Section 1: 8-K/A (8-K/A)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
Date of Report (Date of earliest event reported): May 17, 2018 (March 1, 2018)

AAC HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Nevada	001-36643	35-2496142
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

200 Powell Place
Brentwood, Tennessee 37207
(Address of principal executive offices) (Zip Code)

(615) 732- 1231
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☒

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

EXPLANATORY NOTE

This Amendment No. 1 (this "Amendment") is being filed by AAC Holdings, Inc., a Nevada corporation ("AAC"), to provide the consolidated financial statements and pro forma financial information that was not included in the Current Report on Form 8-K filed by AAC on March 2, 2018 (the "Original Report"), relating to the acquisition of all of the outstanding capital stock of AdCare, Inc., a Massachusetts corporation ("AdCare"), pursuant to that certain Securities Purchase Agreement, dated as of September 13, 2017, by and among AAC, AAC Healthcare Network, Inc., a Delaware corporation and wholly owned subsidiary of AAC, AdCare and AdCare Holding Trust, a Massachusetts business trust.

The sole purpose of this Amendment is to provide the consolidated financial statements and pro forma financial information required by Item 9.01, which was not included in the Original Report.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

The audited financial statements of AdCare for the years ended September 30, 2017, September 30, 2016, and September 30, 2015, together with the notes thereto and the independent auditors' reports thereon, are filed as Exhibit 99.1 and are hereby incorporated in this Amendment by reference.

The unaudited financial statements of AdCare for the three months ended December 31, 2017 and 2016, and the notes related thereto, are filed as Exhibit 99.2 and are incorporated in this Amendment by reference.

(b) Pro Forma Financial Information.

AAC's unaudited pro forma condensed combined statements of operations for the year ended December 31, 2017 and the three months ended March 31, 2018, and the notes related thereto, are filed as Exhibit 99.3 and are hereby incorporated in this Amendment by reference.

(c) Exhibits.

Exhibit No.	Description
23.1	Consent of O'Connor, Maloney & Company, P.C., independent auditors.
23.2	Consent of BDO USA, LLP, independent auditor.
99.1	Audited Consolidated Financial Statements of AdCare, Inc. and Subsidiaries for the years ended September 30, 2017, September 30, 2016, and September 30, 2015, together with the notes related thereto and the independent auditors' reports thereon.
99.2	Unaudited Condensed Consolidated Financial Statements of AdCare, Inc. and Subsidiaries for the three months ended December 31, 2017 and 2016, and the notes related thereto.
99.3	Unaudited pro forma condensed combined statements of operations of AAC Holdings, Inc. for the year ended December 31, 2017 and the three months ended March 31, 2018, and the notes related thereto.

SIGNATURES

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

AAC HOLDINGS, INC.

By: /s/ Michael T. Cartwright
Michael T. Cartwright
Chairman and Chief Executive Officer

Date: May 17, 2018

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Section 2: EX-23.1 (EX-23.1)

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITOR

AAC Holdings, Inc.
Brentwood, Tennessee

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-199161, 333-201218, and 333-218053) of AAC Holdings, Inc. of our report dated May 17, 2018 relating to the consolidated financial statements of AdCare, Inc. and Subsidiaries, for the year ended September 30, 2015, included in this current report on Form 8-K/A.

/s/ O'Connor, Maloney & Company, P.C.

Worcester, Massachusetts
May 17, 2018

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Section 3: EX-23.2 (EX-23.2)

Exhibit 23.2

CONSENT OF INDEPENDENT AUDITOR

AAC Holdings, Inc.
Brentwood, Tennessee

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-199161, 333-201218, and 333-218053) of AAC Holdings, Inc. of our report dated May 17, 2018 relating to the consolidated financial statements of AdCare, Inc. and Subsidiaries, included in this current report on Form 8-K/A.

/s/ BDO USA, LLP

Nashville, Tennessee

May 17, 2018

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Section 4: EX-99.1 (EX-99.1)

Exhibit 99.1

Independent Auditor's Report

The Board of Directors
AdCare, Inc. and Subsidiaries
Worcester, Massachusetts

We have audited the accompanying consolidated financial statements of AdCare, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of September 30, 2017 and 2016, and the related consolidated statements of income and retained earnings and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AdCare, Inc. and Subsidiaries as of September 30, 2017 and 2016 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Nashville, Tennessee
May 17, 2018

Independent Auditor’s Report

The Board of Directors
AdCare, Inc. and Subsidiaries
Worcester, Massachusetts

Report on the Financial Statements

We have audited the accompanying consolidation statements of income, retained earnings and of cash flows of AdCare, Inc. and Subsidiaries for the year ended September 30, 2015 and the related notes thereto.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of AdCare, Inc. and Subsidiaries, for the year ended September 30, 2015, in conformity with accounting principles generally accepted in the United States of America.

/s/ O’Connor, Maloney & Company, P.C.

Worcester, Massachusetts
May 17, 2018

ADCARE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2017	September 30, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 10,424,164	$ 11,370,618
Accounts receivable, net	4,552,658	4,046,771
Inventories	160,882	162,228
Prepaid expenses and other current assets	671,570	398,339
Deferred income taxes, net	31,831	74,776
Total current assets	15,841,105	16,052,732
Property and equipment, net	9,103,472	9,695,963
Due from stockholders of parent, AdCare Holding Trust	320,154	298,075
Deferred tax assets, net	39,334	126,933
Deposits	26,215	14,395
Total assets	$ 25,330,280	$ 26,188,098
Liabilities and Stockholder's Equity		
Current liabilities		
Deferred revenue	$ —	$ 3,805
Accounts payable	733,955	873,168
Accrued and other current liabilities	2,624,357	3,630,758
Due to third-party payors	902,852	978,093
Total current liabilities	4,261,164	5,485,824
Deferred income taxes, net	1,237	1,862
Due to third-party payors, net of current portion	1,100,000	4,700,000
Total liabilities	5,362,401	10,187,686
Stockholder's equity		
Capital stock	28,002	28,002
Retained earnings	19,939,877	15,972,410
Total stockholder's equity	19,967,879	16,000,412
Total liabilities and stockholder's equity	$ 25,330,280	$ 26,188,098

See accompanying notes to consolidated financial statements.

ADCARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	Year Ended September 30,		
	2017	**2016**	**2015**
Revenues			
Patient service revenue	$ 53,558,462	$ 50,444,269	$ 49,523,272
Provision for bad debts	(1,343,355)	(1,534,035)	(1,073,420)
Net patient service revenue	52,215,107	48,910,234	48,449,852
Meaningful use revenue	(147)	332,329	727,225
Other operating revenue	615,245	501,094	1,125,477
Total net revenue	52,830,205	49,743,657	50,302,554
Operating expenses			
Professional services	30,205,601	30,127,912	29,633,028
General services	5,064,178	4,943,636	4,705,378
Administrative services	6,283,082	5,741,067	6,334,196
Depreciation and amortization	946,572	1,057,921	861,570
Total operating expenses	42,499,433	41,870,536	41,534,172
Income from operations	10,330,772	7,873,121	8,768,382
Other income (expense)			
Interest and dividend income	24,820	68,238	60,370
Unrealized loss on investments	—	—	(72,814)
Realized (loss) gain on investments	—	(60,990)	12,550
(Loss) gain on disposal of property, plant and equipment	—	(9,868)	9,582
Interest expense	(17,796)	(22,168)	(44,612)
Total other income (expense)	7,024	(24,788)	(34,924)
Income before income taxes	10,337,796	7,848,333	8,733,458
Income tax expense	295,078	256,839	255,701
Net income	10,042,718	7,591,494	8,477,757
Retained earnings, beginning	15,972,410	14,826,601	11,828,882
Distributions to stockholder	(6,075,251)	(6,445,685)	(5,480,038)
Retained earnings, ending	$ 19,939,877	$ 15,972,410	$ 14,826,601

See accompanying notes to consolidated financial statements.

ADCARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended September 30,		
	2017	**2016**	**2015**
Cash Flows from operating activities:			
Net income	10,042,718	7,591,494	8,477,757
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized and unrealized loss on investments	—	60,990	60,264
Loss (gain) on disposal of property, plant and equipment	—	9,868	(9,582)
Depreciation and amortization	946,572	1,057,921	861,570
Provision for bad debts	1,343,355	1,534,035	1,073,420
Deferred income taxes	129,919	41,242	30,267
Changes in operating assets and liabilities			
Increase in accounts receivable	(1,849,242)	(245,201)	(2,097,213)
Decrease in receivable - affiliate	—	—	211,178
Decrease (increase) in inventories	1,346	12,011	(58,892)
(Increase) decrease in prepaid expenses, deposits and other	(307,130)	62,832	162,975
(Decrease) increase in deferred revenue	(3,805)	(40,314)	44,119
(Decrease) increase in accounts payable	(139,213)	(131,646)	230,516
Decrease in accrued and other liabilities	(1,006,401)	(1,473,015)	(305,088)
(Decrease) increase in due to third-party payors	(3,675,241)	(125,765)	849,493
Net cash provided by operating activities	5,482,878	8,354,452	9,530,784
Cash flows from investing activities:			
Proceeds from sale of investments	—	1,266,222	—
Proceeds from sale of property, plant and equipment	—	17,000	20,000
Cash held in escrow for capital expenditures	—	—	2,315,747
Purchase of investments	—	—	(46,477)
Capital expenditures	(354,081)	(1,126,733)	(4,485,603)
Net cash (used in) provided by investing activities	(354,081)	156,489	(2,196,333)
Cash flows from financing activities:			
Proceeds from bank note payable	—	—	2,500,000
Distributions	(6,075,251)	(6,445,685)	(5,480,038)
Repayments on bank note payable	—	(2,225,000)	(275,000)
Net cash used in financing activities	(6,075,251)	(8,670,685)	(3,255,038)
Net (decrease) increase in cash and cash equivalents	(946,454)	(159,744)	4,079,413
Cash and cash equivalents, beginning of year	11,370,618	11,530,362	7,450,949
Cash and cash equivalents, end of year	$ 10,424,164	$ 11,370,618	$ 11,530,362
Supplemental Disclosure of Cash Flows:			
Cash paid for interest	17,796	22,168	44,612
Cash paid for income taxes	155,803	215,995	224,004

See accompanying notes to consolidated financial statements.

1. Nature of Operations

AdCare, Inc. and Subsidiaries (the "Company"), headquartered in Worcester, Massachusetts, provide effective treatment, intervention, prevention and education in the specialty field of behavioral services with particular emphasis on substance abuse.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of AdCare, Inc., and its wholly-owned subsidiaries: AdCare Hospital of Worcester, Inc.; AdCare Rhode Island, Inc.; Diversified Healthcare Strategies, Inc.; AdCare Criminal Justice Services, Inc. and its wholly-owned subsidiary, American Criminal Justice Solutions of Pennsylvania, Inc.; Green Hill Realty Corporation; Lincoln Catharine Realty Corporation; and Tower Hill Realty, Inc. All material intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition

Revenue is recognized as services are provided. Revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Company follows accounting guidance that requires certain health care entities to present the provision for bad debts related to patient service revenue as a deduction from the patient service revenues in the statements of income and retained earnings rather than as an operating expense. The Company has evaluated the guidance and concluded that it recognizes significant amounts of patient service revenue (primarily co-payments and deductibles) at the time services are rendered that are not subject to an assessment as to the patient's ability to pay. Accordingly, the Company presents the provision for bad debts net of revenue in the accompanying consolidated statements of income and retained earnings in accordance with accounting principles generally accepted in the United States.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management's estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements, and certain reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. During the year ended September 30, 2017, the Company had a material change in estimate (see Note 8).

Cash and Cash Equivalents

The Company considers cash on hand and short term investments with original maturities of three months or less to be cash and cash equivalents.

Accounts Receivable

Accounts receivable primarily consists of amounts due from third-party payors (governmental and non-governmental) and private pay clients and is recorded net of contractual allowances. The Company's ability to collect outstanding receivables is critical to its results of operations and cash flows. Accounts receivable is reported net of an allowance for doubtful accounts, which is management's best estimate of accounts receivable that could become uncollectible in the future. Accordingly, accounts receivable reported in the Company's consolidated financial statements is recorded at the net amount expected to be received. The Company's allowance for doubtful accounts is based on historical experience, but management also takes into consideration the age of accounts and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. An account is written off only after the Company has pursued collection efforts or otherwise determines an account to be uncollectible. The Company's allowance for doubtful accounts was established primarily for uncollectible amounts due from patients for co-payments and deductibles.

Property, Plant and Equipment

Property, plant, and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets. Useful lives range from 15-39 years for buildings and improvements, 3-7 years for equipment and 5 years for motor vehicles. Expenditures representing additions or improvements are capitalized. Maintenance and repairs are charged to expense as incurred. Upon retirement or disposition, costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized in income.

Inventories

Inventories, which consist of hospital related supplies, are stated at the lower of cost, determined on the first-in, first-out (FIFO) method, or net realizable value.

Income Taxes

AdCare, Inc. has elected to be treated as a Qualified Subchapter S Subsidiary of the AdCare Holding Trust, a Massachusetts Business Trust within the meaning of Section 1361 of the Internal Revenue Code and as a result, files a consolidated S Corporation Federal income tax return and certain state income tax returns with AdCare Holding Trust. Under these provisions, AdCare, Inc. does not pay Federal corporate income taxes and certain state income taxes on its taxable income. Instead, AdCare, Inc.'s taxable income or net operating loss is reported on the AdCare Holding Trust's Federal income tax return and certain state income tax returns and flows through to its stockholders' individual Federal and certain state income tax returns. The Company has concluded it is a pass through entity and there are no uncertain tax positions that would require recognition in the Company's consolidated financial statements. If the Company were to incur an income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties in the accompanying consolidated statements of income and retained earnings. Generally, the Company's tax returns remain subject to examination for a period of three years.

For states that do not recognize the Company's Qualified Subchapter S Subsidiary election, deferred income taxes result from temporary differences arising from using accelerated depreciation methods for income tax purposes and the straight-line method of depreciation for financial statement purposes, and for recognizing bad debts under the direct write-off method for income tax purposes and under the allowance method for financial statement purposes. Temporary differences also arise from accruing various expenses for financial statement purposes that are not deductible until paid for income tax purposes.

Investments

Investments are stated at fair value based on quoted prices from a national securities exchange. Realized and unrealized gains or losses are recognized in the period in which the fluctuations occur. During the year ended September 30, 2016, the Company liquidated its investments resulting in a realized loss of approximately $61,000, which is recorded in realized loss on investments in the accompanying consolidated statements of income and retained earnings. During the year ended September 30, 2015, the Company had realized and unrealized losses of approximately $60,000.

3. Recent Pronouncements

Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Three basic transition methods are available – full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the cumulative effect alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Under ASU 2015-14, *Deferral of the Effective Date*, the revenue recognition standard is effective for nonpublic business entities for annual reporting periods beginning after December 15, 2018. The Company is currently evaluating the provisions of this standard to determine the impact on the Company's consolidated financial statements.

ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, requires that all deferred tax liabilities and assets of the same tax jurisdiction or a tax filing group, as well as any related valuation allowance, be offset and presented as a single noncurrent amount in a classified balance sheet. However, an entity should not offset deferred tax liabilities and assets attributable to different tax-paying components of the entity or to different tax jurisdictions, consistent with the guidance under existing U.S. GAAP. Therefore, for many reporting entities, deferred income taxes will be presented in noncurrent assets and noncurrent liabilities. The ASU is effective for nonpublic business entities for fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of any interim or annual reporting period. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

ASU 2016-02, *Leases*, applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. For leases with a lease term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification. The ASU is effective for nonpublic business entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the provisions of this standard to determine the impact on the Company's consolidated financial statements.

4. Accounts Receivable, Net

	September 30, 2017	September 30, 2016
Accounts receivable consists of:		
Accounts receivable, patients, net of allowance for doubtful accounts of approximately $665,000 and $760,000 and contractual allowances of approximately $4,237,000 and $3,895,000, respectively	$ 4,506,514	$ 4,005,702
Accounts receivable, other	46,144	41,069
Total Accounts Receivable, Net	$ 4,552,658	$ 4,046,771

5. Property, Plant and Equipment

	September 30, 2017	September 30, 2016
Land	$ 2,073,795	$ 2,073,795
Buildings and improvements	11,824,344	11,652,846
Equipment	3,501,032	3,403,317
Custodial assets	499,910	499,910
Motor vehicles	468,493	383,625
Total property, plant and equipment	18,367,574	18,013,493
Less: accumulated depreciation	(9,264,102)	(8,317,530)
Property, Plant and Equipment, Net	$ 9,103,472	$ 9,695,963

Custodial assets consist of assets acquired with funds provided by the Commonwealth of Massachusetts through a capital budget. The title to these assets remains with the state.

6. Line of Credit

The Company, and certain subsidiaries as co-borrowers, had $1,500,000 of borrowings available under a demand line of credit agreement with a bank that was secured by substantially all assets of the Company. The line of credit was closed on February 26, 2018. No amounts were outstanding under the line of credit as of September 30, 2017 and 2016.

7. Bank Note Payable

The Company entered into a $3,000,000 term loan on September 30, 2014 with a bank that was secured by the assets of Tower Hill Realty, Inc. and guaranteed by the Parent. Principal payments of $25,000 were to be made in 120 monthly installments plus interest at a rate of 1.75% above the LIBOR rate with the final balance due on or before September 30, 2021. The balance was repaid in full in March 2016.

8. Due to Third-Party Payors

Revenue received under reimbursement agreements is subject to audit and retroactive adjustments by third-party payors. The Company also qualifies for disproportionate share hospital (“DSH”) payments for services performed to certain Medicaid patients through the Centers for Medicare & Medicaid Services (“CMS”). During 2017, several rulings were made in favor of healthcare providers regarding the treatment of DSH days. The Company released and recognized approximately $3,600,000 in reserves for several cost report years that were closed and determined would not likely be reopened for audit.

As of September 30, 2017 and 2016, amounts reflected in due to third party payors are as follows:

	September 30, 2017	September 30, 2016
Due to third party payors, current portion	$ 902,852	$ 978,093
Due to third party payors, net of current portion	1,100,000	4,700,000
Total Due to Third Party Payors	$ 2,002,852	$ 5,678,093

9. Retirement Plan

AdCare, Inc. maintains a defined contribution retirement (profit sharing) plan covering substantially all employees of the Company and its subsidiaries. Contributions, which are discretionary and determined by the Board of Directors, totaled $150,000 during the years ended September 30, 2017 and 2016, and $160,000 in 2015.

10. Income Taxes

	September 30, 2017	September 30, 2016	September 30, 2015
State:			
Current	$ 165,159	$ 215,597	$ 225,278
Deferred	129,919	41,242	30,423
Total	$ 295,078	$ 256,839	$ 255,701

11. Operating Leases

AdCare Hospital of Worcester, Inc., AdCare, Inc., AdCare Rhode Island, Inc., and AdCare Criminal Justice Services, Inc. as lessees, lease various equipment and facilities under non-cancelable operating leases that expire at various intervals through November 2022.

The following is a schedule of minimum future lease payments required under these leases, which have initial or remaining terms in excess of one year, for each of the next five years and in the aggregate, as of September 30, 2017:

Year Ending September 30,		Amount
2018	$	605,000
2019		375,000
2020		305,000
2021		95,000
2022		65,000
Total Future Minimum Lease Payments	$	1,445,000

Rent expense under leasing arrangements with unrelated parties having remaining terms in excess of one year was approximately $682,000, $669,000 and $878,000 for the years ended September 30, 2017, 2016, and 2015, respectively.

AdCare Rhode Island, Inc. subleased facilities to a tenant under a month to month lease agreement. The lease called for minimum monthly lease payments of $17,000 and service fees of $3,500. Rental and service fee income was approximately $246,000 for the years ended September 30, 2017, 2016 and 2015, which is presented in other operating revenue in the accompanying consolidated statements of income and retained earnings. The lease was terminated on October 31, 2017.

12. Contingencies

Due to the nature of its operations, the Company may be exposed to various professional liability claims for which it carries insurance. At September 30, 2017, the Company is a defendant in unrelated claims by former employees and an applicant regarding employment practices. While it is not feasible to predict or determine the outcome of these matters, it is the opinion of management that the outcome will have no material adverse effect on the Company's financial position.

The American Recovery and Reinvestment Act of 2009 established incentive payments under Medicare and Medicaid programs for certain professionals and hospitals that implemented "meaningful use" of certified electronic health record technology. In accordance with the American Institute of Certified Public Accountants Healthcare Expert Panel, incentive payment income should be reported in the year in which the last contingency is resolved. The Company is eligible for the incentive payments under this program. The Company filed its final attestations related to stage two of this program on March 7, 2016. During the years ended September 30, 2016 and 2015, the Company received approximately $332,000 and $727,000, respectively, of Meaningful Use reimbursement. The Company did not receive any Meaningful Use reimbursement during the year ended September 30, 2017; however, the Company repaid $147 of overpayments of meaningful use revenue during the year ended September 30, 2017.

13. Related Party Transactions

The Company paid amounts amounting to approximately $506,000, $765,000 and $696,000 to a company owned by a Director for professional services rendered during the years ended September 30, 2017, 2016 and 2015, respectively. The Company received rental income amounting to approximately $8,400, $12,000 and $12,500 during the years ended September 30, 2017, 2016 and 2015, respectively, from a company owned by the Director. The arrangements were terminated on June 1, 2017. The Director is not an owner of the Company.

The Company had a receivable from a related party of approximately $389,000 as of September 30, 2015.

The Company makes premium payments for a $2.0 million life insurance policy on behalf of certain stockholders of the Parent. Premium payments were approximately $22,000 for the years ended September 30, 2017 and 2016. The Company is not a beneficiary of the policy as proceeds will be paid directly to the trustees of the policy. Upon death, proceeds received by the trustees will first be used to repay the Company for the premiums paid on the stockholders' behalf which amount to approximately $320,000 and $298,000 as of September 30, 2017 and 2016, respectively.

14. Concentrations

The Company maintains financial instruments, consisting primarily of cash and cash equivalents and accounts receivable, which potentially expose the Company to concentrations of credit risk. Cash and cash equivalents are held at local banks and the Company historically has not experienced any losses on its cash and cash equivalents. In the ordinary course of business, the Company has, at various times, had cash deposits with a bank which are in excess of federally insured limits of $250,000 for interest and non-interest bearing accounts.

The Company's accounts receivable are due from Medicare, Medicaid, commercial insurers, state government agencies and other payors. For the years ended September 30, 2017 and September 30, 2016, approximately 58% and 56% of the Company's revenue was earned from two payors, respectively, that individually account for more than 10% of annual revenue. These two customers made up approximately 55% and 50% of accounts receivable as of September 30, 2017 and 2016, respectively.

15. Sale of AdCare, Inc. and Subsidiaries

On March 1, 2018, the Company was acquired by a wholly-owned subsidiary of AAC Holdings, Inc. for approximately $83.9 million.

16. Subsequent Events

AdCare, Inc. and Subsidiaries has evaluated all material subsequent events from September 30, 2017 through May 17, 2018, the date the consolidated financial statements were available to be issued, and determined that there were no additional items requiring disclosure in these consolidated financial statements.

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Section 5: EX-99.2 (EX-99.2)

Exhibit 99.2

ADCARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2017	September 30, 2017
Assets	(unaudited)	
Current assets		
Cash and cash equivalents	$ 9,420,114	$ 10,424,164
Accounts receivable, net	4,072,035	4,552,658
Inventories	160,881	160,882
Prepaid expenses and other current assets	697,846	671,570
Deferred tax assets, net	23,978	31,831
Total current assets	14,374,854	15,841,105
Property and equipment, net	9,042,348	9,103,472
Due from stockholders of parent, AdCare Holding Trust	320,154	320,154
Deferred tax assets, net	45,950	39,334
Deposits	26,215	26,215
Total assets	$ 23,809,521	$ 25,330,280
Liabilities and Stockholder's Equity		
Current liabilities		
Accounts payable	$ 916,670	$ 733,955
Accrued and other current liabilities	2,523,593	2,624,357
Due to third-party payors	952,272	902,852
Total current liabilities	4,392,535	4,261,164
Deferred income taxes, net	—	1,237
Due to third-party payors, net of current portion	1,100,000	1,100,000
Total liabilities	5,492,535	5,362,401

Stockholder's equity		
Capital stock	28,002	28,002
Retained earnings	18,288,984	19,939,877
Total Stockholder's equity	18,316,986	19,967,879
Total liabilities and Stockholder's equity	$ 23,809,521	$ 25,330,280

See accompanying notes to condensed consolidated financial statements.

ADCARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
UNAUDITED

	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016
Revenues		
Patient service revenue	$ 12,202,155	$ 12,233,151
Provision for bad debts	(337,738)	(349,300)
Net patient service revenue	11,864,417	11,883,851
Other operating revenue	81,293	152,739
Total net revenue	11,945,710	12,036,590
Operating expenses		
Professional services	7,632,552	7,531,756
General services	1,219,251	1,280,734
Administrative services	1,912,382	1,725,541
Depreciation and amortization	204,977	269,220
Total operating expenses	10,969,162	10,807,251
Income from operations	976,548	1,229,339
Other income (expense)		
Interest and dividend income	12,711	5,468
Interest expense	—	(14,067)
Total other income (expense)	12,711	(8,599)
Income before income taxes	989,259	1,220,740
Income tax expense	29,006	36,203
Net income	960,253	1,184,537
Retained earnings, beginning	19,939,877	15,972,410
Distributions to stockholder	(2,611,146)	(1,677,900)
Retained earnings, ending	$ 18,288,984	$ 15,479,047

See accompanying notes to condensed consolidated financial statements.

ADCARE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

	Three Months Ended December 31,	
	2017	**2016**
Cash Flows provided by operating activities:		
Net income	960,253	1,184,537
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	204,977	269,220
Provision for bad debts	337,738	349,300
Deferred income taxes	—	1
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivable	142,885	(371,440)
Decrease in inventories	1	—
(Increase) decrease in prepaid expenses, deposits and other	(26,276)	20,527
Decrease in deferred revenue	—	(3,805)
Increase in accounts payable	182,715	136,936
Decrease in accrued and other liabilities	(100,764)	(424,839)
Increase in due to third-party payors	49,420	22,395
Net cash provided by operating activities	1,750,949	1,182,832
Cash flows from investing activities:		
Capital expenditures	(143,853)	(101,533)
Net cash used in investing activities	(143,853)	(101,533)
Cash flows used in financing activities:		
Distributions	(2,611,146)	(1,677,900)
Net cash used in financing activities	(2,611,146)	(1,677,900)
Net decrease in cash and cash equivalents	(1,004,050)	(596,601)
Cash and cash equivalents, beginning of period	10,424,164	11,370,618
Cash and cash equivalents, end of period	$ 9,420,114	$ 10,774,017

See accompanying notes to condensed consolidated financial statements.

1. Nature of Operations

AdCare, Inc. and Subsidiaries (the “Company”), headquartered in Worcester, Massachusetts, provide effective treatment, intervention, prevention and education in the specialty field of behavioral services with particular emphasis on substance abuse.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of AdCare, Inc., and its wholly-owned subsidiaries: AdCare Hospital of Worcester, Inc.; AdCare Rhode Island, Inc.; Diversified Healthcare Strategies, Inc.; AdCare Criminal Justice Services, Inc. and its wholly-owned subsidiary, American Criminal Justice Solutions of Pennsylvania, Inc.; Green Hill Realty Corporation, Lincoln Catharine Realty Corporation, and Tower Hill Realty, Inc. All material intercompany balances and transactions have been eliminated in consolidation.

The accompanying condensed consolidated financial statements are unaudited, with the exception of the September 30, 2017 balance sheet, which is consistent with the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for a complete set of financial statements. The information contained in these condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto for the fiscal year ended September 30, 2017. Management believes that all adjustments of a normal, recurring nature considered necessary for a fair presentation have been included. In addition, the interim financial information does not necessarily represent or indicate what the operating results will be for the year ending September 30, 2018 for many reasons including, but not limited to, acquisitions, dispositions, capital financing transactions, changes in interest rates and the effects of other trends, risks and uncertainties.

Revenue Recognition

Revenue is recognized as services are provided. Revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Company follows accounting guidance that requires certain health care entities to present the provision for bad debts related to patient service revenue as a deduction from the patient service revenues in the statements of income and retained earnings rather than as an operating expense. The Company has evaluated the guidance and concluded that it recognizes significant amounts of patient service revenue (primarily co-payments and deductibles) at the time services are rendered that are not subject to an assessment as to the patient’s ability to pay. Accordingly, the Company presents the provision for bad debts net of revenue in the accompanying consolidated statements of income and retained earnings in accordance with accounting principles generally accepted in the United States.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management’s estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements, and certain reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers cash on hand and short-term investments with original maturities of three months or less to be cash and cash equivalents.

Accounts Receivable

Accounts receivable primarily consists of amounts due from third-party payors (governmental and non-governmental) and private pay clients and is recorded net of contractual allowances. The Company's ability to collect outstanding receivables is critical to its results of operations and cash flows. Accounts receivable is reported net of an allowance for doubtful accounts, which is management's best estimate of accounts receivable that could become uncollectible in the future. Accordingly, accounts receivable reported in the Company's consolidated financial statements is recorded at the net amount expected to be received. The Company's allowance for doubtful accounts is based on historical experience, but management also takes into consideration the age of accounts and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. An account is written off only after the Company has pursued collection efforts or otherwise determines an account to be uncollectible. The Company's allowance for doubtful accounts was established primarily for uncollectible amounts due from patients for co-payments and deductibles.

Property, Plant and Equipment

Property, plant, and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets. Useful lives range from 15-39 years for buildings and improvements, 3-7 years for equipment and 5 years for motor vehicles. Expenditures representing additions or improvements are capitalized. Maintenance and repairs are charged to expense as incurred. Upon retirement or disposition, costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized in income.

Inventories

Inventories, which consist of hospital related supplies, are stated at the lower of cost, determined on the first-in, first-out (FIFO) method, or net realizable value.

Income Taxes

AdCare, Inc. has elected to be treated as a Qualified Subchapter S Subsidiary of the AdCare Holding Trust, a Massachusetts Business Trust within the meaning of Section 1361 of the Internal Revenue Code and as a result, files a consolidated S Corporation Federal income tax return and certain state income tax returns with AdCare Holding Trust. Under these provisions, AdCare, Inc. does not pay Federal corporate income taxes and certain state income taxes on its taxable income. Instead, AdCare, Inc.'s taxable income or net operating loss is reported on the AdCare Holding Trust's Federal income tax return and certain state income tax returns and flows through to its stockholders' individual Federal and certain state income tax returns. The Company has concluded it is a pass through entity and there are no uncertain tax positions that would require recognition in the Company's consolidated financial statements. If the Company were to incur an income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties in the accompanying consolidated statements of income and retained earnings. Generally, the Company's tax returns remain subject to examination for a period of three years.

For states that do not recognize the Company's Qualified Subchapter S Subsidiary election, deferred income taxes result from temporary differences arising from using accelerated depreciation methods for income tax purposes and the straight-line method of depreciation for financial statement purposes, and for recognizing bad debts under the direct write-off method for income tax purposes and under the allowance method for financial statement purposes. Temporary differences also arise from accruing various expenses for financial statement purposes that are not deductible until paid for income tax purposes.

Investments

Investments are stated at fair value based on quoted prices from a national securities exchange. Realized and unrealized gains or losses are recognized in the period in which the fluctuations occur.

3. Recent Pronouncements

Accounting Standard Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*, establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance. The revenue standard’s core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Three basic transition methods are available – full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the cumulative effect alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Under ASU 2015-14, *Deferral of the Effective Date*, the revenue recognition standard is effective for nonpublic business entities for annual reporting periods beginning after December 15, 2018. The Company is currently evaluating the provisions of this standard to determine the impact on the Company’s consolidated financial statements.

ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, requires that all deferred tax liabilities and assets of the same tax jurisdiction or a tax filing group, as well as any related valuation allowance, be offset and presented as a single noncurrent amount in a classified balance sheet. However, an entity should not offset deferred tax liabilities and assets attributable to different tax-paying components of the entity or to different tax jurisdictions, consistent with the guidance under existing U.S. GAAP. Therefore, for many reporting entities, deferred income taxes will be presented in noncurrent assets and noncurrent liabilities. The ASU is effective for nonpublic business entities for fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of any interim or annual reporting period. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

ASU 2016-02, *Leases*, applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. For leases with a lease term of 12 months or less, a practical expedient is available whereby a lessee may elect, by class of underlying asset, not to recognize an ROU asset or lease liability. At inception, lessees must classify all leases as either finance or operating. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the statement of cash flows, differs depending on the lease classification. The ASU is effective for nonpublic business entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the provisions of this standard to determine the impact on the Company’s consolidated financial statements.

4. Accounts Receivable, Net

	December 31, 2017	September 30, 2017
Accounts receivable consists of:		
Accounts receivable, patients, net of contractual allowances of $4,400,000 and $4,327,000, respectively, and allowance for doubtful accounts of approximately $616,000 and $665,000, respectively	$ 4,044,416	$ 4,506,514
Accounts receivable, other	27,619	46,144
Total Accounts Receivable, Net	$ 4,072,035	$ 4,552,658

5. Property, Plant and Equipment

	December 31, 2017	September 30, 2017
Land	$ 2,073,795	$ 2,073,795
Buildings and improvements	11,824,344	11,824,344
Equipment	3,644,885	3,501,032
Custodial assets	499,910	499,910
Motor vehicles	468,493	468,493
Total property, plant and equipment	18,511,427	18,367,574
Less: accumulated depreciation	(9,469,079)	(9,264,102)
Property, Plant and Equipment, Net	$ 9,042,348	$ 9,103,472

Custodial assets consist of assets acquired with funds provided by the Commonwealth of Massachusetts through a capital budget. The title to these assets remains with the state.

6. Line of Credit

The Company, and certain subsidiaries as co-borrowers, had $1,500,000 of borrowings available under a demand line of credit agreement with a bank that was secured by substantially all assets of the Company. The line of credit was closed on February 26, 2018. No amounts were outstanding under the line of credit as of September 30, 2017 and 2016.

7. Due to Third-Party Payors

Revenue received under reimbursement agreements is subject to audit and retroactive adjustments by third-party payors. The Company also qualifies for disproportionate share hospital (“DSH”) payments for services performed to certain Medicaid patients through the Centers for Medicare & Medicaid Services (“CMS”).

Amounts reflected in due to third party payors are as follows:

	December 31, 2017	September 30, 2017
Due to third party payors, current portion	$ 952,272	$ 902,852
Due to third party payors, net of current portion	1,100,000	1,100,000
Total Due to Third Party Payors	$ 2,052,272	$ 2,002,852

8. Retirement Plan

AdCare, Inc. maintains a defined contribution retirement (profit sharing) plan covering substantially all employees of the Company and its subsidiaries. Contributions, which are discretionary and determined by the Board of Directors, totaled $59,630 and $42,901 during the three months ended December 31, 2017 and 2016, respectively.

9. Income Taxes

	December 31, 2017	December 31, 2016
State:		
Current	$ 29,006	$ 36,202
Deferred	—	1
Total	$ 29,006	$ 36,203

10. Operating Leases

AdCare Hospital of Worcester, Inc., AdCare, Inc., AdCare Rhode Island, Inc., and AdCare Criminal Justice Services, Inc. as lessees, lease various equipment and facilities under non-cancelable operating leases that expire at various intervals through November 2022.

Rent expense under leasing arrangements with unrelated parties having remaining terms in excess of one year was approximately $152,000 and $151,000 for the three months ended December 31, 2017 and 2016, respectively.

AdCare Rhode Island, Inc. subleased facilities to a tenant under a month to month lease agreement. The lease called for minimum monthly lease payments of $17,000 and service fees of $3,500. Rental and service fee income was approximately $21,000 and $62,000 for the three months ended December 31, 2017 and 2016, respectively and is presented in other operating revenue in the accompanying consolidated statements of income and retained earnings. The lease was terminated on October 31, 2017.

11. Contingencies

Due to the nature of its operations, the Company may be exposed to various professional liability claims for which it carries insurance. At December 31, 2017, the Company is a defendant in unrelated claims by former employees and an applicant regarding employment practices. While it is not feasible to predict or determine the outcome of these matters, it is the opinion of management that the outcome will have no material adverse effect on the Company's financial position.

12. Related Party Transactions

The Company makes premium payments for a $2.0 million life insurance policy on behalf of certain stockholders of the Parent. Premium payments were approximately $11,000 for the three months ended December 31, 2017 and 2016. The Company is not a beneficiary of the policy as proceeds will be paid directly to the trustees of the policy. Upon death, proceeds received by the trustees will first be used to repay the Company for the premiums paid on the stockholders' behalf which amount to approximately $320,000 as of December 31, 2017 and September 30, 2017.

13. Concentrations

The Company maintains financial instruments, consisting primarily of cash and cash equivalents and accounts receivable, which potentially expose the Company to concentrations of credit risk. Cash and cash equivalents are held at local banks and the Company historically has not experienced any losses on its cash and cash equivalents. In the ordinary course of business, the Company has, at various times, had cash deposits with a bank which are in excess of federally insured limits of $250,000 for interest and non-interest bearing accounts.

The Company's accounts receivable are due from Medicare, Medicaid, commercial insurers, state government agencies and other payors. For the three months ended December 31, 2017 and December 31, 2016, approximately 61% and 64%, respectively, of the Company's revenue was earned from two payors, respectively, that individually account for more than 10% of annual revenue. These two customers made up approximately 53% and 55% of accounts receivable as of December 31, 2017 and September 30, 2017, respectively.

14. Sale of AdCare, Inc. and Subsidiaries

On March 1, 2018, the Company was acquired by a wholly-owned subsidiary of AAC Holdings, Inc. for approximately $83.9 million.

15. Subsequent Events

AdCare, Inc. and Subsidiaries has evaluated all material subsequent events from December 31, 2017 through May 17, 2018, the date the condensed consolidated financial statements were available to be issued, and determined that there were no additional items requiring disclosure in these consolidated financial statements.

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Section 6: EX-99.3 (EX-99.3)

Exhibit 99.3

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The Unaudited Pro Forma Condensed Combined Financial Statements (referred to as the "pro forma financial statements") presented below are derived from the historical consolidated financial statements of AAC Holdings, Inc. ("AAC" or the "Company") and AdCare, Inc. and its subsidiaries ("AdCare").

On March 1, 2018 (the "Closing Date"), the Company completed the acquisition of AdCare and its subsidiaries (the "Acquisition"). AdCare offers treatment of drug and alcohol addiction and owns, among other things, a 114-bed hospital, five outpatient centers in Massachusetts, a 59-bed residential inpatient treatment center and two outpatient centers in Rhode Island.

The Unaudited Pro Forma Condensed Combined Statements of Operations presented below (the "pro forma statements of operations") for the year ended December 31, 2017 and the three months ended March 31, 2018, give effect to the Acquisition as if it was consummated on January 1, 2017. In accordance with Article 11 of Regulation S-X, a pro forma balance sheet is not required as the transactions related to the Acquisition were reflected in AAC's unaudited condensed consolidated balance sheet, included in AAC's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, filed with the Securities and Exchange Commission (the "SEC") on May 9, 2018.

The historical consolidated financial information has been adjusted in the pro forma financial statements to give effect to pro forma events that are: (i) directly attributable to the Acquisition; (ii) factually supportable; and (iii) expected to have a continuing impact on the

Company’s combined results. The basis and estimates underlying the pro forma adjustments are described in the accompanying notes, which should be read in connection with the pro forma financial statements.

In accordance with Accounting Standards Codification (“ASC”) 805, *Business Combinations* (“ASC 805”), the Acquisition is being accounted for under the acquisition method with AAC as the acquirer of AdCare. As of the date of this report, we have not completed the valuation work necessary to arrive at the final estimates of fair value of AdCare’s assets acquired, the liabilities assumed and the related purchase price allocation. However, for purposes of these pro forma financial statements, preliminary allocation estimates based on information known to management as of the date of this report have been included. The final fair value of the assets acquired and liabilities assumed as of the date of the Acquisition may differ materially from the information presented herein.

The pro forma financial statements reflect the following transactions, which took place in 2018: (i) the Acquisition; (ii) the borrowing of a $65.0 million incremental term loan under the Company’s senior secured credit agreement with Credit Suisse AG, as administrative agent and collateral agent and the lenders party thereto (the “2017 Credit Facility”); (iii) the issuance of the AdCare Note (as defined below); and (iv) the issuance of 562,051 shares of AAC’s common stock to Seller as part of the consideration paid in the Acquisition.

We describe the assumptions underlying the pro forma adjustments in the accompanying notes, which should also be read in conjunction with these unaudited pro forma financial statements. You should also read this information in conjunction with:

- Audited consolidated financial statements of AAC for the year ended December 31, 2017, included in AAC’s Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 23, 2018;
- Audited consolidated financial statements of AdCare for the years ended September 30, 2017, 2016 and 2015, together with the notes thereto and the independent auditors’ report thereon, included as Exhibit 99.1 in AAC’s Amendment No. 1 to the Current Report on Form 8-K/A filed herewith;
- Unaudited consolidated financial statements of AdCare for the three months ended December 31, 2017 and 2016, included as Exhibit 99.2 in AAC’s Amendment No. 1 to the Current Report on Form 8-K/A filed herewith; and
- Unaudited consolidated financial statements of AAC for the three months ended March 31, 2018, which includes results of AdCare for the period from March 1, 2018 through March 31, 2018 included in AAC’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, filed with the SEC on May 9, 2018.

AAC HOLDINGS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF OPERATIONS
Unaudited
(Dollars in thousands, except share data)

	Historical Data				
	AAC Year Ended December 31, 2017	**AdCare Year Ended September 30, 2017**	**Reclassifications (Note 3)**	**Adjustments (Note 4)**	**Pro Forma Combined**
Revenues					
Client related revenue	$ 308,538	$ 52,830	$ (5,529)	$ —	$ 355,839
Non-client related revenue	9,103	—	5,529	—	14,632
Total revenues	317,641	52,830	—	—	370,471
Operating expenses					
Salaries, wages and benefits	146,390	—	30,416	—	176,806
Client related services	27,031	—	3,390	—	30,421
Provision for doubtful accounts	36,914	—	—	—	36,914
Advertising and marketing	12,315	—	697	—	13,012
Professional fees	12,638	—	2,338	—	14,976
Other operating expenses	36,309	—	4,105	—	40,414
Rentals and leases	7,514	—	606	—	8,120
Litigation settlement	23,607	—	—	—	23,607
Depreciation and amortization	21,504	947	—	545 (a)	22,996
Acquisition-related expenses	1,162	—	—	(444) (b)	718
Professional services	—	30,205	(30,205)	—	—
General services	—	5,064	(5,064)	—	—
Administrative services	—	6,283	(6,283)	—	—
Total operating expenses	325,384	42,499	—	101	367,984
(Loss) income from operations	(7,743)	10,331	—	(101)	2,487
Interest expense (income), net	16,811	18	—	5,382 (c)	22,211
Loss on extinguishment of debt	5,435	—	—	—	5,435
Other loss (income), net	116	(25)	—	—	91
(Loss) income before income tax benefit	(30,105)	10,338	—	(5,483)	(25,250)
Income tax (benefit) expense	(5,018)	295	—	(2,012) (d)	(6,735)
Net (loss) income	(25,087)	10,043	—	(3,471)	(18,515)
Less: net loss attributable to noncontrolling interest	4,508	—	—	—	4,508
Net loss (income) attributable to AAC Holdings, Inc. common stockholders	$ (20,579)	$ 10,043	$ —	$ (3,471)	$ (14,007)
Basic loss per common share	$ (0.88)	n/a	n/a	n/a	$ (0.59)
Diluted loss per common share	$ (0.88)	n/a	n/a	n/a	$ (0.59)
Weighted-average common shares outstanding:					
Basic	23,277,444	n/a	n/a	562,051 (e)	23,839,495
Diluted	23,277,444	n/a	n/a	562,051 (e)	23,839,495

See accompanying notes to unaudited pro forma condensed combined financial statements.

AAC HOLDINGS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENTS OF OPERATIONS
Unaudited
(Dollars in thousands, except share data)

	Historical Data			
	AAC Three Months Ended March 31, 2018	AdCare Two Months Ended February 28, 2018	Adjustments (Note 4)	Pro Forma Combined
Revenues				
Client related revenue	$ 75,923	$ 7,433	$ —	$ 83,356
Non-client related revenue	2,550	873	—	3,423
Total revenues	78,473	8,306	—	86,779
Operating expenses				
Salaries, wages and benefits	40,084	7,514	(2,423) (f)	45,175
Client related services	7,747	552	—	8,299
Advertising and marketing	2,599	144	—	2,743
Professional fees	3,650	322	(120) (b)	3,852
Other operating expenses	10,588	736	—	11,324
Rentals and leases	2,116	107	—	2,223
Litigation settlement	2,791	—	—	2,791
Depreciation and amortization	5,464	142	108 (a)	5,714
Acquisition-related expenses	305	—	(262) (b)	43
Total operating expenses	75,344	9,517	(2,697)	82,164
Income (loss) from operations	3,129	(1,211)	2,697	4,615
Interest expense, net	6,709	(7)	401 (c)	7,103
Other expense (income), net	9	(58)	—	(49)
Loss before income tax benefit	(3,589)	(1,146)	2,296	(2,439)
Income tax benefit (expense)	(1,494)	12	583 (d)	(899)
Net loss	(2,095)	(1,158)	1,713	(1,540)
Less: net loss attributable to noncontrolling interest	1,893	—	—	1,893
Net (loss) income attributable to AAC Holdings, Inc. common stockholders	$ (202)	$ (1,158)	$ 1,713	$ 353
Basic (loss) earnings per common share	$ (0.01)	n/a	n/a	$ 0.01
Diluted (loss) earnings per common share	$ (0.01)	n/a	n/a	$ 0.01
Weighted-average common shares outstanding:				
Basic	23,744,208	n/a	368,456 (e)	24,112,664
Diluted	23,744,208	n/a	405,852 (e)	24,150,060

See accompanying notes to unaudited pro forma condensed combined financial statements.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. Description of Transaction and Basis of Presentation

On March 1, 2018 (the "Closing Date"), the Company completed the acquisition of AdCare and its subsidiaries (the "Acquisition"). AdCare was purchased for total consideration of $83.9 million, subject to adjustments as set forth in the Securities Purchase Agreement (the "Purchase Agreement"), by and among AAC Healthcare Network, Inc., AAC, AdCare, and AdCare Holding Trust (the "Seller"). The consideration was comprised of (i) approximately $65.2 million in cash, excluding expenses and other adjustments, (ii) approximately $5.4 million in shares of AAC's common stock (or 562,051 shares at $9.68 per share), (iii) a promissory note in the aggregate principal amount of approximately $9.6 million (the "AdCare Note"), and (iv) contingent consideration valued at $0.9 million recorded in accrued and other current liabilities. The Company acquired $2.7 million of cash on hand at AdCare, which was returned to the Seller within 60 days of the Acquisition as required by the Purchase Agreement. The contingent consideration that can be earned by the Seller ranges from zero to $3.1 million, subject to achievement of a certain adjusted EBITDA target over the 12 months following the Closing Date.

The pro forma financial statements have been presented for illustrative purposes only and do not reflect the impact of synergies resulting from the Acquisition. We expect to achieve certain synergies in connection with integrating AdCare's operations with our operations. The pro forma financial statements do not reflect the costs of any integration activities or benefits that may result from realization of future cost savings from operating efficiencies, or any revenue, tax, or other synergies expected to result from the Acquisition.

The Company currently estimates that certain cost saving changes will result in annual combined savings of approximately $2.0 million to $3.0 million, which are not reflected in the pro forma condensed consolidated statements of operations. Although the Company believes such benefits will be realized, there can be no assurance that these cost savings or any other synergies will be achieved in full or at all.

2. Consideration Transferred and Preliminary Purchase Price Allocation

The Acquisition has been accounted for using the acquisition method of accounting in accordance with ASC 805, which requires, among other things, that the assets acquired and liabilities assumed be recognized at their acquisition date fair values, with any excess of the consideration paid over the estimated fair values of the identifiable net assets acquired recorded as goodwill.

The following is a summary of the preliminary estimated fair value of the net assets acquired on the Closing Date:

	Fair Value of Assets Acquired and Liabilities Assumed
Cash and cash equivalents	$ 2,700
Accounts receivable	4,357
Prepaid expenses and other assets	996
Property and equipment	15,719
Goodwill	62,788
Intangible assets	5,280
Total assets acquired	91,840
Current liabilities	5,931
Long-term liabilities	2,004
Net assets acquired	$ 83,905

We have made preliminary allocation estimates based on the information known to us as of the date of this report. We expect that the final determination of the purchase price allocation will include, but will not be limited to, valuations with respect to fixed assets, trademarks, trade names and other intangible assets. The valuations will consist of appraisals, discounted cash flow analyses and other appropriate valuation techniques to determine the fair value of the assets acquired and liabilities assumed.

The final, adjusted amounts allocated to assets acquired and liabilities assumed in the Acquisition will be based on the fair value of the net assets acquired at the Acquisition date and could differ materially from the preliminary amounts presented in the table above. A decrease in the fair value of assets acquired, or an increase in the fair value of liabilities assumed, from those preliminary valuations presented in these pro forma financial statements would result in a corresponding increase in the amount of goodwill that will result from the Acquisition. In addition, if the value of the acquired assets is higher than the preliminary values above, it may result in higher depreciation and amortization expense than is presented in these pro forma financial statements.

3. Reclassification Adjustments

Certain reclassifications have been made to the historical presentation of AdCare to conform to the financial statement presentation of AAC. Revenue primarily related to AdCare's service contracts was reclassified from client related revenue to non-client related revenue. In addition, AdCare's primary operating expenses were reclassified to conform to AAC's presentation of operating expenses.

4. Adjustments to Unaudited Pro Forma Condensed Combined Statements of Operations

(a) Depreciation and Amortization

The adjustment for depreciation and amortization represents the estimated expense associated with the change in fair value of the property and equipment and individually identifiable intangible assets preliminarily recorded in relation to the Acquisition. For the year ended December 31, 2017, the pro forma adjustment represents a decrease in depreciation expense of approximately $142,000 and an increase in amortization expense of approximately $687,000. For the two months ended February 28, 2018, the pro forma adjustment represents a decrease in depreciation expense of approximately $7,000 and an increase in amortization expense of $115,000.

The pro forma depreciation expense for the assets acquired is as follows:

	Preliminary Fair Value	Weighted Average Life (Years)	Adjustment to Depreciation Expense for the Year Ended December 31, 2017	Adjustment to Depreciation Expense for the Two Months Ended February 28, 2018
Land	$ 3,530	n/a	n/a	n/a
Buildings and improvements	11,041	23	610	102
Equipment and software	1,121	6	195	33
Construction in progress	27	n/a	n/a	n/a
Total	15,719		805	135
Less historical depreciation expense			947	142
Pro forma adjustment			$ (142)	$ (7)

The pro forma amortization expense for the assets acquired is as follows:

	Preliminary Fair Value	Weighted Average Life (Years)	Adjustment to Amortization Expense for the Year Ended December 31, 2017	Adjustment to Amortization Expense for the Two Months Ended February 28, 2018
Trademarks and trade names	$ 3,100	10	$ 310	$ 52
Non-compete agreements	680	3	227	38
Service contracts	950	10	95	16
Other	550	10	55	9
Pro forma adjustment	$ 5,280		$ 687	$ 115

(b) Costs Related to the Acquisition

Certain professional fees and acquisition-related expenses recognized during the year ended December 31, 2017 and the three months ended March 31, 2018 have been excluded from the pro forma condensed combined statements of operations as these items are directly attributable to the Acquisition and will not have an ongoing impact. The pro forma adjustment for these expenses totaled $0.4 million for both the year ended December 31, 2017 and three months ended March 31, 2018.

(c) Debt Transactions

Adjustments have been made in the pro forma financial statements to reflect the effect on the following items for the year ended December 31, 2017 and the three months ended March 31, 2018:

i) On October 6, 2017, in conjunction with the Company's acquisition of AdCare, Inc., the Company secured a $65.0 million incremental term loan commitment under the 2017 Credit Facility, subject to customary closing conditions and regulatory provisions. In connection with the financing, the Company incurred costs associated with a ticking fee that commenced on October 17, 2017, at a rate of LIBOR plus 3.375%, and which increased to LIBOR plus 6.75% from November 2017 until the closing date of the Acquisition. For the year ended December 31, 2017, and the three months ended March 31, 2018, the Company recognized $0.8 million and $0.6 million of expense, respectively.

ii) On the Closing Date, in conjunction with the Acquisition, the Company borrowed $65.0 million of Incremental Term Loans (as defined in the 2017 Credit Facility) under the 2017 Credit Facility. The Company incurred approximately $2.6 million in debt issuance costs related to underwriting and other professional fees as a result of the borrowing. Based on interest rates in effect on the Closing Date, the Company utilized a rate of 8.4% to estimate the pro forma adjustments to interest expense.

iii) On the Closing Date, in conjunction with the Acquisition, in consideration for covenants and agreements set forth in the Purchase Agreement, the Company issued the AdCare Note to the Seller, with an original principal amount of $9.6 million. The AdCare Note matures on September 29, 2023 and accrues interest at a fixed rate per annum equal to 5.0% compounded annually. Payments of principal and interest pursuant to the AdCare Note commenced on April 30, 2018 and will continue monthly until the maturity date.

Based on these events, an adjustment was made to the unaudited pro forma condensed combined statements of operations to reflect the additional expense that would have been incurred during the historical periods presented assuming the Acquisition had occurred on January 1, 2017. The additional interest expense incurred as a result of the new borrowings is as follows:

	Debt	Adjustment to Historical Interest Expense for the Year Ended December 31, 2017	Adjustment to Historical Interest Expense for the Two Months Ended February 28, 2018
Incremental Term Loan	$ 65,000	$ 5,242	$ 813
Subordinated debt	9,634	469	74
Amortization of new debt issuance costs	2,568	482	80
Total		6,193	967
Less ticking fee		811	566
Pro forma adjustment		$ 5,382	$ 401

(d) Income Taxes

Income tax (benefit) expense was adjusted to record the income tax effects of the of the other pro forma adjustments using a combined statutory federal and state tax rate of 36.7% for the year ended December 31, 2017 and 25.4% for the three months ended March 31, 2018.

(e) AAC Holdings, Inc. Common Stock – Shares Outstanding

Basic and diluted common shares outstanding were adjusted in connection with the issuance of 562,051 shares of AAC's common stock to Seller as part of the consideration paid in the Acquisition. Diluted common shares outstanding were also adjusted to reflect a change from net loss to net income because they are no longer anti-dilutive.

(f) Salaries, Wages and Benefits

Salaries, wages and benefits were adjusted for a discretionary, one-time bonus payment made during the three months ended March 31, 2018, to certain employees of AdCare in connection with the Acquisition.

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