments to the split of cash consideration referred to above prior to closing as a result of accruals of preference dividend and interest on the Priory preference shares and shareholder debt. However, these accruals of preference dividend and interest will not result in an increase in the aggregate consideration payable by Acadia. The aggregate amount of equity consideration is subject to adjustment under certain circumstances set forth in the Purchase Agreement, including being subject to increase upon any decrease in stock price prior to, and including, pricing of this offering from an agreed upon price in the Purchase Agreement, or subject to decrease if we cash settle all or a portion of the equity consideration. See The Acquisition and Financing Transactions.

The entities to be acquired by Acadia owned and operated 322 inpatient behavioral health facilities with over 7,000 beds as of September 30, 2015. The facilities are located in England, Wales, Scotland and Northern Ireland. For the year ended December 31, 2014 and the nine months ended September 30, 2015, Priory generated revenue of £520.7 million (approximately $858.0 million) and £424.5 million (approximately $650.5 million), respectively, primarily through the operation and management of inpatient behavioral health facilities. See Priory Business elsewhere in this prospectus supplement.

The Purchase Agreement provides that the Acquisition will close on February 16, 2016. Closing of the Acquisition is subject to very limited conditions, including primarily the absence of certain regulatory or legal challenges to the Acquisition. Consummation of this offering is not conditioned upon the closing of the Acquisition or any of the other financing transactions for the Acquisition. We cannot assure you that the Acquisition will close as expected or at all. See Risk Factors Risks Relating to the Acquisition We may be unable to complete our planned acquisition of Priory on currently anticipated terms, or at all. Failure to consummate the Acquisition could negatively affect us.

Concurrently with the execution of the Purchase Agreement, we also entered into a Third Amended and Restated Registration Rights Agreement. See The Acquisition and Financing Transactions Third Amended and Restated Registration Rights Agreement.

*Strategic Rationale*. We expect to realize significant benefits from the Acquisition. Our rationale for the acquisition includes the following:

*Expand our geographic presence in the United Kingdom market*. The mental health market in the United Kingdom was roughly £14.4 billion in 2011. The independent mental health market accounted for roughly £1.1 billion of that amount, or approximately 8% market share. As a result of government budget constraints and an increased focus on quality, the independent mental health market

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has witnessed significant expansion in the last decade, making it one of the fastest growing sectors in the United Kingdom healthcare industry. Pro forma for the Acquisition, our United Kingdom mental health revenues would have been $1.1 billion in the year ended December 31, 2014.

*Acquire a leading platform in the market*. Priory is a leading independent provider of behavioral healthcare services in the United Kingdom, operating 322 inpatient behavioral health facilities with over 7,000 beds as of September 30, 2015. In addition, Priory is one of the few independent providers in the United Kingdom offering the full spectrum of mental health services, primarily focused on the treatment of patients with a variety of psychiatric conditions which are treated in both open and secure environments, as well as neuro-rehabilitation services. Priory also has an experienced management team with market knowledge and relationships within the industry and governmental bodies.

*Financially attractive and accretive acquisition*. Assuming the Acquisition is completed as planned on February 16, 2016 and Priory continues to perform as it has in the recent past, we expect the combined benefits of increased adjusted EBITDA and a reduced income tax rate will produce earnings accretion (not including the impact of any future acquisitions beyond the purchase of Priory or any transaction-related expenses).

*Opportunities for future growth*. Demand for independent behavioral health services has grown significantly in the United Kingdom as a result of the NHS reducing bed capacity and increasing hospitalization rates. Outsourcing demand is expected to increase further in light of additional bed closures and reduction in community capacity by the NHS. The behavioral healthcare market in the United Kingdom is highly competitive and fragmented with a variety of for-profit and not-for-profit providers, including the NHS. The NHS is both the principal provider and purchaser of such services. These factors present opportunities for growth by well capitalized, experienced operators. In addition, Acadia management sees meaningful opportunities to produce organic growth in Priory s existing facilities through the addition of new beds and service line expansions to meet areas of unmet need. Management also expects to pursue additional select acquisitions in the United Kingdom.

*Financing of the Acquisition.* We intend to fund the Acquisition in part through (i) this offering, (ii) borrowings under a new $955.0 million incremental term loan facility, or the TLB Facility, under our existing amended and restated senior credit agreement, or the Amended and Restated Senior Credit Facility, and (iii) $390.0 million of debt securities that we intend to issue prior to closing of the Acquisition, which we refer to as the New Senior Notes, or, if we do not issue the New Senior Notes, senior unsecured increasing rate bridge loans, or the Bridge Notes. To the extent that the exchange rate changes and is not fixed by us through the use of forward foreign currency contracts, and we need additional dollar proceeds to fund the purchase price, we anticipate utilizing our existing revolving line of credit. We will also issue 5,363,000 shares of our common stock, subject to adjustment as provided in the Purchase Agreement, to Advent in connection with the Acquisition. The number of shares to be issued to Advent is subject to increase depending upon the pricing of this offering from an agreed upon price in the Purchase Agreement.

Because this offering is not conditioned upon closing of the Acquisition, even if the Acquisition or other financing transactions for the Acquisition do not occur, the shares of our common stock sold in this offering will remain outstanding, and we will not have any obligation to offer to repurchase any or all of such shares.

We refer in this prospectus supplement to this offering of common stock, the New Senior Notes or the Bridge Notes, the TLB Facility and any borrowings under our existing revolving line of credit as the Financing Transactions. We refer to the Acquisition and the Financing Transactions collectively as the Transactions.

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**Our Competitive Strengths**

Management believes the following strengths differentiate us from other providers of behavioral healthcare services:

*Premier operational management team with track record of success*. Our management team has over 175 combined years of experience in acquiring, integrating and operating a variety of behavioral health facilities. Following the sale of Psychiatric Solutions, Inc., or PSI, to Universal Health Services, Inc. in November 2010, certain of PSI s key former executive officers joined Acadia in February 2011. The extensive national experience and operational expertise of our management team give us what management believes to be the premier leadership team in the behavioral healthcare industry. Our management team strives to use its years of experience operating behavioral health facilities to generate strong cash flow and grow a profitable business.

*Favorable industry and legislative trends*. According to a 2012 survey by Substance Abuse and Mental Health Services Administration of the U.S. Department of Health and Human Services, or SAMHSA, 18.6% of adults in the United States aged 18 years or older suffer from a mental illness in a given year and about 4% suffer from a serious mental illness. According to the National Institute of Mental Health, over 20% of children have had a seriously debilitating mental disorder at some point during their life. Management believes the market for behavioral services will continue to grow due to increased awareness of mental health and substance abuse conditions and treatment options. According to a 2014 SAMHSA report, national expenditures at acute behavioral health hospitals and substance abuse centers are expected to reach $32.3 billion in 2020, up from $24.3 billion in 2009.

While the growing awareness of mental health and substance abuse conditions is expected to accelerate demand for services, recent healthcare reform in the United States is expected to increase access to industry services as more people obtain insurance coverage. A key aspect of reform legislation is the extension of mental health parity protections established into law by the Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008, or the MHPAEA. The MHPAEA requires employers who provide behavioral health and addiction benefits to provide such coverage to the same extent as other medical conditions.

The mental health hospitals market in the United Kingdom was roughly £14.4 billion in 2011. As a result of government budget constraints and an increased focus on quality, the independent mental health hospitals market has witnessed significant expansion in the last decade, making it one of the fastest growing sectors in the United Kingdom healthcare industry. Demand for independent sector beds has grown significantly as a result of the NHS reducing its bed capacity and increasing hospitalization rates. Independent sector demand is expected to further increase in light of additional bed closures and reduction in community capacity by the NHS.

*Leading platform in attractive healthcare niche*. We are a leading behavioral healthcare platform in an industry that is undergoing consolidation in an effort to reduce costs and expand programs to better serve the growing need for inpatient behavioral healthcare services.

*Diversified revenue and payor bases*. At September 30, 2015, we operated 233 behavioral healthcare facilities with over 9,600 beds in 37 states, the United Kingdom and Puerto Rico. Our payor, patient and geographic diversity mitigates the potential risk associated with any single facility. For the year ended December 31, 2014, we received 38% from Medicaid, 15% from the NHS, 23% from commercial payors, 19% from Medicare and 5% from other payors. On a pro forma basis for the twelve months ended September 30, 2015, giving effect to the acquisition of Priory, CRC and several immaterial acquisitions, we would have received 22% of our revenue from Medicaid, 43% from the NHS (including local authorities in the United Kingdom), 15% from commercial payors, 8% from Medicare and 12% from other payors. As we receive Medicaid payments from 38 states, the District of Columbia and Puerto Rico, management does not believe that

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we are significantly affected by changes in reimbursement policies in any one state or territory. Substantially all of our Medicaid payments relate to the care of children and adolescents. Management believes that children and adolescents are a patient class that is less susceptible to reductions in reimbursement rates. No facility accounted for more than 2% of revenue for the twelve months ended September 30, 2015 on a pro forma basis giving effect to the acquisition of Priory, CRC and several immaterial acquisitions, and no state or U.S. territory accounted for more than 6% of revenue for the twelve months ended September 30, 2015. We believe that our increased geographic diversity will mitigate the impact of any financial or budgetary pressure that may arise in a particular state or market where we operate.

*Strong cash flow generation and low capital requirements*. We generate strong free cash flow by profitably operating our business and by actively managing our working capital. Moreover, as the behavioral healthcare business does not typically require the procurement and replacement of expensive medical equipment, our maintenance capital expenditure requirements are generally less than that of other facility-based healthcare providers. For the nine months ended September 30, 2015, our maintenance capital expenditures amounted to approximately 3% of our revenue. In addition, our accounts receivable management is less complex than medical/surgical hospital providers because behavioral healthcare facilities have fewer billing codes and generally are paid on a per diem basis.

**Our Business Strategy**

We are committed to providing the communities we serve with high quality, cost-effective behavioral healthcare services, while growing our business, increasing profitability and creating long-term value for our stockholders. To achieve these objectives, we have aligned our activities around the following growth strategies:

*Increase margins by enhancing programs and improving performance at existing facilities*. Management believes we can improve efficiencies and increase operating margins by utilizing our management s expertise and experience within existing programs and their expertise in improving performance at underperforming facilities. Management believes the efficiencies can be realized by investing in growth in strong markets, addressing capital-constrained facilities that have underperformed and improving management systems. Furthermore, our recent acquisitions of additional facilities give us an opportunity to develop a marketing strategy in many markets which should help us increase the geographic footprint from which our existing facilities attract patients and referrals.

*Opportunistically pursue acquisitions*. With the planned acquisition of Priory and the completed CRC and Partnerships in Care acquisitions, we are continuing to position our company as a leading provider of mental health services in the United States and the United Kingdom. The behavioral healthcare industry in the United States and the independent behavioral healthcare industry in the United Kingdom are highly fragmented, and we selectively seek opportunities to expand and diversify our base of operations by acquiring additional facilities.

Acadia management believes there are a number of acquisition candidates available at attractive valuations, and we have a number of potential acquisitions in various stages of development and consideration in the United States. In addition, management sees meaningful opportunities to pursue additional select acquisitions in the United Kingdom.

Management believes our focus on behavioral healthcare and history of completing acquisitions provides us with a strategic advantage in sourcing, evaluating and closing acquisitions. We leverage our management team s expertise to identify and integrate acquisitions based on a disciplined acquisition strategy that focuses on quality of service, return on investment and strategic benefits. We also have a comprehensive post-acquisition strategic plan to facilitate the integration of acquired facilities that includes improving facility operations, retaining and recruiting psychiatrists and other healthcare professionals and expanding the breadth of services offered by the facilities.

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*Drive organic growth of existing facilities*. We seek to increase revenue at our facilities by providing a broader range of services to new and existing patients and clients. In addition, management intends to increase bed counts in our existing facilities. During the year ended December 31, 2014, we acquired 27 facilities and added 378 new beds to our existing facilities. For the year ending December 31, 2015, we expect to add approximately 500 total beds to facilities we owned as of December 31, 2014. Furthermore, management believes that opportunities exist to leverage out-of-state referrals to increase volume and minimize payor concentration in the United States, especially with respect to our youth and adolescent focused services and our substance abuse services.

**Recent Developments**

On October 1, 2015, we completed the acquisition of Meadow View, an inpatient psychiatric facility with 28 beds located in England, for cash consideration of approximately $6.9 million.

On November 1, 2015, we completed the acquisitions of (i) Discovery House-Group, Inc., or Discovery House, for cash consideration of approximately $118.5 million, (ii) Duffy s Napa Valley Rehab, or Duffy s, for cash consideration of approximately $29.6 million and (iii) Cleveland House for approximately $10.2 million. Discovery House operates 19 comprehensive treatment centers located in four states. Duffy s is a substance abuse facility with 61 beds located in Calistoga, California. Cleveland House is an inpatient psychiatric facility with 32 beds located in England.

On November 1, 2015, we redeemed all of the outstanding $9.2 million principal amount of the 12.875% Senior Notes due 2018, or the 12.875% Senior Notes. As a result of this redemption, both the 12.875% Senior Notes and the indenture governing the 12.875% Senior Notes were satisfied and discharged in accordance with their terms.

On December 1, 2015, we completed the acquisition of certain facilities from MMO Behavioral Health Systems, including two acute inpatient behavioral health facilities with a total of 80 beds located in Jennings and Covington, Louisiana, for cash consideration of approximately $20.0 million.

We funded the approximately $194.4 million of cash used for these purposes from cash on hand and additional borrowings under our senior secured revolving line of credit.

**Company Information**

Acadia Healthcare Company, Inc. is a Delaware corporation. On May 13, 2011, we converted from a Delaware limited liability company (Acadia Healthcare Company, LLC) to a Delaware corporation (Acadia Healthcare Company, Inc.) in accordance with Delaware law. Our principal executive offices are located at 6100 Tower Circle, Suite 1000, Franklin, Tennessee 37067. Our telephone number is (615) 861-6000. Our website is *www.acadiahealthcare.com*. The information contained on our website is not part of this prospectus supplement or the accompanying prospectus and is not incorporated in this prospectus supplement, the accompanying prospectus or any other document that we file with the SEC by reference.

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**The Offering**

| | |
|---|---|
| Common stock offered | 10,000,000 shares |
| Underwriters option to purchase additional shares | 1,500,000 shares |
| Common stock outstanding after this offering | 81,689,268 shares (assuming no exercise of the underwriters option to purchase additional shares and not reflecting the issuance of 5,363,000 shares (subject to adjustment pursuant to the Purchase Agreement) issuable to Advent in connection with the Acquisition) |
| Use of proceeds | We estimate that the net proceeds to us from this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately $607.5 million, based on the assumed public offering price of $63.00 per share, which was a recent price of our common stock as reported on The NASDAQ Global Select Market. We plan to use the proceeds from this offering to pay a portion of the purchase price for the Acquisition and fees and expenses related to the Transactions, and otherwise for general corporate purposes. See Use of Proceeds elsewhere in this prospectus supplement. We anticipate using any proceeds from the underwriters exercise of their option to purchase additional shares to either reduce the equity consideration component of the Acquisition purchase price or reduce debt we would otherwise incur to finance the Acquisition. |
| Risk factors | You should carefully consider the risk factors set forth in the section entitled Risk Factors of this prospectus supplement, in the accompanying prospectus, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 and in our other reports that we file with the SEC, which are incorporated by reference in this prospectus supplement, before making any decision to invest in our common stock. |
| Symbol for trading on The NASDAQ Global Select Market | ACHC |

Unless otherwise indicated, all information in this prospectus supplement relating to the number of shares of our common stock outstanding immediately after the closing of this offering is based on 71,689,268 shares outstanding as of December 31, 2015, and:

- gives effect to the issuance of 10,000,000 shares of our common stock to be sold by us in this offering and the issuance of 5,363,000 shares to Advent under the Purchase Agreement (which number of shares is subject to adjustment under certain circumstances as set forth in the Purchase Agreement);
- assumes that the underwriters do not exercise their option to purchase up to 1,500,000 additional shares of our common stock from us; and

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excludes:

- 695,743 shares issuable upon exercise of stock options outstanding as of December 31, 2015 at a weighted average exercise price of $42.86 per share;

- 218,084 shares issuable upon the vesting of restricted units outstanding as of December 31, 2015; and

- an aggregate of 1,924,522 shares reserved for future grants under our Incentive Compensation Plan as of December 31, 2015.

For additional information regarding our common stock, see Description of Common Stock in the accompanying prospectus.

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**Summary Historical Condensed Consolidated Financial Data and**

**Unaudited Pro Forma Condensed Combined Financial Data**

The table below sets forth:

- our summary historical condensed consolidated financial data for the periods ended and at the dates indicated; and
- the unaudited pro forma condensed combined financial data for Acadia giving effect to Acadia s planned acquisition of Priory on February 16, 2016, other acquisitions completed by Acadia, including Acadia s acquisition of CRC and Partnerships in Care, this offering of common stock and the other Financing Transactions described in this prospectus supplement.

We have derived the historical condensed consolidated financial data for each of the three years in the period ended December 31, 2014 from our audited consolidated financial statements incorporated by reference in this prospectus supplement from our Annual Report on Form 10-K for the year ended December 31, 2014. We have derived the summary condensed consolidated financial data as of and for the nine months ended September 30, 2015 and 2014 from our unaudited interim condensed consolidated financial statements incorporated by reference in this prospectus supplement from our Quarterly Report on Form 10-Q for the nine months ended September 30, 2015 and 2014. The unaudited financial statements were prepared on a basis consistent with our audited financial statements and include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the financial information in those statements. The results for the nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the entire fiscal year.

The summary unaudited pro forma condensed combined financial information below for the year ended December 31, 2014, for the nine months ended September 30, 2015 and for the twelve months ended September 30, 2015 gives pro forma effect, in each case as if they occurred on January 1, 2014, to Acadia s planned acquisition of Priory, acquisitions completed by Acadia, including Acadia s acquisition of CRC and Partnerships in Care, the offering of common stock described in this prospectus supplement and the planned debt financing transactions. With respect to this offering, the unaudited pro forma condensed combined financial data is based on the assumption that we are offering 10,000,000 shares of common stock at an assumed public offering price of $63.00 per share, which was a recent price of our common stock as reported on The NASDAQ Global Select Market.

The financial data for the twelve months ended September 30, 2015 has been derived by adding our results for the nine months ended September 30, 2015 to our results for year ended December 31, 2014, and then deducting from such amounts our results for the nine months ended September 30, 2014.

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The summary historical condensed consolidated financial data below should be read in conjunction with Unaudited Pro Forma Condensed Combined Financial Information in this prospectus supplement and the consolidated financial statements and the notes thereto of Acadia, Priory, Partnerships in Care and CRC included in, or incorporated by reference into, this prospectus supplement.

| | Year Ended December 31, | | | Pro Forma Year Ended | Pro Forma Nine Months Ended | | Pro Forma Twelve Months Ended | Pro Forma Twelve Months Ended |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | December 31, 2014 (Unaudited) | September 30, 2014 (Unaudited) | 2015 (Unaudited) | September 30, 2015 (Unaudited) | September 30, 2015 (Unaudited) |
| | | | | (In thousands) | | | | |
| **Income Statement Data:** | | | | | | | | |
| Revenue before provision for doubtful accounts | $ 413,850 | $ 735,109 | $ 1,030,784 | $ 2,751,107 | $ 2,055,807 | $ 2,152,204 | $ 1,625,702 | $ 2,847,504 |
| Provision for doubtful accounts | (6,389) | (21,701) | (26,183) | (35,782) | (27,133) | (27,804) | (31,628) | (36,453) |
| Revenue | 407,461 | 713,408 | 1,004,601 | 2,715,325 | 2,028,674 | 2,124,400 | 1,594,074 | 2,811,051 |
| Salaries, wages and benefits(1) | 239,639 | 407,962 | 575,412 | 1,527,838 | 1,136,209 | 1,183,849 | 874,315 | 1,575,478 |
| Professional fees | 19,019 | 37,171 | 52,482 | 137,596 | 101,274 | 116,102 | 99,546 | 152,424 |
| Other operating expenses | 70,111 | 128,190 | 171,277 | 445,927 | 328,635 | 380,315 | 278,463 | 497,607 |
| Depreciation and amortization | 7,982 | 17,090 | 32,667 | 135,292 | 101,658 | 101,318 | 55,891 | 134,952 |
| Interest expense, net | 29,769 | 37,250 | 48,221 | 199,440 | 149,258 | 150,794 | 92,648 | 200,976 |
| Provision for doubtful accounts | | | | | | | | |
| Debt extinguishment costs | | 9,350 | | 37,957 | 11,622 | 9,979 | 9,979 | 36,314 |
| Gain on foreign currency derivatives | | | (15,262) | | | | 1,926 | |
| Transaction-related expenses | 8,112 | 7,150 | 13,650 | | | | 34,231 | |
| Goodwill and asset impairments | | | | 1,089 | 1,089 | | | |
| Income from continuing operations, before income taxes | 32,829 | 69,245 | 126,154 | 230,186 | 198,929 | 182,043 | 147,075 | 213,300 |
| Income tax provisions | 12,325 | 25,975 | 42,922 | 57,547 | 49,732 | 45,511 | 47,333 | 53,326 |
| Income from continuing operations | 20,504 | 43,270 | 83,232 | 172,639 | 149,197 | 136,532 | 99,742 | 159,974 |
| Income (loss) from discontinued operations, net of income taxes | (101) | (691) | (192) | (4,663) | (6,622) | 6 | (89) | 1,965 |
| Net income | 20,403 | 42,579 | 83,040 | 167,976 | 142,575 | 136,538 | 99,653 | 161,939 |
| Net loss attributable to noncontrolling interests | | | | | | 464 | 464 | 464 |
| Net income attributable to Acadia Healthcare Company, Inc. | $ 20,403 | $ 42,579 | $ 83,040 | $ 167,976 | $ 142,575 | $ 137,002 | $ 100,117 | $ 162,403 |
| **Other Financial Data:** | | | | | | | | |
| EBITDA(2) | | | | $ 564,918 | $ 449,845 | $ 434,155 | $ 295,614 | $ 549,228 |
| Adjusted EBITDA(3) | | | | $ 660,657 | $ 492,381 | $ 498,266 | $ 359,409 | $ 666,542 |

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| | As of September 30, 2015 | |
|---|---|---|
| | Actual | As Adjusted |
| | (Unaudited) | |
| | (In thousands) | |
| **Unaudited As Adjusted Condensed Combined Balance Sheet Data** | | |
| Cash and cash equivalents | $ 50,762 | $ 39,485 |
| Total assets | 4,145,239 | 6,981,545 |
| Total debt | 2,134,313 | 3,628,212 |
| Total stockholders equity | $ 1,670,552 | $ 2,600,421 |

(1) Salaries, wages and benefits include equity-based compensation expense of $2.3 million, $5.2 million and $10.1 million for the years ended December 31, 2012, 2013 and 2014, respectively.

(2) EBITDA and adjusted EBITDA are reconciled to net income (loss) in the table below. EBITDA and adjusted EBITDA are financial measures not recognized under GAAP. When presenting non-GAAP financial measures, we are required to reconcile the non-GAAP financial measures with the most directly comparable GAAP financial measure or measures. We define EBITDA as net income (loss) adjusted for loss (income) from discontinued operations, net interest expense, income tax provision (benefit) and depreciation and amortization. We define adjusted EBITDA as EBITDA adjusted for equity-based compensation expense, debt extinguishment costs, transaction-related expenses and other non-recurring costs. See the table and related footnotes below for additional information.

(3) We present adjusted EBITDA because it is a measure management uses to assess financial performance. We believe that companies in our industry use measures of EBITDA as common performance measurements. We also believe that securities analysts, investors and other interested parties frequently use measures of EBITDA as financial performance measures and as indicators of ability to service debt obligations. While providing useful information, measures of EBITDA, including adjusted EBITDA, should not be considered in isolation or as a substitute for consolidated statement of operations and cash flows data prepared in accordance with GAAP and should not be construed as an indication of a company s operating performance or as a measure of liquidity. Adjusted EBITDA may have material limitations as a performance measure because it excludes items that are necessary elements of our costs and operations. In addition, EBITDA, Adjusted EBITDA or similar measures presented by other companies may not be comparable to our presentation, because each company may define these terms differently. See Non-GAAP Financial Measures.

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| | Pro Forma Year Ended December 31, 2014 (Unaudited) | Pro Forma Nine Months Ended September 30, 2014 (Unaudited) | Pro Forma Nine Months Ended September 30, 2015 (Unaudited) | Pro Forma Twelve Months Ended September 30, 2015 | Pro Forma Twelve Months Ended September 30, 2015 (Unaudited) |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **Reconciliation of Income from Continuing Operations to Adjusted EBITDA:** | | | | | |
| Income from continuing operations | $ 172,639 | $ 149,197 | $ 136,532 | $ 99,742 | $ 159,974 |
| Interest expense, net | 199,440 | 149,258 | 150,794 | 92,648 | 200,976 |
| Income tax provision | 57,547 | 49,732 | 45,511 | 47,333 | 53,326 |
| Depreciation and amortization | 135,292 | 101,658 | 101,318 | 55,891 | 134,952 |
| EBITDA | $ 564,918 | $ 449,845 | $ 434,155 | $ 295,614 | $ 549,228 |
| *Adjustments:* | | | | | |
| Equity based compensation(a) | $ 24,304 | $ 8,919 | $ 20,726 | $ 17,659 | $ 36,111 |
| Transaction cost(b) | | | | 34,231 | |
| Debt Extinguishment costs(c) | 37,957 | 11,622 | 9,979 | 9,979 | 36,314 |
| Gain on foreign currency derivative(d) | | | | 1,926 | |
| Management fee(e) | 2,270 | 1,770 | 226 | | 726 |
| Goodwill and asset impairment(f) | 1,089 | 1,089 | | | |
| (Gain) loss on asset disposals(g) | (11,547) | (10,840) | 2,512 | | 1,805 |
| Legal settlement costs(h) | 146 | 146 | | | |
| Priory reorganization costs(i) | 12,575 | 9,445 | 4,670 | | 7,800 |
| Priory non-cash rent expense(j) | 4,696 | 3,569 | 2,948 | | 4,075 |
| Effect of Priory sale-leaseback transaction(k) | (18,878) | (16,301) | | | (2,577) |
| Pro forma effect of Priory acquisitions(l) | 6,548 | 5,288 | 1,197 | | 2,457 |
| Restructuring savings(m) | 1,069 | 1,069 | | | |
| Habit acquisition synergies(n) | 510 | 510 | | | |
| CRC acquisition synergies(o) | 15,000 | 11,250 | 6,853 | | 10,603 |
| Priory acquisition synergies(p) | 20,000 | 15,000 | 15,000 | | 20,000 |
| Adjusted EBITDA | $ 660,657 | $ 492,381 | $ 498,266 | $ 359,409 | $ 666,542 |

(a) Represents the equity based compensation expense of Acadia of $10,058, $6,975, $14,576 and $17,659 and CRC of $14,246, $1,944, $6,150 and $18,452 for the pro forma year ended December 31, 2014, the pro forma nine months ended September 30, 2014 and 2015, and the pro forma twelve months ended September 30, 2015.

(b) Represents transaction related expenses for Acadia of $34,231 for the twelve months ended September 30, 2015.

(c) Represents debt extinguishment costs of $9,979 for Acadia related to its September 2015 repayment of $88,300 of its $97,500 of 12.875% senior unsecured notes, the remaining $9,200 was repaid on November 1, 2015, $11,622 for CRC related to its March 2014 debt refinancing transaction, and $26,335 for Priory related to its November 2014 repayment of £244.7 million of its 7.000% senior unsecured notes.

(d) Represents the change in fair value of foreign currency derivatives purchased by Acadia related to its United Kingdom acquisitions that occurred on April 1 and June 1, 2015.

(e) Represents management fees paid by CRC to its private equity investor that were eliminated in connection with the acquisition of CRC.

(f) Represents non-cash impairment of goodwill and other long-lived assets recorded by CRC.

(g) Represents gains and losses on disposals of assets as follows:

i. For CRC, (gains) losses of $1,546 ($1,560 of losses and $13 of gains), $594 ($607 of losses and $13 of gains), $22 and $974 for the pro forma year ended December 31, 2014, the pro forma nine months ended September 30, 2014 and 2015, and the pro forma twelve months ended September 30, 2015.

ii. For Priory, (gains) losses of $(13,093), $(11,434), $2,490 and $831 for the pro forma year ended December 31, 2014, the pro forma nine months ended September 30, 2014 and 2015, and the pro forma twelve months ended September 30, 2015.

(h)

Represents legal settlement costs and legal fees incurred by CRC primarily related to the investigation by the Office of the Attorney General of the State of Tennessee at its New Life Lodge facility. Costs and expected settlement amounts were accrued in 2013 and the settlement was finalized and paid in April 2014.

(i) Represents restructuring costs, including severance and site closure costs, and legal and professional costs incurred by Priory of $12,575, $9,445, $4,670 and $7,800 for the pro forma year ended December 31, 2014, the pro forma nine months ended September 30, 2014 and 2015, and the pro forma twelve months ended September 30, 2015.

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(j) Represents non-cash rent expense incurred by Priory for the respective periods.

(k) Represents the pro forma rent expense associated with Priory s sale-leaseback of six of its properties on November 15, 2014, as if the transaction occurred on January 1, 2014.

(l) Represents the pro forma effect of Priory s acquisition of Castlecare on November 28, 2014 and Life Works on September 17, 2015, as if the acquisitions occurred on January 1, 2014.

(m) Represents the cost savings associated with CRC s restructuring of its corporate office in the first quarter of 2014 and the restructuring of its youth services in 2014 as if the restructuring occurred on January 1, 2014. These cost savings synergies related primarily to headcount reductions in youth programs as well as to the reduction of other corporate overhead expenses. These cost savings have been fully reflected in our historical results for the nine months ended September 30, 2015, the twelve month period ended September 30, 2015 and the pro forma twelve month period ended September 30, 2015, and, accordingly, no adjustment is presented in any of these periods.

(n) Represents the cost savings synergies associated with CRC s acquisition of Habit of $510, which is reflected as an adjustment for the period prior to the March 1, 2014 acquisition date and pro-rated for the year ended December 31, 2014 and the nine months ended September 30, 2014. These cost savings have been fully reflected in our historical results for the twelve month period ended September 30, 2015 and, accordingly, no adjustment is presented in this periods.

(o) Represents the pro forma effect of cost savings synergies associated with our acquisition of CRC of approximately $15,000 on a pro forma basis for the year ended December 31, 2014 and pro-rated for the nine months ended September 30, 2014. For the pro forma nine months ended September 30, 2015, the amount represents the amount of cost savings on a pro forma basis for the nine months ended September 30, 2015 less actual savings realized and reflected in Acadia s historical financial statements for the pro forma nine months ended September 30, 2015. The CRC cost savings synergies relate primarily to headcount reductions as well as to the reduction in certain professional and outside service fees across various departments and other general and administrative expenses and are expected to be fully realized by the first quarter of 2017. The actual relative proportions of synergies achieved through workforce reductions and non-headcount savings could differ materially from these estimates. Actual cost savings, the costs required to realize the cost savings and the source of the cost savings could differ materially from these estimates, and we cannot assure you that we will achieve the full amount of cost savings on the schedule anticipated or at all. See Risk Factors Risks of the Combined Company Upon Completion of the Acquisition We made certain assumptions relating to the Partnerships in Care and CRC acquisitions in our forecasts that may prove to be materially inaccurate.

(p) Represents the pro forma effect of cost savings synergies associated with our acquisition of Priory of approximately $20,000 on a pro forma annualized basis. We anticipate that we will incur approximately $3,000 in severance and other costs to achieve these synergies. We expect to incur a majority of these costs during the year ending December 31, 2016, and we expect to realize these cost savings synergies over the 24 month period following completion of the acquisition. These cost savings synergies relate primarily to headcount reductions as well as to the reduction in certain professional and outside services fees across various departments and other general and administrative expenses. The actual relative proportion of synergies achieved through workforce reductions and non-headcount savings could differ materially from these estimates. Actual cost savings, the costs required to realize the cost savings and the source of the cost savings could differ materially from these estimates, and we cannot assure you that we will achieve the full amount of cost savings on the schedule anticipated or at all. See Risk Factors Risks Relating to the Acquisition We have made certain assumptions relating to the Acquisition in our forecasts that may prove to be materially inaccurate, and we may be unable to achieve the related cost savings or synergies.

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## RISK FACTORS

*Investing in our common stock involves risks. Before making an investment in our common stock, you should carefully consider, among other factors, the risks described below and elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement. Please see the Special Note Regarding Forward-Looking Statements section of this prospectus supplement. Please also see the Risk Factors and Special Note Regarding Forward-Looking Statements sections of the accompanying prospectus and the risks described in the documents incorporated by reference in this prospectus supplement, including those identified under Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 and in our other filings that we make with the Securities and Exchange Commission. The risks described in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement are not the only ones we face. Additional risks not presently known or that we currently deem immaterial could also materially and adversely affect our financial condition, results of operations, business and prospects. You should consult your own financial and legal advisors as to the risks entailed by an investment in these shares and the suitability of investing in such shares in light of your particular circumstances. Our business, financial condition and results of operations could be materially adversely affected by the materialization of any of these risks. The trading price of our common stock could decline due to the materialization of any of these risks, and you may lose all or part of your investment.*

### Risks Relating to the Acquisition

***We may be unable to complete our planned acquisition of Priory on currently anticipated terms, or at all. Failure to consummate the Acquisition could negatively affect us.***

On December 31, 2015, we entered into a binding purchase agreement to acquire the entire issued share capital of Priory. Subject to certain exceptions, the Purchase Agreement provides that the Acquisition will close on February 16, 2016. In accordance with the terms of the Purchase Agreement, at closing (i) we will issue an aggregate of 5,363,000 shares of our common stock to Advent, subject to adjustment as provided in the Purchase Agreement, including a potential increase depending upon the pricing of this offering, and (ii) the Purchaser will pay cash consideration of approximately £1.275 billion, including approximately £925 million to be used to repay the outstanding balances of the Priory debt facilities. We plan to finance the Acquisition in part through this offering, in part through borrowings under our Amended and Restated Senior Credit Facility, in part through the New Senior Notes or the Bridge Notes and in part through the issuance of 5,363,000 shares of our common stock, subject to adjustment, as we do not currently have sufficient available cash to finance the Acquisition, including through committed capacity under our Amended and Restated Senior Credit Facility.

The equity consideration payable to Advent is subject to adjustment under certain circumstances set forth in the Purchase Agreement, including being subject to increase depending on our stock price through, and including, the pricing of this offering. If we do issue such additional shares, that would result in further dilution to our stockholders.

Review of the Acquisition by the Competition and Markets Authority, or CMA, may not be completed or commenced prior to closing of the Acquisition. The Purchase Agreement provides that if the CMA imposes any order, undertaking or obligation that restricts or prohibits the closing of the Acquisition, then we are required to take reasonably necessary steps to obtain clearance from the CMA in respect of the Acquisition, including making or agreeing to make divestments from parts of Priory s and/or our respective businesses prior to the closing of the Acquisition. In addition, if any such order, undertaking or obligation remains in place one business day prior to the scheduled closing date, then either we or Advent may elect to terminate the Purchase Agreement. Lastly, we may be required by the CMA to make divestments after closing of the Acquisition, and no assurance can be given in this regard.

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The current market price of our common stock may reflect a market assumption that the Acquisition will occur. However, if we are not able to complete this offering on currently anticipated terms or we otherwise are not able to close the anticipated financing transactions mentioned above, or we do not obtain the required regulatory approval from the CMA or the CMA requires divestments of our or Priory s business, we may be unable to successfully complete the Acquisition on time, or at all, or on the currently anticipated terms, any of which could have a material adverse effect on our results of operations, financial condition and the trading price of our common stock.

***Following the Acquisition, we will have a very limited number of authorized but unissued shares of common stock, and we anticipate that we will need to increase the number of authorized shares of our common stock.***

Under our amended and restated certificate of incorporation, we have the authority to issue 90,000,000 shares of common stock. As of December 31, 2015, we had 71,689,268 shares of common stock issued and outstanding, and had an aggregate of 1,924,522 shares reserved for future grants under our Incentive Compensation Plan. As a result of the Acquisition, we plan on issuing the shares of our common stock in this offering and an additional 5,363,000 shares of our common stock, subject to increase as provided in the Purchase Agreement, to Advent, and we will not have many shares of common stock available for future issuance.

In order to implement future issuances of our common stock in connection with other acquisitions, financing transactions and other strategic transactions as well as pursuant to our Incentive Compensation Plan, we anticipate that we will need to amend our amended and restated certificate of incorporation to increase the number of authorized shares of common stock. Any such amendment will require approval from our Board of Directors and the holders of a majority of our outstanding common stock. We cannot provide any assurance that we will be able to obtain the required stockholder approval. If our stockholders do not approve an increase in our authorized common shares, our ability to use our shares to finance acquisitions and to raise additional capital in the future will be limited and, as result, would impair our financial flexibility, including our liquidity needs and our ability to repay our debt obligations when they mature, execute our business plan, make future acquisitions, and fund operations, any of which would have a material adverse effect on our business, results of operations, financial condition or prospects.

***If we are unable to successfully integrate Priory into our business following the Acquisition and completion of competition review, our business, financial condition and results of operations may be negatively impacted.***

Upon the closing of the Acquisition and completion of the CMA review, we intend to integrate Priory s business into our current business. Successful integration will depend on our ability to effect any required changes in operations or personnel which may entail unforeseen liabilities. The integration of Priory may expose us to certain risks, including the following: difficulty in integrating Priory in a cost-effective manner; difficulty or delay in the establishment of effective management information and financial control systems, unforeseen legal, regulatory, contractual, employment or other issues arising out of the combination; combining corporate cultures; maintaining employee morale and retaining key employees; potential disruptions to our on-going business caused by our senior management s focus on integrating Priory; and performance of the combined assets not meeting our expectations or plans. A failure to properly integrate Priory could have a corresponding material adverse effect on our business, results of operations, financial condition or prospects.

***We have made certain assumptions relating to the Acquisition in our forecasts that may prove to be materially inaccurate, and we may be unable to achieve the related cost savings or synergies.***

We have made certain assumptions relating to the forecast level of cost savings, synergies and associated costs of the Acquisition. Our assumptions relating to the forecast level of cost savings, synergies and associated costs of the Acquisition may be inaccurate based on the information available to us, including as the result of the failure to realize the expected benefits of the Acquisition, higher than expected transaction and integration costs and unknown liabilities as well as general economic and business conditions that may adversely

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affect the combined company following the completion of the Acquisition. The anticipated cost savings related to the Acquisition are based upon assumptions about our ability to implement integration measures in a timely fashion and within certain cost parameters. Our ability to achieve the planned cost synergies is dependent upon a significant number of factors, some of which may be beyond our control. For example, we may be unable to eliminate duplicative costs and redundancies in a timely fashion or at all. Other factors that could cause us not to realize the expected cost savings and synergies, include but are not limited to, the following: higher than expected severance costs related to workforce reductions; higher than expected retention costs for employees that will be retained; inability to reduce or eliminate fees relating to professional, outside services and other redundant contracted services in a timely manner or at all; delays in the anticipated timing of activities related to our cost-saving plan including in the reduction of other general and administrative expenses; and other unexpected costs associated with operating our business. In addition, Priory operated at a net loss for the year ended December 31, 2014 and for the nine months ended September 30, 2015, which may impact our ability to achieve synergies and profitability from the Acquisition in the near term. Actual cost savings, the costs required to realize the cost savings and the assumptions underlying the cost savings could differ materially from our current expectations, and we cannot assure you that we will achieve the full amount of cost savings on the schedule anticipated or at all.

***Our acquisition of the capital shares of Priory may expose us to unknown or contingent liabilities for which we will not be indemnified.***

We are acquiring the capital shares of Priory. Priory and its subsidiaries may have unknown or contingent liabilities, including, but not limited to, liabilities for uncertain tax positions, for failure to comply with healthcare laws and regulations and for regulatory reviews or unresolved litigation, including pending matters relating to corporate manslaughter at one Priory facility and other potential significant charges relating to Priory s operations. Although we typically attempt to exclude significant liabilities from our acquisition transactions and seek indemnification from sellers, the purchase agreement with Priory contains minimal representations and warranties about the entities and business that we are acquiring. In addition, we have no indemnification rights against the sellers under the purchase agreement and all of the purchase price consideration will be paid at closing of the Acquisition. Therefore, we may incur material liabilities for the past activities of acquired entities and facilities. Such liabilities and related legal or other costs and/or resulting damage to a facility s reputation could negatively impact our business, financial condition or results of operations.

***The majority of Priory s revenues are not guaranteed, being generated either from spot purchasing or under block or framework agreements where no volume commitments are given and there can be no assurance that Priory can achieve any fee rate increases in the future or will not suffer any fee rate decreases.***

Any decline in demand for Priory s services from publicly funded entities or private payers or any failure by Priory to extend current agreements or enter into alternative agreements on comparable terms with such entities could have an adverse effect on Priory s average daily census, or ADC, which would have a corresponding negative impact on our or Priory s business, results of operations and financial condition. Further, there can be no assurances that Priory will be able to implement fee rate increases, which are a driver of Priory s revenues, or not suffer from any decline in fee rates in the future. Should the effect of any increase in Priory s annual wages or other operating costs of the business exceed the effect of any increase in Priory s fee rates or should Priory s fee rates suffer a decline, Priory would have to absorb any costs that cannot be offset by its fees, which could have a negative impact on our business, results of operations and financial condition.

*Publicly funded entities*

A significant portion of Priory s services funded by United Kingdom publicly funded entities are commissioned on a spot-purchase basis at prices determined by prevailing market conditions. It is generally a matter for the relevant commissioner to determine whether to use Priory s services, and there is no guarantee that

previous spot market purchasing activity by a commissioner will continue in the future or at all. Priory also has a number of fixed-term framework agreements which grant it preferred provider status with local authorities in the United Kingdom, which we refer to as Local Authorities, or the NHS typically lasting between one to three years. While pricing is typically agreed for 12 months and discounts are given in relation to the number of beds purchased, no minimum purchasing commitments are given by commissioners under such agreements. As such, commissioners may decide to place existing and new service users with Priory s competitors, including their own in-house service providers, on short notice. Priory also has a small number of fixed-period block contracts, where a set number of beds are paid for at a discount to spot prices regardless of occupancy. As a result, should spot rates for Priory s services increase, Priory would remain tied to the discounted rate, which could have an adverse effect on Priory s results.

The rates that Priory charges publicly-funded entities for its services are negotiated individually with commissioners and are generally subject to annual adjustments on April 1 of each year, historically increasing by reference to the Retail Prices Index, or RPI, or Consumer Prices Index, or CPI, and sector specific wage indices. However, the current economic climate and the United Kingdom government s overriding economic policy to reduce the budget deficit means that, in the short term at least, commissioners may require that efficiency savings be made and that fees reflect local and national budget requirements. As a result, there can be no assurance that Priory can maintain the payment terms of its arrangements with publicly funded entities, including with respect to the timing of payments.

Further, following expiration of contracts there can be no assurance that negotiations with commissioners will result in the extension or renewal of existing arrangements or the entering into of alternative arrangements for those services. In addition, changing commissioning structures and practices, such as those under the Health and Social Care Act 2012, may involve tendering processes which may result in Priory failing to remain or become an approved provider. Commissioners may also require that following the expiry date of current agreements with Priory, they contract with Priory on a spot basis rather than through a block arrangement or reduce the number of beds subject to block arrangements. Even if Priory is successful in extending current agreements or in entering into alternative arrangements, the duration of such extensions or arrangements is uncertain, and Priory may be unsuccessful in implementing rate increases under such agreements.

*Private payers*

Although Priory has agreements in place with a number of private medical insurance, or PMI, providers where pricing is generally agreed annually, there is no obligation on the PMI provider to refer its members to Priory or to pay for its members to use Priory s services. Further, Priory may not be able to renew its existing arrangements with PMI providers on terms comparable to what it has achieved in the past. Fee rates for self-paying individuals are adjusted on January 1 of each year depending on capacity and demand in the relevant service markets. Fees paid or reimbursed by PMI providers are typically adjusted in line with specific contract terms and are generally based on RPI and specific wage indices. Demand in both the PMI market and the self-pay is dependent on economic conditions, which impacts the number of people with sufficient income or capital to pay for insurance coverage or treatment themselves.

***Structural shifts in the United Kingdom behavioral healthcare market may adversely affect Priory.***

*Publicly funded entities*

Payments for Priory s services by publicly funded entities in the United Kingdom, particularly the NHS and Local Authorities, accounted for 87% of Priory s revenues in the year ended December 31, 2014 and 86% in the year ended December 31, 2013. Further, 19% of Priory s revenues in the year ended December 31, 2014 was solely attributable to NHS England. Priory expects publicly funded entities in the United Kingdom to continue to generate the significant majority of its revenues. Budget constraints, public spending cuts or other financial pressures could cause such publicly funded entities to spend less money on the type of services that Priory

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provides, or political or United Kingdom government policy changes could mean that fewer of such services are purchased by publicly funded entities from independent sector providers, due to a shift in funding sources towards PMI or self-payment.

While the outsourcing by the NHS in England of healthcare services has been increasing in recent years, the need of the NHS in England to achieve substantial efficiency savings is likely to result in continued funding pressure in the pricing of such services. For instance, Monitor, the NHS economic regulator, has determined national tariffs across a range of NHS services and has issued extensive guidance on how they are to be applied, including provision for local variations to national tariffs, subject to approval by Monitor. While none of Priory s services are currently subject to national tariffs, the future application of any national tariff on Priory s services could have a material adverse impact on Priory s revenue.

In addition, the allocation of funding responsibility for adult social care will be subject to change over the next few years under the provisions of the 2014 Care Act under which individuals identified as being required to pay for their own care under the relevant means test will be required to take funding responsibility up to a specified lifetime monetary cap, with Local Authorities responsible for the remainder of expenses for personal care, excluding daily living expenses. This will potentially place greater funding responsibility with public sector bodies over the longer term, which will potentially exacerbate the current funding challenges faced by such bodies.

*Private payers*

Payments for Priory s services by PMI providers accounted for 4% of Priory s revenues in the year ended December 31, 2014, compared to 5% in the year ended December 31, 2013. In addition, payments for Priory s services by self-pay patients, who purchase treatment on a spot basis accounted for 9% of Priory s revenues in the year ended December 31, 2014, compared to 9% in the year ended December 31, 2013. Many of the patients who use Priory s acute healthcare services do so because their PMI provider recognizes Priory s facilities as being an appropriate provider of the psychiatric treatment services required by the patient. Priory s ability to attract patients who are funded by PMI providers could be adversely impacted if one or more PMI providers withdraws recognition status from Priory s facilities, for example, as a result of a change in a PMI provider s recognition status standards. In addition, many PMI providers have been changing the terms of their policies and shortening the length of time they will cover a stay at one of Priory s facilities.

There can be no assurance that the entities or individuals who fund Priory s services will not reduce or cease spending on the types of services that Priory provides or that alternative service or funding models for mental healthcare, learning disabilities care, specialist education or elderly care will not emerge. Any such funding or structural change in the markets where Priory operates could have a material adverse effect on Priory s ADC, which would have a corresponding negative impact on our business, results of operations and financial condition.

***Priory operates in a competitive environment and faces competition from other for-profit and not-for-profit entities, including the NHS, for patients and other service users as well as for appropriate sites on which to expand Priory s facilities.***

Priory faces current and prospective competition for patients and other service users from numerous local, regional and national providers of healthcare, social care and specialist education services, most notably the NHS. Priory also competes for suitable sites for development opportunities and for the acquisition of existing businesses or facilities. Some of Priory s competitors include public sector bodies such as foundation trusts that are not subject to the same economic pressures as commercial organizations, or entities that operate on a not-for-profit basis, or charitable organizations, each of which may have the ability to finance capital expenditures on a tax-exempt basis or through the receipt of charitable contributions, neither of which is available to Priory. Priory also faces competition from other for-profit entities, who may possess greater financial, marketing or research and development resources than Priory or may invest more funds in renovating their facilities or developing their

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technology. Failure by Priory to compete effectively with peers and competitors in the industry in which it operates could limit Priory s ability to attract and retain service users and expand its business, any of which could have a material adverse effect on our business, results of operations and financial condition.

***Priory is reliant upon maintaining strong relationships with commissioners employed by publicly funded entities, psychiatric and other medical consultants, and any reorganization of such publicly funded entities may result in the loss of those relationships.***

The relationships that Priory has with commissioners is a key driver of Priory s referrals. Referrals to our existing Partnerships in Care business by the NHS accounted for a significant percentage of its revenue for the year ended December 31, 2014 and the addition of Priory would increase our reliance on such referrals. Should there be a major reorganization of publicly funded entities, such as the NHS reorganization announced in 2010 and implemented between 2012 and 2013, Priory may need to rebuild such relationships which could result in a decrease in the number of referrals made to Priory s facilities, which could have a corresponding material adverse effect on our business, results of operations, financial condition or prospects. Any actual or perceived deterioration in service quality, any serious incidents at Priory s facilities or any other event that could cause commissioners to prefer other service providers over Priory could also adversely impact Priory s referrals from commissioners. Further, Priory s business also depends, in part, on psychiatric and other medical consultants referring their patients to Priory for treatment either as in-patients or day patients. From time to time, consultants may decide to relocate or reposition their practices, retire or refer patients elsewhere with the result that there is a decrease in the number of referrals made to Priory s facilities. A deterioration in relationships with commissioners or consultants or the decision by one or more commissioners or consultants to refer patients to Priory s competitors or to stop all referrals would have an adverse effect on Priory s ADC, which would have a corresponding negative impact on our business, results of operations and financial condition.

***Priory depends on its ability to attract, retain and train experienced and/or qualified staff.***

Priory competes with various providers, including the NHS and other employers, in attracting and retaining qualified management, medical, nursing, care and teaching personnel. Competition for such employees is growing and could lead to increases in Priory s personnel and recruiting costs, which would in turn adversely impact Priory s operating costs and margins. Competitors, in particular the NHS, may offer more attractive wages, pension plans or other benefits than Priory and Priory may not be able to provide similar offerings to its prospective employees as a result of cost or other reasons.

The United Kingdom behavioral healthcare market has been and is currently experiencing a national shortage of nurses, which Priory believes has led to increased competition in the market and higher costs in connection with the recruitment, training and retention of qualified nurses. Further, because Priory generally recruits its personnel from the local area where the relevant facility is located, the availability in certain areas of suitably qualified personnel can be limited, particularly care home management, qualified teaching personnel and nurses. Further, failure to retain an adequate amount of Priory s existing staff would increase its operating costs and impact the quality of the services Priory provides as Priory spends substantial financial resources and time in training its staff. Priory s development could be hampered by any staff shortage and the quality of its services could be adversely affected. Failure to find or train qualified personnel at reasonable wages could have a material adverse effect on our business, results of operations and financial condition.

***Priory s operating costs are subject to increases, including due to statutorily mandated increases in the wages and salaries of Priory s staff.***

Priory s most significant operating expense is wage costs, which represent the staff costs incurred in providing Priory s services and running its facilities, and which are primarily driven by the number of employees and pay rates. The number of employees employed by Priory is primarily linked to the number of facilities operated and the number of individuals cared for by Priory. While Priory can reduce the number of employees should occupancy rates decrease at its facilities, there is a limit on the extent to which this can be done without

impacting quality of Priory s services. Furthermore, in July 2015, a new National Living Wage was announced that will be introduced across the United Kingdom as the National Minimum Wage in April 2016 and this will increase Priory s operating costs and, unless Priory can increase revenues or reduce other costs, will reduce its margins. Our existing Partnerships in Care business would be similarly affected. Priory also has a number of recurring costs including insurance, utilities and rental costs, and may face increases to other recurring costs such as regulatory compliance costs as a result of changes to Priory s regulatory environment. There can be no assurance that any of Priory s recurring costs will not grow at a faster rate than Priory s revenue. As a result, any increase in Priory s operating costs could have a material adverse effect on our business, results of operations and financial condition.

***Priory s management team is critical to Priory s continued performance.***

Priory relies on the members of its senior management team and, in particular, their relationships with and their understanding of the requirements of the relevant regulatory authorities in Priory s industry and the publicly funded entities with whom it contracts to provide its services. Priory has put in place policies and remuneration designed to retain and incentivize management; however, there can be no assurance that Priory will be able to retain senior management or to find suitable replacements should they leave. Although the Priory management team is expected to remain with the company following closing of the Acquisition, if senior management were to leave or if a critical member of the senior management team were to leave unexpectedly, it could have a material adverse effect on Priory s business, results of operations and financial condition, which could have a corresponding material adverse effect on our business, results of operations, financial condition or prospects.

***Priory operates in a highly regulated business environment, and predicting regulatory changes or developments is difficult. Failure to comply with regulations to which Priory is subject could lead to substantial penalties, including the loss of registration of some or all of Priory s facilities.***

Priory s business, like our existing Partnerships in Care business, is subject to a high level of regulation and supervision, ranging from the initial establishment of new facilities, which are subject to registration and licensing requirements, to the recruitment and appointment of staff, occupational health and safety, duty of care to service users, clinical and educational standards, conduct of Priory s professional and support staff, the environment, public health and other areas. The regulatory requirements differ across Priory s divisions, though almost all of its activities in England in relation to mental healthcare, elderly care and learning disability care are regulated by the Care Quality Commission, or CQC, and in Scotland, Wales and Northern Ireland, its local equivalent. In addition, Priory s children s homes, residential schools and colleges in England are regulated by the Office for Standards in Education, Children s Services and Skills, or OFSTED,, and in Scotland and Wales by their local equivalent, and all of Priory s schools must be licensed by the Department for Education. See Priory Business Regulatory Overview for further details on the key regulations to which Priory is subject.

Inspections by CQC, OFSTED, and other regulators can be carried out on both an announced and unannounced basis depending on the specific regulatory provisions relating to the different healthcare, social care and specialist education services Priory provides.

A failure to comply with regulations, the receipt of a poor rating or a lower rating, or the receipt of a negative report that leads to a determination of regulatory non-compliance or Priory s failure to cure any defect noted in an inspection report could result in reputational damage, fines, the revocation or suspension of the registration of any facility or service or a decrease in, or cessation of, the services provided by Priory at any given facility. Additionally, where placements are funded by Local Authorities, most Local Authorities monitor performance and where there are shortcomings may impose punitive measures. These can, for example, include the suspension of new placements (known in the industry as embargoes ) and, in extreme cases, removal of all residents placed by that authority, which in turn may affect the level of referrals from other publicly funded entities and Priory s occupancy levels.

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Furthermore, new regulations or regulatory bodies may be introduced in the future or existing regulations and regulatory bodies may be amended or replaced and Priory may not adapt to such changes quickly enough, or in a cost-efficient manner. For example, the United Kingdom government appointed Monitor as the new market regulator for healthcare providers in 2012 by way of a licensing regime. Any failure by Priory to comply with the licensing regime could result in Monitor revoking Priory s license, which would mean Priory would be unable to operate. In addition, such regulatory changes may preclude management from executing its business plan as intended, including the timing for new developments and openings.

We cannot guarantee that current laws, regulations and regulatory assessment methodologies will not be modified or replaced in the future. There can be no assurance that our or Priory s business, results of operations and financial condition will not be adversely affected by any future regulatory developments or that the cost of compliance with new regulations will not be material.

***Priory cares for a large number of vulnerable individuals with complex needs and any care quality deficiencies could adversely impact Priory s brand, its reputation and its ability to market its services effectively.***

Priory s future growth will partly depend on its ability to maintain its reputation for high quality services and, through successful sales and marketing activities, increased demand for its services. Factors such as health and safety incidents, problems at its facilities, regulatory enforcement actions, negative press or general customer dissatisfaction could lead to deterioration in the level of Priory s quality ratings or the public perception of the quality of Priory s services (including as a result of negative publicity about Priory s industry generally), which in turn could lead to a loss of patient placements, referrals and self-pay patients or service users. Any impairment of Priory s reputation, loss of goodwill or damage to the value of its brand name could have a material adverse effect on our business, results of operations and financial condition.

Many of Priory s service users have complex medical conditions or special needs, are vulnerable and often require a substantial level of care and supervision. There is a risk that one or more service users could be harmed by one or more of Priory s employees, either intentionally, through negligence or by accident. Further, individuals cared for by Priory have in the past engaged, and may in the future engage, in behavior that results in harm to themselves, Priory s employees or to one or more other individuals, including members of the public. A serious incident involving harm to one or more service users or other individuals could result in negative publicity. Furthermore, the damage to Priory s reputation or to the reputation of the relevant facility from any such incident could be exacerbated by any failure on Priory s part to respond effectively to such incident. While Priory maintains an electronic incident reporting system, which management actively reviews and against which responses are monitored, has implemented rigorous clinical, educational and other governance procedures, carries out substantial employee training, employee inductions and employment reference procedures, including a criminal background check, for all front line staff and deploys public relations resources to manage both positive and negative publicity, there can be no assurance that an event giving rise to significant negative publicity would not occur. Such negative publicity could have a material adverse effect on Priory s brand, its reputation and its ADC, which would have a corresponding negative impact on our business, results of operations and financial condition.

***Priory is and in the future may become involved in legal proceedings based on negligence or breach of a contractual or statutory duty from service users or their family members or from employees or former employees.***

From time to time, Priory is subject to complaints and claims from service users and their family members alleging professional negligence, medical malpractice or mistreatment. Priory is also subject to claims for unlawful detention from time to time when patients allege they should not have been detained under the Mental Health Act or where the appropriate procedures were not correctly followed.

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Similarly, there may be substantial claims from employees in respect of personal injuries sustained in the performance of their duties, particularly in respect of incidents involving patients detained under the Mental Health Act and where future employment prospects are impaired. Current or former employees may also make claims against Priory in relation to breaches of employment legislation.

Priory may also be involved in coroner s inquests (or the Scottish equivalent) where there is a fatality at one of Priory s units (such as pending matters relating to corporate manslaughter at one Priory facility) resulting in an adverse coroner s verdict or civil claims by individuals or criminal prosecutions by regulatory authorities. Any fines imposed by the courts are likely to be substantial in view of the Sentencing Council guidelines published in November 2015, which materially increase fines for corporate manslaughter and certain health and safety offences. There may also be safeguarding incidents at Priory s sites which, depending on the circumstances, may result in custodial sentences or other criminal sanctions for the member of staff involved.

The incurrence of any legal fees, damage awards or other fines as summarized above as well as any impact on Priory s brand or reputation as a result of being involved in any legal proceedings are likely to have a material adverse impact on our business, results of operations and financial condition.

***Priory handles sensitive personal data in the ordinary course of business and any failure to maintain the confidentiality of such data could result in legal liability and reputational harm.***

Priory processes and stores sensitive personal data as part of its business. In the event of a security breach, sensitive personal data could become public. Priory is currently not aware of any material incidences of potential data breach; however, there can be no assurance that such breaches will not arise in future. Although Priory has in place policies and procedures to prevent such breaches, breaches could occur either as a result of a breach by Priory or as a result of a breach by a third party to whom Priory has provided sensitive personal data, and as a result, Priory could face liability under data protection laws. Such liability may result in sanctions, including fines and/or may cause us to suffer damage to our or Priory s brand and reputation, which could have a material adverse effect on our business, results of operations and financial condition.

***Priory s insurance may be inadequate, premiums may increase and, if there is a significant deterioration in Priory s claims experience, insurance may not be available on acceptable terms.***

Priory maintains liability insurance intended to cover service user, third party and employee personal injury claims. Due to the structure of Priory s insurance program under which it carries a large self-insured retention, there may be substantial claims in respect of which the liability for damages and costs falls to Priory before being met by any insurance underwriter. There may also be claims in excess of Priory s insurance cover or claims which are not covered by its insurance due to other policy limitations or exclusions or where Priory has failed to comply with the terms of the policy. Furthermore, there can be no assurance that Priory will be able to obtain liability insurance cover in the future on acceptable terms, or without substantial premium increases or at all, particularly if there is a deterioration in Priory s claims experience history. A successful claim against Priory not covered by or in excess of its insurance cover could have a material adverse effect on our business, results of operations and financial condition.

***Foreign currency exchange rate fluctuations could materially impact our consolidated financial position and results of operations.***

The acquisition of Priory significantly expands our United Kingdom operations. Accordingly, an increased portion of our net revenues will be derived from operations in the United Kingdom, and we intend to translate sales and other results denominated in foreign currency into U.S. dollars for our consolidated financial statements. During periods of a strengthening U.S. dollar, our reported international sales and net earnings could be reduced because foreign currencies may translate into fewer U.S. dollars.

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In all jurisdictions in which we operate, we are also subject to laws and regulations that govern foreign investment, foreign trade and currency exchange transactions. These laws and regulations may limit our ability to repatriate cash as dividends or otherwise to the United States and may limit our ability to convert foreign currency cash flows into U.S. dollars.

***We will incur significant transaction and acquisition-related costs in connection with the Acquisition.***

We will incur substantial costs in connection with the Acquisition, including approximately $62.5 million in transaction-related expenses, including financing fees. In addition, we may incur additional costs to maintain employee morale and to retain key employees, and we will incur substantial fees and costs related to formulating and executing integration plans. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, should allow us to more than offset incremental transaction and acquisition-related costs over time, this net benefit may not be achieved in the near term, or at all.

***The pro forma financial statements are presented for illustrative purposes only and may not be an indication of the combined company s financial condition or results of operations following the Acquisition.***

The pro forma financial statements contained in, or incorporated by reference into, this prospectus are presented for illustrative purposes only and may not be an indication of the combined company s financial condition or results of operations following the Acquisition for several reasons. For example, the pro forma financial statements have been derived from our historical financial statements and Priory s, CRC s and Partnerships in Care s historical financial statements, and certain adjustments and assumptions have been made regarding the combined company after giving effect to the Acquisition. The information upon which these adjustments and assumptions have been made is preliminary, and these kinds of adjustments and assumptions are difficult to make with accuracy. Moreover, the actual financial condition and results of operations of the combined company following the Acquisition may not be consistent with, or evident from, these pro forma financial statements.

In addition, the assumptions used in preparing the pro forma financial data may not prove to be accurate, and other factors may affect the combined company s financial condition or results of operations following the Acquisition. Any potential decline in the combined company s financial condition or results of operations may cause significant variations in the trading price of the securities of the combined company. See the section entitled Unaudited Pro Forma Condensed Combined Financial Information.

***As part of the Acquisition, we will assume Priory s existing pension plans and will be responsible for ongoing funding requirements over which we have limited influence. In addition, we may be required to increase funding of these pension plans and/or be subject to restrictions on the use of excess cash.***

As a result of the Acquisition, we will assume four defined benefit pension plans and 17 defined contribution pension plans under which we will be obligated to make future contributions to fund benefits to participants. The contributions required to fund the defined benefit pension obligations are determined by the plan s actuary based on actuarial valuations, which themselves are based on assumptions and estimates about the long-term operation of the plan, including mortality rates of members, the performance of financial markets and interest rates. In addition, if the actual operation of the plan differs from the actuary s assumptions, additional contributions by us may be required. Benefits under the defined contribution pension plans are based on annual contributions as a proportion of earnings. The aggregate annual cost in 2014 under all Priory pension plans was approximately £4.7 million.

Our funding requirements under the defined benefit and defined contribution pension plans for future years are expected to increase from the current levels. Depending on our cash position at the time, any such funding, or contributions to, our pension plans could impact our operating flexibility and financial position, including adversely affecting our cash flow for the quarter in which they are made. In addition, changes to

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pension legislation in the United Kingdom may adversely affect our funding requirements. Maintenance of these 21 plans may result in additional expenses. Termination of these plans could have an adverse impact on employee relations and a material adverse effect on our business, results of operations, financial condition or prospects.

***Priory s ability to grow its business through organic expansion either by developing new facilities or by modifying existing facilities is dependent upon many factors.***

Priory s ability to grow its business is dependent on capacity and occupancy at its facilities. Priory s occupancy percentage was above 80% for the nine months ended September 30, 2015 and the years ended December 31, 2014 and 2013. Should Priory s facilities reach maximum occupancy, Priory may need to implement other growth strategies either by developing new facilities or by modifying existing facilities.

Priory s facilities typically need to be purpose-designed in order to enable the type and quality of service that Priory provides. Consequently, Priory must either develop sites to create facilities or purchase or lease existing facilities, which may require substantial modification. Priory must be able to identify suitable sites and there is no guarantee that such sites will be available at all, or at an economically viable cost or in areas of sufficient demand for Priory s services. The subsequent successful development and construction of a new facility is contingent upon, among other things, negotiation of construction contracts, regulatory permits and planning consents and satisfactory completion of construction. Similarly, Priory s ability to expand its current facilities is also dependent upon various factors, including identification of appropriate expansion projects, the obtaining of planning permissions, registering of both the expansion and the related healthcare services, financing of the expansion, integration of the expansion into its relationships with the NHS, Local Authorities, referring general practitioners, or GPs, and PMI providers and margin pressure as new facilities are filled with clients.

Delays caused by difficulties in respect of any of the above factors may lead to cost overruns and longer periods before a return is generated on an investment, if at all. Priory may incur significant capital expenditure but due to a regulatory, planning or other reason, may find that it is prevented from opening a new facility or modifying an existing facility. Moreover, even when incurring such development capital expenditure, there is no guarantee that commissioners will make referrals when beds become available. Upon operational commencement of a new facility, Priory typically expects that it will take approximately 12-18 months to reach its targeted occupancy level. Any delays or stoppages in Priory s projects, the unsatisfactory completion or construction of such projects or the failure of such projects to increase Priory s occupancy levels could have a material adverse effect on Priory s ADC, which would have a corresponding negative impact on our business, results of operations and financial condition.

***Priory may fail to deal with clinical waste in accordance with applicable regulations or otherwise be in breach of relevant medical, health and safety or environmental laws and regulations.***

As part of Priory s normal business activities, it produces and stores clinical waste, in particular in relation to its Healthcare and Older People Services division activities, which may produce effects harmful to the environment or human health. The storage and transportation of such waste is strictly regulated. Priory s waste disposal services are outsourced and should the relevant service provider fail to comply with relevant regulations, Priory could face sanctions or fines which could adversely affect its brand, reputation, business or financial condition. Health and safety risks are inherent in the services that Priory provides and are constantly present in its facilities, primarily in respect of food and water quality, as well as fire safety and the risk that service users may cause harm to themselves, other service users or employees. From time to time, Priory has experienced, like other providers of similar services, undesirable health and safety incidents. Some of Priory s activities are particularly exposed to significant medical risks relating to the transmission of infections or the prescription and administration of drugs for residents and patients. If any of the above medical or health and safety risks were to materialize, Priory may be held liable, fined and any registration certificate could be suspended or withdrawn for failure to comply with applicable regulations, which may have a material adverse impact on our business, results of operations and financial condition.

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***Priory may lose the ability to enter into leases for new facilities on favorable terms or we may lose the ability to use certain key properties subject to long leases or which may become subject to compulsory purchase orders or we may lose the ability to terminate its leases.***

As of September 30, 2015, approximately 22% of Priory s properties were occupied under long leases and the operation of its businesses in those properties depends on Priory s right to use the premises demised by the relevant lease. Under the typical terms of the relevant leases, in the event of certain material breaches by Priory, the landlord may enforce its right to forfeit the lease. The tenant has customary rights to apply for relief from forfeiture which is likely to be successful if the relevant breach is remedied at the same time. There can be no assurance that any affected landlord would continue to allow Priory to use the land demised by the lease if Priory fails to meet the contractual obligations thereunder. There can also be no assurances that Priory will be able to renew its leases on acceptable terms or at all. Furthermore, any property in the United Kingdom may at any time be compulsorily acquired by, among others, a Local Authority or a governmental department in connection with redevelopment or infrastructure projects which are to the benefit of the public. Our or Priory s business, results of operations and financial condition would be materially adversely affected if Priory was no longer able to use and occupy any of its existing properties as a result of a failure to renew any of its existing leases, a failure to meet its contractual obligations under any lease or the receipt of a compulsory purchase order in respect of any properties in which Priory has a long leasehold or freehold interest.

***The value of Priory s freehold and long leasehold real estate assets will be subject to fluctuations in the United Kingdom real estate market.***

Priory holds a portfolio of freehold and long leasehold assets. The value of Priory s property portfolio is subject to, among other things, the conditions of the real estate market in the United Kingdom. The average values of real estate in the United Kingdom, as in other European countries, experienced sharp declines from 2007 as a result of the credit crisis, economic recession and reduced confidence in global financial markets. Although real estate asset values have recovered and stabilized in recent years in the United Kingdom, there can be no assurance that this improvement will continue or be sustainable. Real estate asset values could decline substantially, particularly if the United Kingdom economy or the Eurozone economy as a whole were to suffer a further recession or debt crisis, and could result in declines in the carrying values of Priory s real estate assets (and the value at which it could dispose of such assets). A decline in the carrying value of Priory s real estate assets may also weaken Priory s ability to obtain financing for new investments. Any of the above may have a material adverse effect on our business, results of operations and financial condition.

***Priory s business could be disrupted if Priory s information systems fail or if its databases are destroyed or damaged.***

Priory s information technology platform supports, among other things, management control of patient administration, billing and financial information and reporting processes. For example, all patients in Priory s facilities have a full Electronic Patient Record, or EPR, on Carenotes, a bespoke EPR system that allows Priory s caregivers and nurses to see all information about a patient s care and treatment. Although Priory has taken measures to mitigate potential information technology security risks and have information technology continuity plans across Priory s business intended to minimize the impact of information technology failures, there can be no assurance that such measures and plans will be effective. Any failure in Priory s information technology systems could adversely impact our business, results of operations and financial condition.

***Priory is subject to volatility in the global capital and credit markets as well as significant developments in macroeconomic and political conditions that are out of its control.***

Priory s business can be affected by a number of factors that are beyond its control, such as general macroeconomic conditions, conditions in the financial services markets, geopolitical conditions and other general political and economic developments. These conditions and developments may continue to put pressure on the economy in the United Kingdom, which could have a negative effect on Priory s business. There may be a

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shortage of liquidity and credit in the United Kingdom or worldwide and this can be exacerbated by adverse developments in global or national political and/or macroeconomic conditions. In particular, Priory has historically financed the development of new facilities and the modification of Priory s existing facilities through a variety of sources, including its own cash reserves and debt financing. While Priory intends to seek to finance new and existing developments from similar sources in the future, there may be insufficient cash reserves to fund the budgeted capital expenditure and market conditions and other factors may prevent Priory from obtaining debt financing on appropriate terms or at all. In addition, market conditions may limit the number of financial institutions that are willing to provide financing to landlords with whom Priory wishes to contract to build homes for learning disability services, new schools or new mental health facilities which can then be made available to Priory under a long-term operating lease. If conditions in the United Kingdom or the global economy remain uncertain or weaken further, this could materially adversely impact Priory s ADC, which would have a corresponding negative impact on our business, results of operations and financial condition.

**Risks of the Combined Company Upon Completion of the Acquisition**

***Fluctuations in our operating results, quarter to quarter earnings and other factors, including incidents involving our patients and negative media coverage, may result in significant decreases in the price of our common stock.***

The stock markets experience volatility that is often unrelated to operating performance. These broad market fluctuations may adversely affect the trading price of our common stock and, as a result, there may be significant volatility in the market price of our common stock. If we are unable to operate our facilities as profitably as we have in the past or as our investors expect us to in the future, the market price of our common stock will likely decline when it becomes apparent that the market expectations may not be realized. In addition to our operating results, many economic and seasonal factors outside of our control could have an adverse effect on the price of our common stock and increase fluctuations in our quarterly earnings. These factors include certain of the risks discussed herein, demographic changes, operating results of other healthcare companies, changes in our financial estimates or recommendations of securities analysts, speculation in the press or investment community, the possible effects of war, terrorist and other hostilities, adverse weather conditions, the level of seasonal illnesses, managed care contract negotiations and terminations, changes in general conditions in the economy or the financial markets or other developments affecting the healthcare industry.

***Our revenues and results of operations are significantly affected by payments received from the government and third-party payors.***

A significant portion of our revenues is derived from government healthcare programs, principally Medicare and Medicaid. For the nine months ended September 30, 2015, Acadia derived approximately 45% of its revenues from the Medicare and Medicaid programs.

Government payors, such as Medicaid, generally reimburse us on a fee-for-service basis based on predetermined reimbursement rate schedules. As a result, we are limited in the amount we can record as revenue for our services from these government programs, and if we have a cost increase, we typically will not be able to recover this increase. In addition, the federal government and many state governments, are operating under significant budgetary pressures, and they may seek to reduce payments under their Medicaid programs for services such as those we provide. Government payors also tend to pay on a slower schedule. In addition to limiting the amounts they will pay for the services we provide their members, government payors may, among other things, impose prior authorization and concurrent utilization review programs that may further limit the services for which they will pay and shift patients to lower levels of care and reimbursement. Therefore, if governmental entities reduce the amounts they will pay for our services, or if they elect not to continue paying for such services altogether, our business, financial condition or results of operations could be adversely affected. In addition, if governmental entities slow their payment cycles further, our cash flow from operations could be negatively affected.

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Commercial payors such as managed care organizations, private health insurance programs and labor unions generally reimburse us for the services rendered to insured patients based upon contractually determined rates. These commercial payors are under significant pressure to control healthcare costs. In addition to limiting the amounts they will pay for the services we provide their members, commercial payors may, among other things, impose prior authorization and concurrent utilization review programs that may further limit the services for which they will pay and shift patients to lower levels of care and reimbursement. These actions may reduce the amount of revenue we derive from commercial payors.

Changes in these government programs in recent years have resulted in limitations on reimbursement and, in some cases, reduced levels of reimbursement for healthcare services. Payments from federal and state government healthcare programs are subject to statutory and regulatory changes, administrative rulings, interpretations and determinations, requirements for utilization review, and federal and state funding restrictions, all of which could materially increase or decrease program payments, as well as affect the cost of providing service to patients and the timing of payments to facilities. We are unable to predict the effect of recent and future policy changes on our operations. In addition, since most states operate with balanced budgets and since the Medicaid program is often a state s largest program, some states can be expected to enact or consider enacting legislation formulated to reduce their Medicaid expenditures. Furthermore, the recent economic downturn has increased the budgetary pressures on the federal government and many state governments, which may negatively affect the availability of taxpayer funds for Medicare and Medicaid programs. If the rates paid or the scope of services covered by government payors are reduced, there could be a material adverse effect on our business, financial condition and results of operations.

In addition to changes in government reimbursement programs, our ability to negotiate favorable contracts with private payors, including managed care providers, significantly affects the financial condition and operating results of our facilities in the United States. Management expects third-party payors to aggressively manage reimbursement levels and cost controls. Reductions in reimbursement amounts received from third-party payors could have a material adverse effect on our business, financial condition and results of operations.

***Our substantial debt could adversely affect our financial health and prevent us from fulfilling our obligations under our financing arrangements.***

On a pro forma basis prior to giving effect to the Transactions, as of September 30, 2015, we had approximately $2.3 billion of total debt. In connection with the Transactions, we anticipate incurring additional debt of approximately $1.4 billion through borrowing under our Amended and Restated Senior Credit Facility and the New Senior Notes or the Bridge Notes that we expect to issue to finance the Acquisition. Our substantial debt could have important consequences to our business. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- make it more difficult for us to satisfy our other financial obligations;
- restrict us from making strategic acquisitions or cause us to make non-strategic divestitures;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt (including scheduled repayments on our outstanding term loan borrowings under the Amended and Restated Senior Credit Facility), thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- expose us to interest rate fluctuations because the interest on the Amended and Restated Senior Credit Facility is imposed at variable rates;
- make it more difficult for us to satisfy our obligations to our lenders, resulting in possible defaults on and acceleration of such debt;

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limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

place us at a competitive disadvantage compared to our competitors that have less debt;

limit our ability to borrow additional funds; and

limit our ability to pay dividends, redeem stock or make other distributions.

In addition, the terms of our financing arrangements contain restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debts, including the Amended and Restated Senior Credit Facility and our 6.125% Senior Notes due 2021, our 5.125% Senior Notes due 2022 and our 5.625% Senior Notes due 2023, or together, the Existing Senior Notes.

***Servicing our debt will require a significant amount of cash. Our ability to generate sufficient cash to service our debt depends on many factors beyond our control.***

Our ability to make payments on and to refinance our debt, to fund planned capital expenditures and to maintain sufficient working capital will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under the Amended and Restated Senior Credit Facility, or from other sources in an amount sufficient to enable us to service our debt or to fund our other liquidity needs. If our cash flow and capital resources are insufficient to allow us to make scheduled payments on our debt, we may need to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance all or a portion of our debt on or before the maturity thereof, any of which could have a material adverse effect on our business, financial condition or results of operations. We cannot assure you that we will be able to refinance any of our debt on commercially reasonable terms or at all, or that the terms of that debt will allow any of the above alternative measures or that these measures would satisfy our scheduled debt service obligations. If we are unable to generate sufficient cash flow to repay or refinance our debt on favorable terms, it could significantly adversely affect our financial condition and the value of our outstanding debt. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

***We are subject to a number of restrictive covenants, which may restrict our business and financing activities.***

Our financing arrangements impose, and the terms of any future debt may impose, operating and other restrictions on us. Such restrictions affect, and in many respects limit or prohibit, among other things, our and our subsidiaries ability to:

incur or guarantee additional debt and issue certain preferred stock;

pay dividends on our common stock or redeem, repurchase or retire our equity interests or subordinated debt;

transfer or sell our assets:

make certain payments or investments;

make capital expenditures;

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create certain liens on assets;

create restrictions on the ability of our subsidiaries to pay dividends or make other payments to us;

engage in certain transactions with our affiliates; and

merge or consolidate with other companies.

The Amended and Restated Senior Credit Facility also requires us to meet certain financial ratios, including a fixed charge coverage ratio and a consolidated leverage ratio.

These restrictions may prevent us from taking actions that management believes would be in the best interests of our business and may make it difficult for us to successfully execute our business strategy or effectively compete with companies that are not similarly restricted. We also may incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility. Our ability to comply with these covenants in future periods will largely depend on the pricing of our products and services, our success at implementing cost reduction initiatives and our ability to successfully implement our overall business strategy. We cannot assure you that we will be granted waivers or amendments to our financing arrangements if for any reason we are unable to comply with our financial covenants. The breach of any of these covenants and restrictions could result in a default under the indentures governing the Existing Senior Notes or under the Amended and Restated Senior Credit Facility, which could result in an acceleration of our debt.

***Despite our current debt level, we may incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial debt.***

We may incur substantial additional debt, including the issuance of additional notes and other debt, in the future. Although the indentures governing our outstanding Existing Senior Notes and our Amended and Restated Senior Credit Facility contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of debt that could be incurred in compliance with these restrictions could be substantial. If new debt is added to our existing debt levels, the related risks that we now face would intensify and we may not be able to meet all our debt obligations.

***If we default on our obligations to pay our debt, we may not be able to make payments on our financing arrangements.***

Any default under the agreements governing our debt, including a default under the Amended and Restated Senior Credit Facility or the indentures governing our Existing Senior Notes, and the remedies sought by the holders of such debt, could adversely affect our ability to pay the principal, premium, if any, and interest on the Existing Senior Notes and substantially decrease the market value of the Existing Senior Notes. If we are unable to generate sufficient cash flows and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our debt, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our debt (including the Amended and Restated Senior Credit Facility and the indentures governing the Existing Senior Notes), we would be in default under the terms of the agreements governing such debt. In the event of such default, the holders of such debt could elect to declare all the funds borrowed thereunder to be due and payable, the lenders under the Amended and Restated Senior Credit Facility could elect to terminate their commitments or cease making further loans and institute foreclosure proceedings against our assets, or we could be forced to apply all available cash flows to repay such debt, and, in any such case, we could ultimately be forced into bankruptcy or liquidation. Because the indentures governing the Existing Senior Notes and the agreement governing the Amended and Restated Senior Credit Facility have customary cross-default provisions, if any of the debt under the Existing Senior Notes or under the Amended and Restated Senior Credit Facility is accelerated, we may be unable to repay or refinance the amounts due.

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***An incident involving one or more of our patients or the failure by one or more of our facilities to provide appropriate care could result in increased regulatory burdens, governmental investigations, negative publicity and adversely affect the trading price of our securities.***

Because the patients we treat suffer from severe mental health and chemical dependency disorders, patient incidents, including deaths, assaults and elopements, occur from time to time. If one or more of our facilities experiences an adverse patient incident or is found to have failed to provide appropriate patient care, an admissions hold, loss of accreditation, license revocation or other adverse regulatory action could be taken against us. Any such patient incident or adverse regulatory action could result in governmental investigations, judgments or fines and have a material adverse effect on our business, financial condition and results of operations. In addition, we have been and could become the subject of negative publicity or unfavorable media attention, whether warranted or unwarranted, that could have a significant, adverse effect on the trading price of our securities or adversely impact our reputation and how our referral sources and payors view us.

***We incurred significant transaction and acquisition-related costs in connection with the Partnerships in Care and CRC acquisitions.***

We incurred substantial costs in connection with the Partnerships in Care and CRC acquisitions including transaction-related expenses. In addition, we may incur additional costs to maintain employee morale and to retain key employees, and we will incur substantial fees and costs related to formulating and executing integration plans. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, should allow us to more than offset incremental transaction and acquisition-related costs over time, this net benefit may not be achieved in the near term, or at all.

***We made certain assumptions relating to the Partnerships in Care and CRC acquisitions in our forecasts that may prove to be materially inaccurate.***

We made certain assumptions relating to the forecast level of cost savings, growth opportunities, synergies and associated costs of the Partnerships in Care and CRC acquisitions. Our assumptions relating to the forecast level of cost savings, growth opportunities, synergies and associated costs of the Partnerships in Care and CRC acquisitions may be inaccurate based on the information available to us, including as the result of the failure to realize the expected benefits of the Partnerships in Care and CRC acquisitions, limited growth opportunities, higher than expected transaction and integration costs and unknown liabilities as well as general economic and business conditions that may adversely affect us. In addition, Partnerships in Care was operating at a net loss for the year ended December 31, 2013 and for the six months ended June 30, 2014, which may impact our ability to capitalize on growth opportunities, achieve synergies and profitability from the Partnerships in Care acquisition in the near term.

***Expanding our international operations poses additional risks to our business.***

Prior to the acquisition of Partnerships in Care, we were engaged in business activities in the United States and Puerto Rico. The acquisition of Partnerships in Care marked our first entry into a foreign market and we will expand our operations in the United Kingdom as a result of our planned acquisition of Priory. Our business or financial performance may be adversely affected due to the risks of operating internationally, including but not limited to the following: economic and political instability, failure to comply with foreign laws and regulations and adverse changes in the health care policy of the United Kingdom (including decreases in funding for the services provided by Partnerships in Care and Priory), adverse changes in law and regulations affecting the operations of Partnerships in Care and Priory, difficulties and costs of staffing and managing our new operations in the United Kingdom. If any of these events were to materialize, they could lead to disruption of our business, significant expenditures and/or damages to our reputation, which could have a material adverse effect on our results of operations, financial condition or prospects.

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As a company based outside of the United Kingdom, we will need to take certain actions to be more easily accepted in the United Kingdom. For example, we may need to engage in a public relations campaign to emphasize service quality and company philosophy, preserve local management continuity and business practices and be transparent in our dealings with local governments and taxing authorities. Such efforts will require significant time and effort on the part of our management team. Our results of operation could suffer if these efforts are not successful.

***Our acquisition strategy exposes us to a variety of operational and financial risks.***

A principal element of our business strategy is to grow by acquiring other companies and assets in the behavioral healthcare industry. Growth, especially rapid growth, through acquisitions exposes us to a variety of operational and financial risks. We summarize the most significant of these risks below.

*Integration risks*

We must integrate our acquisitions with our existing operations. This process includes the integration of the various components of our business and of the businesses we have acquired or may acquire in the future, including the following:

- additional psychiatrists, other physicians and employees who are not familiar with our operations;
- patients who may elect to switch to another behavioral healthcare provider;
- regulatory compliance programs; and
- disparate operating, information and record keeping systems and technology platforms.

Integrating a new facility could be expensive and time consuming and could disrupt our ongoing business, negatively affect cash flow and distract management and other key personnel from day-to-day operations.

We may not be able to successfully combine the operations of recently acquired facilities with our operations, and even if such integration is accomplished, we may never realize the potential benefits of the acquisition. The integration of acquisitions with our operations requires significant attention from management, may impose substantial demands on our operations or other projects and may impose challenges on the combined business including, but not limited to, consistencies in business standards, procedures, policies, business cultures and internal controls and compliance. Certain acquisitions involve a capital outlay, and the return that we achieved on any capital invested may be less than the return that we would achieve on our other projects or investments. If we fail to complete the integration of recently acquired facilities, we may never fully realize the potential benefits of the related acquisitions.

We are in the process of integrating the business of Partnerships in Care and CRC into our current business. Successful integration depends on the ability to effect any required changes in operations or personnel, which may entail unforeseen liabilities. The integration of these businesses may expose us to certain risks, including the following: difficulty in integrating these businesses in a cost-effective manner, including the establishment of effective management information and financial control systems; unforeseen legal, regulatory, contractual, employment or other issues arising out of the combination; combining corporate cultures; maintaining employee morale and retaining key employees; potential disruptions to our on-going business caused by our senior management s focus on integrating these businesses; and performance of the combined assets not meeting our expectations or plans. A failure to properly integrate these businesses could have a corresponding material adverse effect on our business, results of operations, financial condition or prospects.

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*Benefits may not materialize*

When evaluating potential acquisition targets, we identify potential synergies and cost savings that we expect to realize upon the successful completion of the acquisition and the integration of the related operations. We may, however, be unable to achieve or may otherwise never realize the expected benefits. Our ability to realize the expected benefits from potential cost savings and revenue improvement opportunities is subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control, such as changes to government regulation governing or otherwise impacting the behavioral healthcare industry, reductions in reimbursement rates from third-party payors, reductions in service levels under our contracts, operating difficulties, client preferences, changes in competition and general economic or industry conditions. If we are unsuccessful in implementing these improvements or if we do not achieve our expected results, it may adversely impact our business, financial condition or results of operations.

*Assumptions of unknown liabilities*

Facilities that we acquire, including the facilities acquired from Partnerships in Care and CRC, may have unknown or contingent liabilities, including, but not limited to, liabilities for uncertain tax positions, liabilities for failure to comply with healthcare laws and regulations and liabilities for unresolved litigation or regulatory reviews. Although we typically attempt to exclude significant liabilities from our acquisition transactions and seek indemnification from the sellers of such facilities, the purchase agreement with Partnerships in Care contained minimal representations and warranties about the entities and business that we acquired. In addition, we have no indemnification rights against the sellers under the Partnerships in Care purchase agreement and all of the purchase price consideration was paid at closing of the Partnerships in Care acquisition. See Our acquisition of CRC may expose us to unknown or contingent liabilities for which we will not be indemnified for a discussion of similar risks with our acquisition of CRC. Therefore, we may incur material liabilities for the past activities of acquired entities and facilities. Even in those acquisitions in which we have such rights, we may experience difficulty enforcing the sellers obligations, or we may incur material liabilities for the past activities of acquired facilities. Such liabilities and related legal or other costs and/or resulting damage to a facility s reputation could negatively impact our business, financial condition or results of operations.

*Competing for acquisitions*

We face competition for acquisition candidates primarily from other for-profit healthcare companies, as well as from not-for-profit entities. Some of our competitors may have greater resources than we do. As a result, we may pay more to acquire a target business or may agree to less favorable deal terms than we would have otherwise. Our principal competitors for acquisitions have included Universal Health Services and private equity firms. Also, suitable acquisitions may not be accomplished due to unfavorable terms. Further, the cost of an acquisition could result in a dilutive effect on our results of operations, depending on various factors, including the amount paid for an acquired facility, the acquired facility s results of operations, the fair value of assets acquired and liabilities assumed, effects of subsequent legislation and limits on rate increases. In addition, we may have to pay cash, incur debt, or issue equity securities to pay for any such acquisition, which could adversely affect our financial results, result in dilution to our stockholders, result in increased fixed obligations or impede our ability to manage our operations.

*Managing growth*

Some of the facilities we have acquired or may acquire in the future may have had significantly lower operating margins prior to the time of our acquisition or may have had operating losses prior to such acquisition. If we fail to improve the operating margins of the facilities we acquire, operate such facilities profitably or effectively integrate the operations of the acquired facilities, our results of operations could be negatively impacted.

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***If we are unable to successfully integrate CRC into our business, our business, financial condition and results of operations may be negatively impacted.***

As a result of the acquisition of CRC, we are engaged in a new line of business in the operation of comprehensive treatment centers specializing in detoxification and recovery programs. The administration of this new line of business will require implementation of appropriate operations, management, and controls. A failure to properly integrate CRC could have a corresponding material adverse effect on our business, results of operations, financial condition or prospects. We are in the process of integrating CRC s business into our current business. Successful integration will depend on our ability to effect any required changes in operations or personnel which may entail unforeseen liabilities. The integration of CRC may expose us to certain risks, including the following: difficulty in integrating CRC in a cost-effective manner; difficulty or delay in the establishment of effective management information and financial control systems, as well as controls, procedures and training designed to ensure compliance with the U.S. Drug Enforcement Administration, and other regulatory requirements to which CRC s business is subject; unforeseen legal, regulatory, contractual, employment or other issues arising out of the combination; combining corporate cultures; maintaining employee morale and retaining key employees; potential disruptions to our on-going business caused by our senior management s focus on integrating CRC; and performance of the combined assets not meeting our expectations or plans.

***Our acquisition of CRC may expose us to unknown or contingent liabilities for which we will not be indemnified.***

The facilities we acquired in the acquisition of CRC have been and are currently subject to regulatory investigations, such as investigations by the DOJ s Drug Enforcement Administration, including for non-compliance with certain regulatory requirements relating to the improper handling of controlled substances, and as a result may have unknown or contingent liabilities, including, but not limited to, liabilities for uncertain tax positions, for failure to comply with healthcare laws and regulations and for unresolved litigation or regulatory reviews. In addition, the facilities we acquired in the acquisition of CRC have been and are from time to time, subject to various claims and legal actions that arise in the ordinary course of business, including claims for damages for personal injuries, wrongful death, medical malpractice, breach of contract, tort and employment related claims. In these actions, plaintiffs request a variety of damages, including, in some instances, punitive and other types of damages that may not be covered by insurance or may exceed levels of insurance coverage. These liabilities may increase our costs and harm our business. In addition, a substantial number of our patients addicted to opiates are treated with opioid substitution medications, such as methadone, suboxone and buprenorphine. Opioid substitution medications are prescription medications and have substantial risks associated with them. The facilities we acquired in the acquisition of CRC are currently subject to, and may in the future be subject to, claims arising out of illness, injury or death allegedly caused by opioid replacement therapy. If we are unable to address or manage the risks of claims alleging damages caused by opioid replacement therapy, this could have a material adverse impact on our financial condition and results of operations.

We have no indemnification rights against the sellers under the merger agreement related to the acquisition of CRC and all of the purchase price consideration was paid at the closing of the acquisition of CRC. Therefore, we may incur material liabilities for the past activities of acquired entities and facilities. Such liabilities and related legal or other costs and/or resulting damage to a facility s reputation could negatively impact our business, financial condition or results of operations.

***Deficiencies in CRC s internal controls over financial reporting could have a material adverse impact on our ability to produce timely and accurate financial statements.***

In 2011, a review of inconsistencies in the accounts at one of CRC s recovery residential treatment facilities resulted in the restatement of certain previously issued consolidated financial statements. During the year ended December 31, 2012, CRC s management completed the corrective actions to remediate the material weakness in internal control over financial reporting that gave rise to the restatement. Subsequent to the issuance

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of CRC s consolidated financial statements for the year ended December 31, 2013, CRC s management identified errors and made corrections resulting in a restatement of CRC s 2013, 2012 and 2011 consolidated financial statements as further described in the notes to those financial statements. CRC s management concluded that these errors were the result of material weaknesses relating to income tax accounting and stock-based compensation, and began to implement corrective actions to remediate the material weaknesses. If we identify any material weakness in the future, their correction would require additional remedial measures which could be costly and time-consuming. In addition, the presence of a material weakness could result in a material misstatement of annual or interim consolidated financial statements which in turn could require us to restate our operating results.

***We made certain assumptions relating to the acquisition of CRC in our forecasts that may prove to be materially inaccurate, and we may be unable to achieve the related cost savings or synergies.***

We made certain assumptions relating to the forecast level of cost savings, synergies and associated costs of the acquisition of CRC. Our assumptions relating to the forecast level of cost savings, synergies and associated costs of the acquisition of CRC may be inaccurate based on the information available to us, including as the result of the failure to realize the expected benefits of the acquisition of CRC, higher than expected transaction and integration costs and unknown liabilities as well as general economic and business conditions that may adversely affect us following the completion of the acquisition of CRC. The anticipated cost savings related to the acquisition of CRC are based upon assumptions about our ability to implement integration measures in a timely fashion and within certain cost parameters. Our ability to achieve the planned cost synergies is dependent upon a significant number of factors, some of which may be beyond our control. For example, we may be unable to eliminate duplicative costs and redundancies in a timely fashion or at all. Other factors that could cause us not to realize the expected cost savings and synergies, include but are not limited to, the following: higher than expected severance costs related to workforce reductions; higher than expected retention costs for employees that will be retained; inability to reduce or eliminate fees relating to professional, outside services and other redundant contracted services in a timely manner or at all; delays in the anticipated timing of activities related to our cost-saving plan including in the reduction of other general and administrative expenses; and other unexpected costs associated with operating our business. In addition, CRC was operating at a net loss for the years ended December 31, 2013 and 2014, which may impact our ability to achieve synergies and profitability from the acquisition of CRC in the near term. Actual cost savings, the costs required to realize the cost savings and the assumptions underlying the cost savings could differ materially from our current expectations, and we cannot assure you that we will achieve the full amount of cost savings on the schedule anticipated or at all.

***Failure to comply with the international and U.S. laws and regulations applicable to our international operations could subject us to penalties and other adverse consequences.***

We face several risks inherent in conducting business internationally, including compliance with international and U.S. laws and regulations that apply to our international operations. These laws and regulations include U.S. laws such as the Foreign Corrupt Practices Act and other U.S. federal laws and regulations established by the Office of Foreign Asset Control, local laws such as the United Kingdom Bribery Act 2010 or other local laws which prohibit corrupt payments to governmental officials or certain payments or remunerations to customers. Given the high level of complexity of these laws, however, there is a risk that some provisions may be inadvertently breached by us, for example through fraudulent or negligent behavior of individual employees, our failure to comply with certain formal documentation requirements, or otherwise. Violations of these laws and regulations could result in fines, criminal sanctions against us, our officers or our employees, implementation of compliance programs, and prohibitions on the conduct of our business. Any such violations could include prohibitions on our ability to conduct business in the United Kingdom and could materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Our success depends, in part, on our ability to anticipate these risks and manage these challenges.

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***We are subject to taxation in certain foreign jurisdictions. Any adverse development in the tax laws of such jurisdictions or any disagreement with our tax positions could have a material adverse effect on our business, financial condition or results of operations. In addition, our effective tax rate could change materially as a result of certain changes in our mix of United States and foreign earnings and other factors, including changes in tax laws.***

We are subject to taxation in, and to the tax laws and regulations of, certain foreign jurisdictions as a result of our operations and our corporate and financing structure after the acquisition of Partnerships in Care. Adverse developments in these tax laws or regulations, or any change in position regarding the application, administration or interpretation thereof, in any applicable jurisdiction, could have a material adverse effect on our business, financial condition or results of operations. In addition, the tax authorities in any applicable jurisdiction may disagree with the tax treatment or characterization of any of our transactions, which, if successfully challenged by such tax authorities, could have a material adverse effect on our business, financial condition or results of operations. Certain changes in the mix of our earnings between jurisdictions and assumptions used in the calculation of income taxes, among other factors, could have a material adverse effect on our overall effective tax rate. In addition, legislative proposals to change the United States taxation of foreign earnings could also increase our effective tax rate.

***If you purchase our common stock in this offering, you will incur immediate and substantial dilution in the book value of your shares.***

The public offering price of our common stock is substantially higher than the net tangible book value per share of our outstanding common stock immediately after this offering. As a result, you will suffer immediate and substantial dilution in the net tangible book value of the common stock you purchase in this offering. If the underwriters exercise their option to purchase additional shares, you will experience additional dilution.

***Future sales of common stock by our existing stockholders may cause our stock price to fall.***

The market price of our common stock could decline as a result of sales by our existing stockholders in the market, or the perception that these sales could occur. These sales might also make it more difficult for us to sell equity securities at a time and price that we deem appropriate.

Waud Capital Partners, L.L.C. and certain of its affiliates, or Waud Capital Partners, investment funds affiliated with Bain Capital Partners, LLC, or collectively, Bain Capital, along with certain current and former members of our management, and Advent (with respect to the shares of our common stock they receive upon completion of the Acquisition), have certain demand and piggyback registration rights with respect to shares of our common stock beneficially owned by them. The presence of additional shares of our common stock trading in the public market, as a result of the exercise of such registration rights, may have an adverse effect on the market price of our securities.

***If securities or industry analysts do not publish research or reports about our business, if they were to change their recommendations regarding our stock adversely or if our operating results do not meet their expectations, our stock price and trading volume could decline.***

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us. If one or more of these analysts cease coverage of us or fail to publish regular reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover us downgrade our stock or if our operating results do not meet their expectations, our stock price could decline.

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***A worsening of the economic and employment conditions in the geographies in which we operate could materially affect our business and future results of operations.***

During periods of high unemployment, governmental entities often experience budget deficits as a result of increased costs and lower than expected tax collections. These budget deficits at the federal, state and local levels have decreased, and may continue to decrease, spending for health and human service programs, including Medicare and Medicaid in the United States, which are significant payor sources for our facilities. In periods of high unemployment, we also face the risk of potential declines in the population covered under private insurance, patient decisions to postpone or decide against receiving behavioral healthcare services, potential increases in the uninsured and underinsured populations we serve and further difficulties in collecting patient co-payment and deductible receivables.

Substantially all of the revenue from CRC s eating disorder programs, extended care facilities and certain residential treatment facilities is derived from private-pay funding. In addition, a substantial portion of CRC s revenue from its comprehensive treatment centers and youth programs is from self-payors. Accordingly, a sustained downturn in the U.S. economy could restrain the ability of CRC s patients and the families of its students to pay for services in all of CRC s facilities.

Furthermore, the availability of liquidity and capital resources to fund the continuation and expansion of many business operations worldwide has been limited in recent years. Our ability to access the capital markets on acceptable terms may be severely restricted at a time when we would like, or need, access to those markets, which could have a negative impact on our growth plans, our flexibility to react to changing economic and business conditions and our ability to refinance existing debt (including debt under our Amended and Restated Senior Credit Facility and the Existing Senior Notes). A sustained economic downturn or other economic conditions could also adversely affect the counterparties to our agreements, including the lenders under the Amended and Restated Senior Credit Facility, causing them to fail to meet their obligations to us.

***If we fail to comply with extensive laws and government regulations, we could suffer penalties or be required to make significant changes to our operations.***

Companies operating in the behavioral healthcare industry in the United States are required to comply with extensive and complex laws and regulations at the federal, state and local government levels relating to, among other things: billing practices and prices for services; relationships with physicians and other referral sources; necessity and quality of medical care; condition and adequacy of facilities; qualifications of medical and support personnel; confidentiality, privacy and security issues associated with health-related information and patient protected health information, or PHI; compliance with The Emergency Medical Treatment & Labor Act, or EMTALA; handling of controlled substances; certification, licensure and accreditation of our facilities; operating policies and procedures; activities regarding competitors; state and local land use and zoning requirements; and addition or expansion of facilities and services.

Among these laws are the anti-kickback provision of the Social Security Act, or the Anti-Kickback Statute, the federal physician self-referral, or the Stark Law, the federal False Claims Act, or the False Claims Act, and similar state laws. These laws, and particularly the Anti-Kickback Statute and the Stark Law, impact the relationships that we may have with physicians and other potential referral sources. We have a variety of financial relationships with physicians and other professionals who refer patients to our facilities, including employment contracts, leases and professional service agreements. The Office of the Inspector General of the Department of Health and Human Services has issued certain exceptions and safe harbor regulations that outline practices that are deemed acceptable under the Stark Law and Anti-Kickback Statute. While we endeavor to comply with applicable exceptions and safe harbors, certain of our current arrangements with physicians and other potential referral sources may not qualify for safe harbor protection. Failure to meet a safe harbor does not mean that the arrangement automatically violates the Anti-Kickback Statute, but may subject the arrangement to greater scrutiny. We cannot offer assurances that practices that are outside of a safe harbor will not be found to violate the Anti-Kickback Statute. Allegations of violations of the Stark Law and Anti-Kickback Statute may be brought under the federal Civil Monetary Penalty Law, which requires a lower burden of proof than criminal violations.

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These laws and regulations are extremely complex, and, in many cases, we do not have the benefit of regulatory or judicial interpretation. In the future, it is possible that different interpretations of these laws and regulations could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our arrangements for facilities, equipment, personnel, services, capital expenditure programs and operating expenses. A determination that we have violated one or more of these laws could subject us to liabilities, including civil penalties, exclusion of one or more facilities from participation in the government healthcare programs and, for violations of certain laws and regulations, criminal penalties. Even the public announcement that we are being investigated for possible violations of these laws could cause our reputation to suffer and have a material adverse effect on our business, financial condition or results of operations. In addition, we cannot predict whether other similar legislation or regulations at the federal or state level will be adopted, what form such legislation or regulations may take or what their impact on us may be.

The construction and operation of healthcare facilities in the United States are subject to extensive federal, state and local regulation relating to, among other things, the adequacy of medical care, equipment, personnel, operating policies and procedures, fire prevention, rate-setting, compliance with building codes and environmental protection. Additionally, such facilities are subject to periodic inspection by government authorities to assure their continued compliance with these various standards. If we fail to adhere to these standards, we could be subject to monetary and operational penalties.

All of our facilities that handle and dispense controlled substances must comply with strict federal and state regulations regarding the purchasing, storage, distribution and disposal of such controlled substances. The potential for theft or diversion of such controlled substances for illegal uses has led the federal government as well as a number of states and localities to adopt stringent regulations not applicable to many other types of healthcare providers. Compliance with these regulations is expensive and these costs may increase in the future.

Property owners and local authorities have attempted, and may in the future attempt, to use or enact zoning ordinances to eliminate our ability to operate a given treatment facility or program. Local governmental authorities in some cases also have attempted to use litigation and the threat of prosecution to force the closure of certain comprehensive treatment facilities. If any of these attempts were to succeed or if their frequency were to increase, our revenue would be adversely affected and our operating results might be harmed. In addition, such actions may require us to litigate which would increase our costs.

Many of our U.S. facilities are also accredited by third-party accreditation agencies such as The Joint Commission or the Commission on Accreditation of Rehabilitation Facilities . If any of our existing healthcare facilities lose their accreditation or any of our new facilities fail to receive accreditation, such facilities could become ineligible to receive reimbursement under Medicare or Medicaid.

Federal, state and local regulations determine the capacity at which many of our U.S. facilities may be operated. State licensing standards require many of our U.S. facilities to have minimum staffing levels; minimum amounts of residential space per student or patient and adhere to other minimum standards. Local regulations require us to follow land use guidelines at many of our U.S. facilities, including those pertaining to fire safety, sewer capacity and other physical plant matters.

Similarly, providers of behavioral healthcare services in the United Kingdom are also subject to a highly regulated business environment. Failure to comply with regulations, lapses in the standards of care, the receipt of poor ratings or lower ratings, the receipt of a negative report that leads to a determination of regulatory noncompliance, or the failure to cure any defect noted in an inspection report could lead to substantial penalties, including the loss of registration or closure of one or more facilities as well as damage to reputation.

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***If we fail to cultivate new or maintain established relationships with referral sources, our business, financial condition or results of operations could be adversely affected.***

Our ability to grow or even to maintain our existing level of business depends significantly on our ability to establish and maintain close working relationships with physicians, managed care companies, insurance companies, educational consultants and other referral sources. We may not be able to maintain our existing referral source relationships or develop and maintain new relationships in existing or new markets. If we lose existing relationships with our referral sources, the number of people to whom we provide services may decline, which may adversely affect our revenue. If we fail to develop new referral relationships, our growth may be restrained.

***Our business in the United Kingdom relies upon maintaining strong relationships with commissioners employed by publicly funded entities and any reorganization of such publicly funded entities may result in the loss of those relationships.***

The relationships that the sales and marketing function of our facilities in the United Kingdom holds with commissioners is a key driver of referrals to such facilities. Should there be a major reorganization of publicly funded entities, such as the NHS reorganization announced in 2010 and implemented between 2012 and 2013, we may need to rebuild such relationships which could result in a decrease in the number of referrals made to the Partnerships in Care facilities and could have a corresponding material adverse effect on our business, results of operations, financial condition or prospects.

***We may be required to spend substantial amounts to comply with statutes and regulations relating to privacy and security of PHI.***

There are currently numerous legislative and regulatory initiatives in both the U.S. and the United Kingdom addressing patient privacy and information security concerns. In particular, federal regulations issued under HIPAA require our U.S. facilities to comply with standards to protect the privacy, security and integrity of PHI. These regulations have imposed extensive administrative requirements, technical and physical information security requirements, restrictions on the use and disclosure of PHI and related financial information and have provided patients with additional rights with respect to their health information. Compliance with these regulations requires substantial expenditures, which could negatively impact our business, financial condition or results of operations. In addition, our management has spent, and may spend in the future, substantial time and effort on compliance measures.

In addition to HIPAA, we are subject to similar, and in some cases more restrictive, state and federal privacy regulations. For example, the federal government and some states impose laws governing the use and disclosure of health information pertaining to substance abuse treatment that are more stringent than the rules that apply to healthcare information generally. As public attention is drawn to the issues of the privacy and security of medical information, states may revise or expand their laws concerning the use and disclosure of health information, or may adopt new laws addressing these subjects.

Violations of the privacy and security regulations could subject our operations to substantial civil monetary penalties and substantial other costs and penalties associated with a breach of data security, including criminal penalties. We may also be subject to substantial reputational harm if we experience a substantial security breach involving PHI.

***We may be subject to liabilities from claims brought against us or our facilities.***

We are subject to medical malpractice lawsuits and other legal actions in the ordinary course of business. Some of these actions may involve large claims, as well as significant defense costs. We cannot predict the outcome of these lawsuits or the effect that findings in such lawsuits may have on us. All professional and general liability insurance we purchase is subject to policy limitations and in some cases, an insurance company

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may defend us subject to a reservation of rights. Insurance companies in at least two matters involving Acadia are defending us subject to a reservation of rights. Management believes that, based on our past experience and actuarial estimates, our insurance coverage is adequate considering the claims arising from the operations of our facilities. While we continuously monitor our coverage, our ultimate liability for professional and general liability claims could change materially from our current estimates. If such policy limitations should be partially or fully exhausted in the future, or payments of claims exceed our estimates or are not covered by our insurance, it could have a material adverse effect on our business, financial condition or results of operations. Further, insurance premiums have increased year over year and insurance coverage may not be available at a reasonable cost, especially given the significant increase in insurance premiums generally experienced in the healthcare industry.

***We have been and could become the subject of governmental investigations, regulatory actions and whistleblower lawsuits.***

Healthcare companies in both the United States and the United Kingdom are subject to numerous investigations by various governmental agencies. Certain of our facilities have received, and other facilities may receive, government inquiries from, and may be subject to investigation by, governmental agencies. Depending on whether the underlying conduct in these or future inquiries or investigations could be considered systemic, their resolution could have a material adverse effect on our business, financial condition and results of operations.

Further, under the False Claims Act, private parties are permitted to bring qui tam or whistleblower lawsuits against companies that submit false claims for payments to, or improperly retain overpayments from, the government. Because qui tam lawsuits are filed under seal, we could be named in one or more such lawsuits of which we are not aware. We may also be subject to substantial reputational harm as a result of the public announcement of any investigation into such claims.

***We are subject to uncertainties regarding recent health reform and budget legislation.***

The expansion of health insurance coverage in the United States under the Patient Protection and Affordable Care Act and the Reconciliation Act, or, collectively, the Health Reform Legislation, may increase the number of patients using our facilities who have either private or public program coverage. In addition, a disproportionately large percentage of new Medicaid coverage is likely to be in states that currently have relatively low income eligibility requirements and may include states where we have facilities. Furthermore, as a result of the Health Reform Legislation, there may be a reduction in uninsured patients, which should reduce our expense from uncollectible accounts receivable.

Notwithstanding the foregoing, the Health Reform Legislation makes a number of other changes to Medicare and Medicaid which management believes may have an adverse impact on us. The various provisions in the Health Reform Legislation that directly or indirectly affect reimbursement are scheduled to take effect over a number of years. Health Reform Legislation provisions are likely to be affected by the incomplete nature of implementing regulations or expected forthcoming interpretive guidance, gradual implementation or future legislation. Further, Health Reform Legislation provisions, such as those creating the Medicare Shared Savings Program and the Independent Payment Advisory Board, create certain flexibilities in how healthcare may be reimbursed by federal programs in the future. Thus, we cannot predict the impact of the Health Reform Legislation on our future reimbursement at this time.

The Health Reform Legislation also contains provisions aimed at reducing fraud and abuse in healthcare. The Health Reform Legislation amends several existing laws, including the federal Anti-Kickback Statute and the False Claims Act, making it easier for government agencies and private plaintiffs to prevail in lawsuits brought against healthcare providers. Congress revised the intent requirement of the Anti-Kickback Statute to provide that a person is not required to have actual knowledge or specific intent to commit a violation of the Anti-Kickback Statute in order to be found guilty of violating such law. The Health Reform Legislation

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also provides that any claims for items or services that violate the Anti-Kickback Statute are also considered false claims for purposes of the False Claims Act. The Health Reform Legislation provides that a healthcare provider that knowingly retains an overpayment in excess of 60 days is subject to the False Claims Act.

The impact of the Health Reform Legislation on each of our facilities may vary. We cannot predict the impact the Health Reform Legislation may have on our business, results of operations, cash flow, capital resources and liquidity, or whether we will be able to adapt successfully to the changes required by the Health Reform Legislation.

We are similarly unable to guarantee that current United Kingdom laws, regulations and regulatory assessment methodologies will not be modified or replaced in the future. Additionally, there is a risk that budget constraints, public spending cuts (such as the cuts announced by the United Kingdom government in the 2010 Comprehensive Spending Review and implemented in the 2011 and 2012 government budgets) or other financial pressures could cause the NHS to reduce funding for the types of services that Partnerships in Care and Priory provide. Such policy changes in the United Kingdom could lead to fewer services being purchased by publicly funded entities or material changes being made to their procurement practices, any of which could materially reduce Partnerships in Care s revenue. These and other future developments and amendments may negatively impact our operations, which could have a material adverse effect on our business, financial condition or results of operations. See Expanding our international operations poses additional risks to our business in this Risk Factors section.

Finally, the allocation of funding responsibility for adult social care will be subject to change over the next few years under the provisions of the 2014 Care Act with individuals identified as being required to pay for their own care under the relevant means test being required to take funding responsibility up to a specified lifetime monetary cap, with Local Authorities then becoming responsible for the continued funding of personal care, but not daily living expenses. This will potentially place greater funding responsibility with public sector bodies over the longer term, which will potentially exacerbate the current funding challenges faced by such bodies.

***We operate in a highly competitive industry, and competition may lead to declines in patient volumes.***

The healthcare industry is highly competitive, and competition among healthcare providers (including hospitals) for patients, physicians and other healthcare professionals has intensified in recent years. There are other healthcare facilities that provide behavioral and other mental health services comparable to those offered by our facilities in each of the geographical areas in which we operate. Some of our competitors are owned by tax-supported governmental agencies or by non-profit corporations and may have certain financial advantages not available to us, including endowments, charitable contributions, tax-exempt financing and exemptions from sales, property and income taxes. Some of our for-profit competitors are local, independent operators or physician groups with strong established reputations within the surrounding communities, which may adversely affect our ability to attract a sufficiently large number of patients in markets where we compete with such providers.

If our competitors are better able to attract patients, recruit and retain physicians and other healthcare professionals, expand services or obtain favorable managed care contracts at their facilities, we may experience a decline in patient volume and our results of operations may be adversely affected.

The NHS is the principal provider of mental healthcare services in the United Kingdom, with approximately 70% of the totals beds in secure mental healthcare services in the United Kingdom. As the preferred provider, there is often a bias toward referrals to the NHS, and therefore NHS facilities have maintained high occupancy rates. As a result of budget constraints, independent operators have emerged to satisfy the demand for mental health services not supplied by the NHS. In addition to the NHS, we face competition in the United Kingdom from independent sector providers and other publicly funded entities for individuals requiring care and for appropriate sites on which to develop or expand facilities in the United

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Kingdom. Should we fail to compete effectively with our peers and competitors in the industry, or if the competitive environment intensifies, individuals may be referred elsewhere for services that we provide, negatively impacting our ability to secure referrals and limiting the expansion of our business.

***The trend by insurance companies and managed care organizations to enter into sole-source contracts may limit our ability to obtain patients.***

Insurance companies and managed care organizations in the United States are entering into sole-source contracts with healthcare providers, which could limit our ability to obtain patients since we do not offer the range of services required for these contracts. Moreover, private insurers, managed care organizations and, to a lesser extent, Medicaid and Medicare, are beginning to carve-out specific services, including mental health and substance abuse services, and establish small, specialized networks of providers for such services at fixed reimbursement rates. Continued growth in the use of carve-out arrangements could materially adversely affect our business to the extent we are not selected to participate in such networks or if the reimbursement rate in such networks is not adequate to cover the cost of providing the service.

***Our performance depends on our ability to recruit and retain quality psychiatrists and other physicians.***

The success and competitive advantage of our facilities depends, in part, on the number and quality of the psychiatrists and other physicians on the medical staffs of our facilities and our maintenance of good relations with those medical professionals. Although we employ psychiatrists and other physicians at many of our facilities, psychiatrists and other physicians generally are not employees of our facilities, and, in a number of our markets, they have admitting privileges at competing hospitals providing acute or inpatient behavioral healthcare services. Such physicians (including psychiatrists) may terminate their affiliation with us at any time or admit their patients to competing healthcare facilities or hospitals. If we are unable to attract and retain sufficient numbers of quality psychiatrists and other physicians by providing adequate support personnel and facilities that meet the needs of those psychiatrists and other physicians, they may stop referring patients to our facilities and our results of operations may decline.

It may become difficult for us to attract and retain an adequate number of psychiatrists and other physicians to practice in certain of the communities in which our facilities are located. Our failure to recruit psychiatrists and other physicians to these communities or the loss of such medical professionals in these communities could make it more difficult to attract patients to our facilities and thereby may have a material adverse effect on our business, financial condition or results of operations. Additionally, our ability to recruit psychiatrists and other physicians is closely regulated. The form, amount and duration of assistance we can provide to recruited psychiatrists and other physicians is limited by the Stark Law, the Anti-Kickback Statute, state anti-kickback statutes, and related regulations.

***Our facilities face competition for staffing that may increase our labor costs and reduce our profitability.***

Our operations depend on the efforts, abilities, and experience of our management and medical support personnel, including our addiction counselors, therapists, nurses, pharmacists, licensed counselors, clinical technicians, and mental health technicians, as well as our psychiatrists and other professionals. We compete with other healthcare providers in recruiting and retaining qualified management, program directors, physicians (including psychiatrists) and support personnel responsible for the daily operations of our business, financial condition or results of operations.

A shortage of nurses, qualified addiction counselors, and other medical support personnel has been a significant operating issue facing us and other healthcare providers. This shortage may require us to enhance wages and benefits to recruit and retain nurses, qualified addiction counselors, and other medical support personnel or require us to hire more expensive temporary or contract personnel. In addition, certain of our facilities are required to maintain specified staffing levels. To the extent we cannot meet those levels, we may be

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required to limit the services provided by these facilities, which would have a corresponding adverse effect on our net operating revenues. Certain of our treatment facilities are located in remote geographical areas, far from population centers, which increases this risk.

We cannot predict the degree to which we will be affected by the future availability or cost of attracting and retaining talented medical support staff. If our general labor and related expenses increase, we may not be able to raise our rates correspondingly. Our failure either to recruit and retain qualified management, psychiatrists, therapists, counselors, nurses and other medical support personnel or control our labor costs could have a material adverse effect on our results of operations.

***Some of our employees are represented by labor unions and any work stoppage could adversely affect our business.***

Increased labor union activity could adversely affect our labor costs. As of September 30, 2015, labor unions represented approximately 424 employees at six of our U.S. facilities through eight collective bargaining agreements. With the Partnerships in Care acquisition, the Royal College of Nursing represents nursing employees at all of our facilities in the United Kingdom. We cannot assure you that we will be able to successfully negotiate a satisfactory collective bargaining agreement or that employee relations will remain stable. Furthermore, there is a possibility that work stoppages could occur as a result of union activity, which could increase our labor costs and adversely affect our business, financial condition or results of operations. To the extent that a greater portion of our employee base unionizes and the terms of any collective bargaining agreements are significantly different from our current compensation arrangements, it is possible that our labor costs could increase materially and our business, financial condition or results of operations could be adversely affected.

***We depend on key management personnel, and the departure of one or more of our key executives or a significant portion of our local facility management personnel could harm our business.***

The expertise and efforts of our senior executives and the chief executive officer, chief financial officer, medical directors, physicians and other key members of our facility management personnel are important to the success of our business. The loss of the services of one or more of our senior executives or of a significant portion of our facility management personnel could significantly undermine our management expertise and our ability to provide efficient, quality healthcare services at our facilities, which could harm our business.

The Partnerships in Care senior management team was important to our acquisition of Partnerships in Care. The loss of members of the Partnerships in Care management team could impact our ability to successfully integrate and operate the Partnerships in Care facilities and business.

***We could face risks associated with, or arising out of, environmental, health and safety laws and regulations.***

We are subject to various federal, foreign, state and local laws and regulations that:

- regulate certain activities and operations that may have environmental or health and safety effects, such as the generation, handling and disposal of medical wastes;
- impose liability for costs of cleaning up, and damages to natural resources from, past spills, waste disposals on and off-site, or other releases of hazardous materials or regulated substances; and
- regulate workplace safety.

Compliance with these laws and regulations could increase our costs of operation. Violation of these laws may subject us to significant fines, penalties or disposal costs, which could negatively impact our results of operations, financial condition or cash flows. We could be responsible for the investigation and remediation of

environmental conditions at currently or formerly owned, operated or leased sites, as well as for associated liabilities, including liabilities for natural resource damages, third party property damage or personal injury resulting from lawsuits that could be brought by the government or private litigants, relating to our operations, the operations of facilities or the land on which our facilities are located. We may be subject to these liabilities regardless of whether we operate, lease or own the facility, and regardless of whether such environmental conditions were created by us or by a prior owner or tenant, or by a third party or a neighboring facility whose operations may have affected such facility or land. That is because liability for contamination under certain environmental laws can be imposed on current or past owners or operators of a site without regard to fault. We cannot assure you that environmental conditions relating to our prior, existing or future sites or those of predecessor companies whose liabilities we may have assumed or acquired will not have a material adverse effect on our business, financial condition or results of operations.

***State efforts to regulate the construction or expansion of healthcare facilities in the United States could impair our ability to operate and expand our operations.***

A majority of the states in which we operate facilities in the United States have enacted certificate of need, or CON, laws that regulate the construction or expansion of healthcare facilities, certain capital expenditures or changes in services or bed capacity. In giving approval for these actions, these states consider the need for additional or expanded healthcare facilities or services. Our failure to obtain necessary state approval could (i) result in our inability to acquire a targeted facility, complete a desired expansion or make a desired replacement, (ii) make a facility ineligible to receive reimbursement under the Medicare or Medicaid programs or (iii) result in the revocation of a facility s license or impose civil or criminal penalties on us, any of which could harm our business.

In addition, significant CON reforms have been proposed in a number of states that would increase the capital spending thresholds and provide exemptions of various services from review requirements. In the past, we have not experienced any material adverse effects from such requirements, but we cannot predict the impact of these changes upon our operations.

***We may be unable to extend leases at expiration, which could harm our business, financial condition or results of operations.***

We lease the real property on which a number of our facilities are located. Our lease agreements generally give us the right to renew or extend the term of the leases and, in certain cases, purchase the real property. These renewal and purchase rights generally are based upon either prescribed formulas or fair market value. Management expects to renew, extend or exercise purchase options with respect to our leases in the normal course of business; however, there can be no assurance that these rights will be exercised in the future or that we will be able to satisfy the conditions precedent to exercising any such renewal, extension or purchase options. Furthermore, the terms of any such options that are based on fair market value are inherently uncertain and could be unacceptable or unfavorable to us depending on the circumstances at the time of exercise. If we are not able to renew or extend our existing leases, or purchase the real property subject to such leases, at or prior to the end of the existing lease terms, or if the terms of such options are unfavorable or unacceptable to us, our business, financial condition or results of operations could be adversely affected.

***Controls designed to reduce inpatient services may reduce our revenues.***

Controls imposed by Medicare, Medicaid and commercial third-party payors designed to reduce admissions and lengths of stay, commonly referred to as utilization review, have affected and are expected to continue to affect our facilities. Inpatient utilization, average lengths of stay and occupancy rates continue to be negatively affected by payor-required preadmission authorization and utilization review and by payor pressure to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. Efforts to impose more stringent cost controls are expected to continue. For example, the Health Reform Legislation potentially expands the use of prepayment review by Medicare contractors by eliminating statutory restrictions on its use.

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Utilization review is also a requirement of most non-governmental managed-care organizations and other third-party payors. Although we are unable to predict the effect these controls and changes will have on our operations, significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on our financial condition and results of operations.

Additionally, the outsourcing of behavioral healthcare to the private sector is a relatively recent development in the United Kingdom. There has been some opposition to outsourcing. While we anticipate that the NHS will continue to rely increasingly upon outsourcing, we cannot assure you that the outsourcing trend will continue. The absence of future growth in the outsourcing of behavioral healthcare services could have a material adverse impact on our business, financial condition and results of operations.

***Although we have facilities in 39 states, the United Kingdom and Puerto Rico, we have substantial operations in each of the United Kingdom, Pennsylvania and Arkansas, which makes us especially sensitive to regulatory, economic, environmental and competitive conditions and changes in those locations.***

On a pro forma basis, our revenues in the United Kingdom, Pennsylvania and Arkansas represented approximately 58% of our revenue for the year ended December 31, 2014 and approximately 56% of our revenue for the nine months ended September 30, 2015, as listed in the following table:

| | % of Total Revenue | |
|---|---|---|
| | Year Ended December 31, | Nine Months Ended September, |
| **State/Country** | **2014** | **2015** |
| United Kingdom | 47% | 45% |
| Pennsylvania | 6% | 6% |
| Arkansas | 5% | 5% |
| **Total** | **58%** | **56%** |

This concentration makes us particularly sensitive to legislative, regulatory, economic, environmental and competition changes in those locations. Any material change in the current payment programs or regulatory, economic, environmental or competitive conditions in these locations could have a disproportionate effect on our overall business results. If our facilities in these states are adversely affected by changes in regulatory and economic conditions, our business, financial condition or results of operations could be adversely affected.

In addition, some of our facilities are located in hurricane-prone areas. In the past, hurricanes have had a disruptive effect on the operations of facilities and the patient populations in hurricane-prone areas. Our business activities could be significantly disrupted by a particularly active hurricane season or even a single storm, and our property insurance may not be adequate to cover losses from such storms or other natural disasters.

***We are required to treat patients with emergency medical conditions regardless of ability to pay.***

In accordance with our internal policies and procedures, as well as EMTALA, we provide a medical screening examination to any individual who comes to one of our hospitals seeking medical treatment (whether or not such individual is eligible for insurance benefits and regardless of ability to pay) to determine if such individual has an emergency medical condition. If it is determined that such person has an emergency medical condition, we provide such further medical examination and treatment as is required to stabilize the patient s medical condition, within the facility s capability, or arrange for the transfer of the individual to another medical facility in accordance with applicable law and the treating hospital s written procedures. Our hospitals may face substantial civil penalties if we fail to provide appropriate screening and stabilizing treatment or fail to facilitate other appropriate transfers as required by EMTALA. Our obligations under EMTALA may increase substantially; CMS has recently sought stakeholder comments concerning the potential applicability of EMTALA to hospital inpatients and the responsibilities of hospitals with specialized capabilities, such as ours, to

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accept the transfer of such patients. If the number of indigent and charity care patients with emergency medical conditions we treat increases significantly, or if regulations expanding our obligations to inpatients under EMTALA are adopted, our results of operations may be harmed.

***An increase in uninsured or underinsured patients or the deterioration in the collectability of the accounts of such patients could harm our results of operations.***

Collection of receivables from third-party payors and patients is critical to our operating performance. Our primary collection risks relate to uninsured patients and the portion of the bill that is the patient s responsibility, which primarily includes co-payments and deductibles. We estimate our provisions for doubtful accounts based on general factors such as payor source, the agings of the receivables and historical collection experience. At September 30, 2015, our allowance for doubtful accounts represented approximately 12% of our accounts receivable balance as of such date. We routinely review accounts receivable balances in conjunction with these factors and other economic conditions that might ultimately affect the collectability of the patient accounts and make adjustments to our allowances as warranted. Significant changes in business office operations, payor mix, economic conditions or trends in federal and state governmental health coverage (including implementation of the Health Reform Legislation) could affect our collection of accounts receivable, cash flow and results of operations. If we experience unexpected increases in the growth of uninsured and underinsured patients or in bad debt expenses, our results of operations will be harmed.

***A cyber security incident could cause a violation of HIPAA and other privacy laws and regulations or result in a loss of confidential data.***

A cyber-attack that bypasses our information technology, or IT, security systems causing an IT security breach, loss of PHI or other data subject to privacy laws, loss of proprietary business information, or a material disruption of our IT business systems, could have a material adverse impact on our business, financial condition or results of operations. In addition, our future results of operations, as well as our reputation, could be adversely impacted by theft, destruction, loss, or misappropriation of PHI, other confidential data or proprietary business information.

***Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, could have a material adverse effect on our business.***

We are required to maintain internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act. If we are unable to maintain adequate internal control over financial reporting, we may be unable to report our financial information on a timely basis, may suffer adverse regulatory consequences or violations of NASDAQ listing rules and may breach the covenants under our financing arrangements. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. If we or our independent registered public accounting firm identify any material weakness in our internal control over financial reporting in the future (including any material weakness in the controls of businesses we have acquired), their correction could require additional remedial measures which could be costly, time-consuming and could have a material adverse effect on our business.

***As part of the Partnerships in Care acquisition, we assumed Partnerships in Care s existing pension plans and a defined contribution plan and are responsible for an underfunded pension liability. In addition, we may be required to increase funding of the pension plans and/or be subject to restrictions on the use of excess cash.***

Partnerships in Care is the sponsor of a defined benefit pension plan (the Partnerships in Care Limited Pension and Life Assurance Plan) that covers approximately 187 members in the United Kingdom, most of whom are inactive and retired former employees. As of May 1, 2005, this plan was closed to new participants but then-current participants continue to accrue benefits. As of September 30, 2015, the net deficit recognized under

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U.S. GAAP in respect of this scheme was £5.7 million. Although this underfunded position was considered in determining the purchase price for Partnerships in Care, it may adversely affect us as follows:

- Laws and regulations normally require a new funding plan to be agreed upon every three years. Changes in actuarial assumptions, including future discount, inflation and interest rates, investment returns and mortality rates, may increase the underfunded position of the pension plan and cause us to increase our contributions to the pension plan to cover underfunded liabilities.

- The pension plan is regulated in the United Kingdom, and trustees represent the interests of covered workers. Laws and regulations could create an immediate funding obligation to the pension plan which could be significantly greater than the £5.7 million as of September 30, 2015, and could impact the ability to use Partnerships in Care s existing cash or our future excess cash to grow the business or finance other obligations. The use of Partnerships in Care s cash and future cash flows beyond the operation of Partnerships in Care s business or the satisfaction of Partnerships in Care s obligations would require negotiations with the trustees and regulators.

We also assumed an additional pension plan (the Federated Pension Plan), of which fewer than five Partnerships in Care employees are participants, and a defined contribution plan (the Partnerships in Care Limited New Generation Personal Pension) under which participants receive contributions as a proportion of earnings. Maintenance of these plans may result in additional expenses. Termination of these plans could have an adverse impact on employee relations and a material adverse effect on our financial results.

***We incur substantial costs as a result of being a public company.***

As a public company, we incur significant legal, accounting, insurance and other expenses, including costs associated with public company reporting requirements. We incur costs associated with complying with the requirements of the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, and related rules implemented by the SEC and NASDAQ. Enacted in July 2010, the Dodd-Frank Act contains significant corporate governance and executive compensation-related provisions, some of which the SEC has recently implemented by adopting additional rules and regulations in areas such as executive compensation. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. Management expects these laws and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly, although management is currently unable to estimate these costs with any degree of certainty. These laws and regulations could make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

***We are party to a stockholders agreement with Waud Capital Partners and Bain Capital, which provides them with certain rights over Company matters.***

In accordance with the terms of the Amended and Restated Stockholders Agreement, Waud Capital Partners has the right to designate, following the expiration of the current term of directors designated by Waud Capital Partners, one nominee for election to the board of directors of the Company for one additional three-year term. Waud Capital Partners also retains a consent right over the removal of existing directors designated by Waud Capital Partners and any vacancies in such designated board seats may be filled by Waud Capital Partners prior to the expiration of the current terms of such directors. The merger agreement related to our acquisition of CRC provided that one designee of Bain Capital be appointed to our board of directors as a Class III director at the effective time of the merger.

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It is possible that the interests of Waud Capital Partners and Bain Capital may in some circumstances conflict with our interests and the interests of our stockholders.

***Provisions of our charter documents or Delaware law could delay or prevent an acquisition of us, even if the acquisition would be beneficial to our stockholders, and could make it more difficult for stockholders to change management.***

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. This is because these provisions may prevent or frustrate attempts by stockholders to replace or remove our management. These provisions include:

- a classified board of directors;
- a prohibition on stockholder action through written consent;
- a requirement that special meetings of stockholders be called only upon a resolution approved by a majority of our directors then in office;
- advance notice requirements for stockholder proposals and nominations; and
- the authority of the board of directors to issue preferred stock with such terms as the board of directors may determine.

Section 203 of the Delaware General Corporation Law, as amended, or DGCL, prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person that together with its affiliates owns or within the last three years has owned 15% of voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Although we have elected not to be subject to Section 203 of the DGCL, our amended and restated certificate of incorporation contains provisions that have the same effect as Section 203, except that they provide that Waud Capital Partners, its affiliates and any investment fund managed by Waud Capital Partners and any persons to whom Waud Capital Partners sells at least five percent (5%) of our outstanding voting stock will be deemed to have been approved by our board of directors, and thereby not subject to the restrictions set forth in our amended and restated certificate of incorporation that have the same effect as Section 203 of the DGCL. Accordingly, the provision in our amended and restated certificate of incorporation that adopts a modified version of Section 203 of the DGCL may discourage, delay or prevent a change in control of us.

As a result of these provisions in our charter documents and Delaware law, the price investors may be willing to pay in the future for shares of our common stock may be limited.

***We do not anticipate paying any cash dividends in the foreseeable future.***

We intend to retain our future earnings, if any, for use in our business or for other corporate purposes and do not anticipate that cash dividends with respect to common stock will be paid in the foreseeable future. Any decision as to the future payment of dividends will depend on our results of operations, financial position and such other factors as our board of directors, in its discretion, deems relevant. In addition, the terms of our debt substantially limit our ability to pay dividends. As a result, capital appreciation, if any, of our common stock will be a stockholder s sole source of gain for the foreseeable future.

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## THE ACQUISITION AND FINANCING TRANSACTIONS

**Acquisition of Priory**

On December 31, 2015, the Purchaser agreed to acquire the entire issued share capital of Priory Group No. 1 Limited, a company incorporated in England and Wales, pursuant to the Purchase Agreement by and among the Purchaser, Acadia, Priory and the shareholders of Priory listed on Schedule 1 thereto. Acadia joined the Purchase Agreement for the purpose of guarantying the Purchaser s obligations arising under the Purchase Agreement. Under the terms of the Purchase Agreement, (i) the Purchaser will pay cash consideration of approximately £1.275 billion, which includes approximately £925 million to be used to repay the outstanding balances of the debt facilities of the target companies, and (ii) an aggregate of 5,363,000 shares of our common stock, $0.01 par value per share, will be issued to Advent, subject to adjustment as further described below. There may be minor adjustments to the split of cash consideration referred to above prior to closing as a result of accruals of preference dividend and interest on the Priory preference shares and shareholder debt. However, these accruals of preference dividend and interest will not result in an increase in the aggregate consideration payable by Acadia.

The entities to be acquired by Acadia owned and operated 322 inpatient behavioral health facilities with over 7,000 beds as of September 30, 2015. The facilities are located in England, Wales, Scotland and Northern Ireland. For the year ended December 31, 2014 and the nine months ended September 30, 2015, Priory generated revenue of £520.7 million (approximately $858.0 million) and £424.5 million (approximately $650.5 million), respectively, primarily through the operation and management of inpatient behavioral health facilities.

Subject to market conditions, including the amount of proceeds generated from and the initial public offering price of the shares in this offering, Acadia may elect or be required under the Purchase Agreement to pay the net proceeds of this offering in excess of the equivalent of £400 million (based on the then applicable exchange rate) to Advent in lieu of issuing all or a portion of the 5,363,000 shares of our common stock issuable to Advent at closing of the Acquisition. If the initial public offering price of the shares in this offering is less than an agreed upon price per share pursuant to the Purchase Agreement, then Acadia may agree to issue additional shares of its common stock for no additional consideration to Advent at closing of the Acquisition such that the aggregate of the number of shares of Acadia common stock so issued, together with the 5,363,000 shares issuable to Advent, all valued at the initial public offering price of the shares in this offering, would be equal to a specified dollar amount, and if Acadia declines to do so, Advent may terminate the Purchase Agreement.

The Purchase Agreement contains certain customary warranties by the parties, including, without limitation, warranties about the authorization of the parties to enter into the Acquisition and perform their obligations under the Purchase Agreement and, in the case of the sellers of the interests in Priory, their ownership of the Priory interests. The Purchase Agreement does not provide either party with indemnification rights. Either party may terminate the Purchase Agreement if the CMA makes or imposes any order, undertaking or obligation that prohibits closing of the Acquisition. The parties may also terminate the Purchase Agreement in certain circumstances if the other party is in breach of its obligations at closing.

In the Purchase Agreement, the sellers of the interests in Priory agreed among other things that, prior to the closing, they shall (i) use reasonable endeavors to procure that no target company shall take certain identified actions without the prior written consent of the Purchaser; (ii) furnish certain required financial statements of the target companies and such other financial information as may be necessary in connection with the Financing Transactions; (iii) assist Acadia with the preparation of customary offering documents and information memoranda and similar documents in connection with the Financing Transactions, deliver (or cause its accountants to deliver) accountants comfort letters and consents of accountants for use of their reports in any required filings, provide customary authorization letters for Acadia s financing transactions and cooperate with Acadia s marketing efforts; and (iv) issue notices of redemption and procure bond payoff amounts with respect to Priory s outstanding senior secured and senior unsecured bonds. The Purchaser and Acadia have agreed (i) to maintain in effect the debt financing commitment letter and not to amend or modify the debt financing

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commitment letter in any way that would impose new or additional conditions, prevent or delay closing of the Acquisition or adversely and materially impact the ability of the Purchaser to enforce its rights under the debt financing commitment letter, and (ii) to satisfy all conditions under the debt financing commitment letter within its control and, in the event such debt financing becomes unavailable, to obtain alternative debt financing. Acadia has also agreed not to take certain actions, such as equity issuances, payment of dividends, asset sales, and the incurrence of debt, subject to exceptions, until the earlier of closing and termination of the Purchase Agreement.

We expect to close the Acquisition on February 16, 2016. Closing of the Acquisition is subject to very limited conditions, including primarily the absence of certain regulatory or legal challenges to the Acquisition. Consummation of this offering is not conditioned upon the closing of the Acquisition or any of the other Financing Transactions. We cannot assure you that the Acquisition will close as expected or at all. In addition, even if the Acquisition or other Financing Transactions for the Acquisition do not occur, the shares of our common stock sold in this offering will remain outstanding, and we will not have any obligation to offer to repurchase any or all of such shares. See Risk Factors Risks Relating to the Acquisition We may be unable to complete our planned acquisition of Priory on currently anticipated terms, or at all. Failure to consummate the Acquisition could negatively affect us.

**Second Amended and Restated Registration Rights Agreement**

Concurrently with the execution of the Merger Agreement, Acadia entered into a Third Amended and Restated Registration Rights Agreement, or the New Registration Rights Agreement, with the parties named in the agreement. The New Registration Rights Agreement amends and replaces the existing Second Amended and Restated Registration Rights Agreement dated as of October 29, 2014, as amended, or the Existing Registration Rights Agreement. Subject to certain limitations and effective as of December 31, 2015, the New Registration Rights Agreement amends the Existing Registration Rights Agreement to provide registration rights to Advent with respect to the shares of Acadia common stock it receives pursuant to the Purchase Agreement. Upon the closing of the Acquisition, the New Registration Rights Agreement grants certain stockholders demand registration rights for registered offerings and piggyback registration rights with respect to the Company s securities. All expenses incident to registrations are required to be borne by Acadia. In connection with the New Registration Rights Agreement, the parties to the New Registration Rights Agreement have agreed not to sell their Acadia securities for a specified period of time.

**Strategic Rationale**

We expect to realize significant benefits from the Acquisition. Our rationale for the acquisition includes the following:

*Expand our geographic presence in the United Kingdom market*. The mental health market in the United Kingdom was roughly £14.4 billion in 2011. The independent mental health market accounted for roughly £1.1 billion of that amount, or approximately 8% market share. As a result of government budget constraints and an increased focus on quality, the independent mental he