Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-36643

AAC Holdings, Inc.
(Exact Name of Registrant as Specified in its Charter)

Nevada **(State or other jurisdiction of incorporation or organization)**	**35-2496142** **(I.R.S. Employer Identification No.)**
200 Powell Place **Brentwood, TN** **(Address of principal executive offices)**	**37027** **(Zip code)**

Title of class of stock	Trading Symbol	Name of exchange registered on
Common Stock, $0.001 par value	AAC	New York Stock Exchange

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☒

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

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

As of August 9, 2019, the registrant had 25,219,445 shares of common stock, $0.001 par value per share, outstanding.

AAC HOLDINGS, INC.
Form 10-Q
June 30, 2019

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PART 1. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

AAC HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018
Unaudited

(Dollars in thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues				
Client related revenue	$ 60,595	$ 84,620	$ 114,084	$ 163,250
Non-client related revenue	2,129	3,474	4,010	6,031
Total revenues	62,724	88,094	118,094	169,281
Operating expenses				
Salaries, wages and benefits	38,928	46,850	79,481	86,934
Client related services	5,975	8,393	12,016	16,140
Provision for doubtful accounts	—	366	—	366
Advertising and marketing	2,725	2,584	6,020	5,183
Professional fees	5,557	4,950	9,679	8,600
Other operating expenses	10,260	12,194	21,623	22,782
Rentals and leases	2,094	2,563	4,094	4,679
Litigation settlement	—	244	(1,238)	3,035
Depreciation and amortization	3,572	5,909	7,916	11,373
Gain on sale	—	—	(1,010)	—
Acquisition-related expenses	—	176	—	481
Total operating expenses	69,111	84,229	138,581	159,573
(Loss) income from operations	(6,387)	3,865	(20,487)	9,708
Interest expense, net	12,582	7,893	22,842	14,602
Gain on contingent consideration	—	(176)	—	(176)
Other income, net	(232)	(98)	(443)	(89)
Loss before income tax benefit	(18,737)	(3,754)	(42,886)	(4,629)
Income tax expense (benefit)	323	(162)	290	(200)
Net loss	(19,060)	(3,592)	(43,176)	(4,429)
Less: net loss attributable to noncontrolling interest	2,688	1,990	4,785	3,883
Net loss attributable to AAC Holdings, Inc. common stockholders	$ (16,372)	$ (1,602)	$ (38,391)	$ (546)
Basic loss per common share	$ (0.66)	$ (0.07)	$ (1.56)	$ (0.02)
Diluted loss per common share	$ (0.66)	$ (0.07)	$ (1.56)	$ (0.02)
Weighted-average common shares outstanding:				
Basic	24,741,530	24,166,976	24,619,251	23,956,760
Diluted	24,741,530	24,166,976	24,619,251	23,956,760

See accompanying notes to condensed consolidated financial statements.

AAC HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

	June 30, 2019 (Unaudited)	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$ 2,581	$ 5,409
Accounts receivable, net of allowances	48,747	47,860
Prepaid expenses and other current assets	1,963	10,695
Total current assets	53,291	63,964
Property and equipment, net	160,749	166,921
Right-of-use assets - operating, net	28,328	—
Goodwill	198,952	198,952
Intangible assets, net	10,383	12,063
Other assets	11,362	10,377
Total assets	$ 463,065	$ 452,277
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 17,744	$ 13,507
Accrued and other current liabilities	31,998	30,423
Accrued litigation	3,493	8,000
Current portion of lease liability - operating	5,109	—
Current portion of long-term debt	334,534	309,394
Current portion of financing lease obligation	24,489	121
Total current liabilities	417,367	361,445
Deferred tax liabilities	1,402	1,227
Long-term debt, net of current portion and deferred financing costs	7,384	9,764
Lease liability - operating, net of current portion	28,325	—
Financing lease obligation, net of current portion	—	24,421
Other long-term liabilities	8,139	13,147
Total liabilities	462,617	410,004
Stockholders' equity		
Common stock, $0.001 par value: 70,000,000 shares authorized, 25,219,445 and 24,573,679 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	25	25
Additional paid-in capital	163,313	161,962
Retained deficit	(135,965)	(97,574)
Total stockholders' equity	27,373	64,413
Noncontrolling interest	(26,925)	(22,140)
Total stockholders' equity including noncontrolling interest	448	42,273
Total liabilities and stockholders' equity	$ 463,065	$ 452,277

See accompanying notes to condensed consolidated financial statements.

AAC HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Unaudited

(Dollars in thousands)

	Common Stock – AAC Holdings, Inc.												
	Shares Outstanding	Amount		Additional Paid-in Capital		Retained Deficit		Total Stockholders' Equity of AAC Holdings, Inc.		Non-Controlling Interest		Total Stockholders' Equity	
Balance at December 31, 2018	24,573,679	$	25	$	161,962	$	(97,574)	$	64,413	$	(22,140)	$	42,273
Common stock granted and issued under stock incentive plan, net of forfeitures	529,234		—		1,214		—		1,214		—		1,214
Effect of employee stock purchase plan	116,532		—		137		—		137		—		137
Net loss	—		—		—		(38,391)		(38,391)		(4,785)		(43,176)
Balance at June 30, 2019	25,219,445	$	25	$	163,313	$	(135,965)	$	27,373	$	(26,925)	$	448

See accompanying notes to condensed consolidated financial statements.

AAC HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited
(Dollars in thousands)

	Six Months Ended June 30,	
	2019	**2018**
Cash flows used in operating activities:		
Net loss	$ (43,176)	$ (4,429)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful accounts	—	366
Depreciation and amortization	7,916	11,373
Equity compensation	1,214	2,159
Gain on contingent consideration	—	(176)
Loss on disposal of property and equipment	610	34
Amortization of deferred financing costs	1,971	1,357
Deferred income taxes	175	(184)
Changes in operating assets and liabilities:		
Accounts receivable	(887)	(3,323)
Prepaid expenses and other assets	9,509	1,475
Accounts payable	4,237	(1,464)
Accrued and other current liabilities	7,859	633
Accrued litigation	(4,507)	(23,300)
Other liabilities	(7,990)	(230)
Net cash used in operating activities	(23,069)	(15,709)
Cash flows used in investing activities:		
Purchase of property and equipment	(1,988)	(11,196)
Acquisition of subsidiaries	—	(65,185)
Sale of subsidiary	887	—
Net cash used in investing activities	(1,101)	(76,381)
Cash flows provided by financing activities:		
Payments on 2017 Credit Facility	(3,648)	(3,448)
Proceeds from 2019 Senior Credit Facility, net of deferred financing costs	24,544	—
Proceeds from 2017 Credit Facility, net of deferred financing costs	1,461	94,286
Payments on finance leases and other	(515)	(440)
Payments on AdCare Note	(500)	(250)
Payment of employee taxes for net share settlement	—	(523)
Net cash provided by financing activities	21,342	89,625
Net change in cash and cash equivalents	(2,828)	(2,465)
Cash and cash equivalents, beginning of period	5,409	13,818
Cash and cash equivalents, end of period	$ 2,581	$ 11,353
Supplemental information on non-cash investing and financing transactions:		
Cash and cash equivalents paid for:		
Interest, net of capitalized interest	$ 17,860	$ 11,840
Acquisition of equipment through leases	65	—
Accrued purchase of property and equipment	—	136
Accrued employee taxes for net share settlement	—	44
2018 Acquisition:		
Purchase price, including contingent consideration	$ —	$ 83,905
Buyer common stock issued	—	(5,439)
Contingent consideration	—	(945)
Promissory note issued	—	(9,636)
Cash acquired	—	(2,700)
Cash paid for acquisition	$ —	$ 65,185

See accompanying notes to condensed consolidated financial statement

1. Description of Business

AAC Holdings, Inc. (collectively with its subsidiaries, the "Company" or "AAC Holdings") was incorporated on February 12, 2014. The Company is headquartered in Brentwood, Tennessee, and provides inpatient and outpatient substance use treatment services for individuals with drug addiction, alcohol addiction and co-occurring mental/behavioral health issues. In connection with the Company's substance use treatment services, the Company performs drug testing, diagnostic laboratory services and provides physician services to clients. The Company operates numerous facilities located throughout the United States, including inpatient substance abuse treatment facilities, standalone outpatient centers and sober living facilities that focus on delivering effective clinical care and treatment solutions.

2. Basis of Presentation

Principles of Consolidation

The Company conducts its business through limited liability companies and C-corporations, each of which is a direct or indirect wholly owned subsidiary of the Company. The accompanying condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, and the accounts of variable interest entities ("VIEs") in which the Company is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

The Company consolidated seven professional groups ("Professional Groups") that constituted VIEs as of June 30, 2019 and 2018. The Professional Groups are responsible for the supervision and delivery of medical services to the Company's clients, and the Company provides management services to the Professional Groups. Based on the Company's ability to direct the activities that most significantly impact the economic performance of the Professional Groups, provide necessary funding and the obligation and likelihood of absorbing all expected gains and losses, the Company has determined that it is the primary beneficiary of these Professional Groups.

The accompanying condensed consolidated balance sheets as of June 30, 2019 and December 31, 2018 include assets of $1.0 million and $1.5 million, respectively, and liabilities of $0.6 million and $0.6 million, respectively, related to the VIEs. The accompanying condensed consolidated statements of operations include net loss attributable to noncontrolling interest of $2.7 million and $2.0 million for the three months ended June 30, 2019 and 2018, respectively, and net loss of $4.8 and $3.9 for the six months ended June 30, 2019 and 2018, respectively.

The accompanying condensed consolidated financial statements are unaudited, with the exception of the December 31, 2018 balance sheet, which is derived from the audited 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 December 31, 2018 included in the Company's Annual Report filed with the United States Securities and Exchange Commission (the "SEC" or the "Commission") on April 15, 2019. 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 December 31, 2019 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. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassed to conform to the current year presentations.

Going Concern

The Company incurred a loss from operations and had negative cash flows from operations for the year ended December 31, 2018 and the first half of 2019, which has contributed to limited liquidity. This resulted primarily from declines in patient census during the second half of 2018 and into the first half of 2019. The Company's revenue is directly impacted by its ability to maintain census, which is dependent on a variety of factors, many of which are outside of the Company's control, including its referral relationships, average length of stay of its clients, the extent to which third-party payors require preadmission authorization or utilization review controls, competition in the industry, the effectiveness of the Company's multi-faceted sales and marketing strategy and the individual decisions of the Company's clients to seek and commit to treatment. On March 8, 2019 the Company entered into an incremental senior credit facility for a principal loan of $30 million which originally matured on March 31, 2020 and was subsequently amended to mature on April 15, 2020. The quarter ended June 30, 2019 and subsequent thereto, certain events of default occurred under the 2019 Senior Credit Facility and the 2017 Credit Facility.

The uncertainties associated with the factors described above raise substantial doubt about the Company's ability to continue as a going concern. In order for the Company to continue operations beyond August 2020 and to be able to discharge its liabilities and commitments in the normal course of business, the Company must do some or all of the following: (i) improve operating results by increasing census while maintaining efficiency regarding operating expenses through the cost savings initiatives implemented in late 2018 and early 2019; (ii) execute strategic alternatives related to the Company's real-estate portfolio which could include further sale leasebacks of individual facilities or larger portions of the Company's real estate portfolio; (iii) sell additional non-core or non-essential assets; and/or (iv) obtain additional financing. There can be no assurance that the Company will be able to achieve any or all of the foregoing. An inability to obtain funding from sale leasebacks, sales of non-core assets or to obtain additional debt or equity financing, on attractive terms or at all, could have a substantial negative effect on our liquidity and our ability to continue to operate without pursuing restructuring alternatives.

The consolidated financial statements were prepared on a going concern basis in accordance with U.S. GAAP. The going concern basis of presentation assumes that the Company will continue in operation for the next twelve months and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. It does not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from its inability to continue as a going concern.

3. Client Related Revenue and Non-Client Related Revenue

Client Related Revenue

Client related revenue primarily consists of service charges related to providing addiction treatment and related services, including diagnostic laboratory services. As it relates to recognizing revenue, the Company's contracts are with the individuals for whom the Company provides care. The majority of the Company's contracts with clients have a single performance obligation because the promise to deliver services is not separately identifiable from other promises in the contracts. The Company's performance obligations are satisfied over time as clients simultaneously receive and consume the benefits provided. Therefore, the Company recognizes revenue in the same period the services are performed, and there are no remaining performance obligations at period-end.

Due to the nature of the industry, there are often more than two parties to the service transactions (including customers, providers and payors), and the estimation of revenue is complex and requires significant judgment. Management estimates variable consideration using the expected value method. The expected value method is used when an entity has a large number of contracts with similar characteristics, as is the case with the Company's contracts. The transaction price is recorded based on the estimated ultimate value remaining after all uncertainty is resolved. The estimates of variable consideration are based largely on an assessment of the Company's anticipated performance as well as historical, current, and forecasted information. The Company updates its estimate of the transaction price at the end of each reporting period, and any amounts allocated to a satisfied performance obligation are recognized as revenue or a reduction of revenue in the period in which the transaction price changes.

The following tables summarize the composition of our client related revenue for inpatient treatment facility services, outpatient facility and sober living services, and client related diagnostic services. Inpatient treatment facility services include revenues from related professional services, and client related diagnostic services includes revenues from point of care services as well as laboratory services.

For the three months ended June 30, 2019 and 2018 (in thousands):

	Three Months Ended June 30, 2019		Three Months Ended June 30, 2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Inpatient treatment facility services	$ 57,690	95.2	$ 67,426	79.7	$ (9,736)	(14.4)
Outpatient facility and sober living services	5,407	8.9	9,564	11.3	(4,157)	(43.5)
Client related diagnostic services	(2,502)	(4.1)	7,630	9.0	(10,132)	(132.8)
Total client related revenue	$ 60,595	100.0	$ 84,620	100.0	$ (24,025)	(28.4)

For the six months ended June 30, 2019 and 2018 (in thousands):

	Six Months Ended June 30, 2019		Six Months Ended June 30, 2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Inpatient treatment facility services	$ 102,579	89.9	$ 134,301	82.3	$ (31,722)	(23.6)
Outpatient facility and sober living services	11,861	10.4	18,510	11.3	(6,649)	(35.9)
Client related diagnostic services	(356)	(0.3)	10,439	6.4	(10,795)	(103.4)
Total client related revenue	$ 114,084	100.0	$ 163,250	100.0	$ (49,166)	(30.1)

Non-Client Related Revenue

Non-client related revenue consists of diagnostic laboratory services provided to clients of third-party addiction treatment providers, addiction care treatment services for individuals in the criminal justice system and services provided to third-party behavioral health providers who use our digital outreach platforms.

Revenue from diagnostic laboratory services provided to clients of third-party addiction treatment providers is recognized at the point in time when the order is completed. These contracts have a single performance obligation, and the transaction price is agreed upon between the Company and the third-party lab provider to services being rendered.

Revenue for addiction care treatment services for individuals in the criminal justice system is recognized as services are provided in accordance with contracts with certain Massachusetts state agencies.

Revenue from third-party behavioral health providers who use our digital outreach platforms is recognized over time as these customers simultaneously receive and consume the benefits of the services provided. The Company's marketing contracts typically have one performance obligation. There are no significant judgments in determining the transaction price as the price is listed in the contract and not subject to change.

4. General and Administrative Costs

The majority of the Company's expenses are cost of revenue items. Costs that could be classified as general and administrative expenses include the Company's corporate overhead costs, which were $18.0 million and $21.3 million for the three months ended June 30, 2019 and 2018, respectively, and $34.4 million and $43.3 million for the six months ended June 30, 2019 and 2018, respectively.

5. Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period.

For the calculation of diluted EPS, net income attributable to common stockholders for basic EPS is adjusted by the effect of dilutive securities, including awards under stock-based payment arrangements, and outstanding convertible debt securities. Diluted EPS attributable to common stockholders is computed by dividing net income attributable to common stockholders by the weighted average number of diluted common shares outstanding during the period.

The following table presents the components of the numerator and denominator used in the calculation of basic and diluted EPS for the three and six months ended June 30, 2019 and 2018 (in thousands, except share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Numerator				
Net loss attributable to AAC Holdings, Inc. common stockholders	$ (16,372)	$ (1,602)	$ (38,391)	$ (546)
Denominator				
Weighted-average common shares outstanding – basic	24,741,530	24,166,976	24,619,251	23,956,760
Dilutive securities	—	—	—	—
Weighted-average common shares outstanding – diluted	24,741,530	24,166,976	24,619,251	23,956,760
Basic loss per common share	$ (0.66)	$ (0.07)	$ (1.56)	$ (0.02)
Diluted loss per common share	$ (0.66)	$ (0.07)	$ (1.56)	$ (0.02)

For the three months ended June 30, 2019 and 2018, the Company had 242,694 and 156,779 potentially dilutive shares, respectively. For the six months ended June 30, 2019 and 2018, the Company had 129,182 and 90,288 potentially dilutive shares, respectively. These dilutive shares are not included in the diluted EPS calculation above because to do so would be anti-dilutive for the periods presented.

6. Acquisition

On March 1, 2018, the Company acquired all of the outstanding shares of AdCare, Inc., a Massachusetts corporation ("AdCare"), and wholly owned subsidiary of AdCare Holding Trust, a Massachusetts business trust (the "Seller") (the "AdCare Acquisition"). AdCare and its subsidiaries offer treatment of drug and alcohol addiction and own, 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. AdCare was purchased for total consideration of $85.1 million, including adjustments as set forth in the Securities Purchase

Agreement (the "Purchase Agreement"), by and among AAC Healthcare Network, Inc., AAC Holdings, AdCare, and 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 Holdings' 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 $0.5 million recorded in accrued and other current liabilities.

The preliminary allocation of assets acquired and liabilities assumed on the acquisition date, based on the fair value of AdCare, is as follows (in thousands):

	AdCare Acquisition
Cash and cash equivalents	$ 2,700
Accounts receivable	4,357
Prepaid expenses and other assets	996
Property and equipment	15,309
Goodwill	64,556
Intangible assets	5,120
Total assets acquired	93,038
Accrued and other current liabilities	5,931
Long-term liabilities	2,004
Net assets acquired	$ 85,103

Acquisition-related costs for the transaction were recorded as acquisition-related expenses in the consolidated statements of operations.

7. Accounts Receivable

As of June 30, 2019, and 2018, no payor comprised more than 10% of accounts receivable.

As of June 30, 2019, substantially all accounts receivable aged greater than 360 days were fully reserved in our condensed consolidated financial statements.

Approximately $1.0 million and $2.2 million of accounts receivable, net of the allowance for doubtful accounts, at June 30, 2019 and December 31, 2018, respectively, includes accounts where the Company has received a partial payment from a commercial insurance company and the Company is continuing to pursue additional collections for the remaining balance. An account is written off only after the Company has pursued collection efforts or otherwise determines an account to be uncollectible.

8. Property and Equipment, Net

Property and equipment, net consisted of the following (in thousands):

	June 30, 2019	December 31, 2018
Land	$ 19,364	$ 19,364
Buildings and improvements	163,530	161,723
Equipment and software	31,332	35,059
Construction in progress	14,843	16,413
Total property and equipment	229,069	232,559
Less accumulated depreciation	(68,320)	(65,638)
Property and equipment, net	$ 160,749	$ 166,921

For the three months ended June 30, 2019 and 2018, depreciation expense was $2.9 million and $5.4 million, respectively.

For the six months ended June 30, 2019 and 2018, depreciation expense was $6.5 million and $10.5 million, respectively.

9. Leases

On January 1, 2019, the Company adopted the cumulative accounting standard updates issued by the FASB that amend the accounting for leases under ASC 842. These changes to the lease accounting model require operating leases be recorded on the balance sheet through recognition of a liability for the discounted present value of future fixed lease payments and a corresponding right-of-use ("ROU") asset. The Company's accounting for finance leases remained substantially unchanged from its prior accounting for capital leases. The ROU asset recorded for the lease represents the right to use the underlying asset over the lease term in exchange for the lease payments. When able, the Company uses the interest rate implicit in a lease to determine the present value of future lease payments. For leases where the implicit rate is not determinable, the Company uses its incremental borrowing rate. Our lease agreements do not contain any residual value guarantees or material restrictive covenants.

A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company elected the transition requirements in accordance with Accounting Standards Update ("ASU") 2018-11, which provide a transition election to not restate comparative periods for the effects of applying the new standard. This transition guidance elected by the Company permits entities to change the date of initial application to the beginning of the year of adoption and to recognize the effects of applying the new standard as a cumulative-effect adjustment to the opening balance of retained earnings. The Company utilized available practical expedients, including the package of practical expedients not to reassess whether a contract is or contains a lease, the lease classification and initial direct costs, as well as the expedient forgoing the separation of lease and non-lease components.

Total right-of-use assets and related operating lease obligations of $32.9 million and $38.0 million, respectively were recorded on the consolidated balance sheet on adoption, with no material impact to our Consolidated Statements of Operations.

The Company makes use of operating leases for property and equipment, and finance leases for equipment and vehicles. The Company's leases have a remaining life ranging from 0.3 years to 11 years, some of which contain an option to extend at the discretion of the Company.

The Company elected the transition provision of Topic 842 allowing entities to not restate comparative periods for the effects of the application of the new standard. The Topic 842 disclosures below are for the six months ended June 30, 2019.

Components of lease expense are as follows (in thousands):

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Operating lease cost	$ 1,978	$ 4,010
Finance lease cost		
Amortization of ROU assets	212	475
Interest on lease liabilities	28	61
Total finance lease cost	240	536
Total lease cost	$ 2,218	$ 4,546

Supplemental balance sheet information related to leases are as follows (in thousands):

Component of Lease Balances	Classification	June 30, 2019
Assets:		
Operating lease assets	Right-of-use asset - operating, net	$ 28,328
Finance lease assets	Other assets	1,060
Accumulated Amortization ROU asset	Other assets	(475)
Total leased assets		$ 28,913
Liabilities:		
Operating lease liabilities:		
current portion	Current portion of lease liability - operating	$ 5,109
long-term portion	Lease liability - operating, net of current portion	28,325
Total Operating lease liabilities		33,434
Finance lease liabilities:		
current portion	Accrued and other current liabilities	438
long-term portion	Other long-term liabilities	210
Total Finance lease liabilities		648
Total lease liabilities		$ 34,082
Weighted average remaining lease term		
Operating leases		7 years
Finance leases		2 years
Weighted average discount rate		
Operating leases		9.9%
Finance leases		18.8%

Supplemental cash flow information related to leases are as follows (in thousands):

	Six Months Ended June 30, 2019	
Cash used in operating activities		
Operating leases	$	3,836
Finance leases		61
Cash used in financing activities		
Finance leases	$	370
Right-of-use assets recognized in exchange for new lease obligations		
Operating leases	$	—
Finance leases		65

Maturities of lease liabilities are as follows (in thousands):

	June 30, 2019				December 31, 2018			
	Finance		Operating		Capital		Operating	
2019	$	287	$	2,889	$	601	$	5,144
2020		231		4,165		200		4,158
2021		80		3,617		60		3,617
2022		26		3,768		12		3,768
2023		23		3,692		8		3,692
Thereafter		1		15,303		—		15,302
Total	$	648	$	33,434	$	881	$	35,681

10. Goodwill and Intangible Assets

The Company has only one operating segment, substance use and behavioral healthcare treatment services, for segment reporting purposes. The substance abuse and behavioral healthcare treatment services operating segment represents one reporting unit for purposes of the Company’s goodwill impairment test. Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired. Goodwill and intangible assets with indefinite lives are not amortized, but instead are tested for impairment at least annually or whenever events or changes in circumstances indicate the carrying value may not be recoverable. If the carrying value of goodwill exceeds its implied fair value, an impairment loss is recorded. The Company has no intangible assets with indefinite useful lives other than goodwill.

Goodwill Impairment Test

The Company performed its annual test for goodwill impairment as of December 31, 2018 and based on certain qualitative factors, determined that more likely than not, the carrying value of its goodwill was greater than its fair value. These factors included, but were not limited to, a declining market capitalization, declining cash flows and negative trending performance indicators, such as admissions and total daily census. Because certain qualitative factors indicated impairment was likely, the Company performed a quantitative analysis to measure the amount of loss due to goodwill impairment, if any.

The Company used a blended approach of a market capitalization approach and income approach to estimate the fair value of the Company’s single reporting unit. For the market capitalization approach, the Company estimated the fair value based on the number of outstanding shares as of December 31, 2018, its average stock price based on the ten days immediately preceding and ten days immediately following the valuation date. For the income approach, the Company used a discounted cash flow model in which cash flows were projected using historical and internal forecasts over future periods, including growth assumptions regarding revenue, EBITDA, tax depreciation and capital expenditures, plus a terminal value, and then discounted to present value using a risk-adjusted rate of return. The discount rate assumption was based on an assessment of the risk inherent in the future cash flows and was 16.0%. Based on the estimated fair value using the aforementioned blended approach, there was no goodwill impairment, as the fair value of the single reporting unit exceeded the carrying value by a minimal amount as of December 31, 2018.

During the three months ended June 30, 2019, the Company identified certain indicators of impairment requiring an interim goodwill impairment evaluation. Those indicators included, but were not limited to, a continuing decline in market capitalization as well as continuing decline in performance indicators and negative operating cash flows. The Company performed the goodwill impairment test applying the same blended approach to that conducted as of December 31, 2018. The discount rate assumption was based on an assessment of the risk inherent in the future cash flows and was 17.5%. Based on the estimated fair value using the aforementioned blended approach, there was no goodwill impairment, as the fair value of the single reporting unit exceeded the carrying value as of June 30, 2019.

There is a risk that future declines in fair value of the single reporting unit could result in a goodwill impairment as future estimates of fair value could be adversely affected if the actual outcome of one or more of the assumptions utilized in the estimates of fair value, including but not limited to further declines in the Company's stock price, lower than expected census, higher market interest rates or increased operating costs, change materially in the future. Additionally, the carrying value of the Company's single reporting unit could decline to zero or become negative in the future. If the single reporting unit's carrying value becomes zero or negative, a goodwill impairment is unlikely, as the amount of goodwill impairment is based upon the excess of the carrying value of a reporting unit to its fair value.

The Company's goodwill balances as of June 30, 2019 were as follows (in thousands):

Balance at December 31, 2018	$	198,952
2019 Activity		—
Balance at June 30, 2019	$	198,952

Other identifiable intangible assets and related accumulated amortization consisted of the following as of June 30, 2019 and December 31, 2018 (in thousands):

	Gross Carrying Value		Accumulated Amortization	
	June 30, 2019	**December 31, 2018**	**June 30, 2019**	**December 31, 2018**
Trademarks and trade names	$ 7,552	$ 8,422	$ 2,915	$ 2,777
Non-compete agreements	1,777	2,107	1,488	1,583
Marketing intangibles	5,651	5,651	2,332	2,050
Leasehold interests	1,498	1,498	663	587
Service contracts	950	950	127	79
Other	601	601	121	90
	$ 18,029	$ 19,229	$ 7,646	$ 7,166

The related amortization expense for the three months ended June 30, 2019 and 2018 was $0.5 million, respectively.

All intangible assets are amortized using the straight-line method. The following table presents amortization expense expected to be recognized during fiscal years subsequent to June 30, 2019 (in thousands):

Fiscal Year Ended	**Expected Amortization Expense**
2019(1)	$ 901
2020	1,798
2021	1,652
2022	1,532
2023	1,298
Thereafter	3,202
Total	$ 10,383

(1) Presents expected amortization from July 1, 2019 through December 31, 2019.

11. Debt

In connection with the 2019 Senior Credit Facility further described below, on March 8, 2019, the Company entered into the Amendments to the 2017 Credit Facility together with the required lenders party thereto, Credit Suisse AG, as administrative agent and collateral agent, and the other loan parties party thereto, amending that certain Credit Agreement (the “2017 Credit Facility”), dated as of June 30, 2017.

The 2017 Credit Facility requires the maintenance of a certain coverage ratio in order for the Company to be in compliance with the agreement. As of December 31, 2018, the Company would have been in violation of this covenant absent the March 8, 2019 amendment. For the aforementioned factors, and in accordance with ASC 470-10-55, due to the uncertainties noted under Going Concern in Note 2, Basis of Presentation, the Company has classified its obligations related to the 2017 Credit Facility as current liabilities as of June 30, 2019. This reclassification has no impact on the scheduled maturities or the timing of payments related to the debt obligations.

A summary of the Company’s debt obligations is as follows (in thousands):

	June 30, 2019	December 31, 2018
Senior secured loans	$ 345,646	$ 317,479
Subordinated debt	8,384	8,884
Unamortized deferred financing costs	(12,112)	(8,085)
Capital lease obligations	—	880
Total debt	341,918	319,158
Less current portion of long-term debt	(334,534)	(309,394)
Long-term debt, net of current portion and deferred financing costs	$ 7,384	$ 9,764

2019 Senior Credit Facility

On March 8, 2019, the Company entered into that certain Credit Agreement (the “2019 Senior Credit Facility”) with Credit Suisse AG, as administrative agent and collateral agent, and the lenders party thereto. The 2019 Senior Credit Facility makes available to the Company a term loan in the principal amount of $30.0 million. The 2019 Senior Credit Facility will mature on April 15, 2020. Net proceeds from funding of the 2019 Senior Credit Facility were approximately $23 million after the payment of fees, costs and other expenses.

The 2019 Senior Credit Facility is guaranteed by the Company’s wholly-owned subsidiary, American Addiction Centers, Inc., and certain of its other subsidiaries. The obligations are secured by a first priority lien (senior to liens granted in connection with the 2017 Credit Facility) on substantially all of the Company’s and each subsidiary guarantor’s assets.

The 2019 Senior Credit Facility bears interest at a rate per annum equal to LIBOR (with a 1.0% floor) plus 11.00% per annum. In the event of any repayment or prepayment of the 2019 Senior Credit Facility or any acceleration of the 2019 Senior Credit Facility after an event of default, the Company must make a payment equal to 1.00% of the then outstanding principal amount of the 2019 Senior Credit Facility (the “Exit Payment”) if such event occurs on or prior to the date that is nine months after the closing date of the 2019 Senior Credit Facility (the “2019 Senior Credit Facility Closing Date”). The Exit Payment will be increased by an additional 1.0% at the end of each 30-day period after the nine-month anniversary of the 2019 Senior Credit Facility Closing Date until the 2019 Senior Credit Facility matures.

The terms of the 2019 Senior Credit Facility contain certain financial covenants, including, a maximum Senior Secured Leverage Ratio of (i) 7.75:1.00 as of the last day of the fiscal quarter ended June 30, 2019, (ii) 6.50:1.00 as of the last day of the fiscal quarter ending September 30, 2019, (iii) 6.25:1.00 as of the last day of the fiscal quarter ended December 31, 2019, (iv) 5.75:1.00 as of the last day of the fiscal quarter ending March 31, 2020, (v) 5.50:1.00 as of the last day of the fiscal quarter ending June 30, 2020, (vi) 5.25:1.00 as of the last day of the fiscal quarters ending September 30, 2020 and December 31, 2020, (vii) 5.00:1.00 as of the last day of the fiscal quarters ending March 31 and June 30, 2021 and (viii) 4.75:1.00 as of the last day of each fiscal quarter ending on and after December 31, 2020. The 2019 Senior Credit Facility requires the Company to periodically report to lenders with respect to, and to comply with, the Company’s operating budget. The Company is also required to (i) maintain no less than $5.0 million at any time of cash, cash equivalents and undrawn revolving loans under the 2017 Credit Facility (“Available Liquidity”) and (ii) to maintain no less than $7.5 million of Available Liquidity for any calendar week.

During the quarter ended June 30, 2019 and subsequent thereto, certain events of default occurred under the Company’s Credit Agreement, dated March 8, 2019, with Credit Suisse AG, as administrative agent and collateral agent, and the lenders party thereto (the “2019 Credit Facility”), and the Company’s Amendment and Waiver No. 1 to Credit Agreement, dated March 8, 2019, by and among the Company, Credit Suisse AG, as administrative agent and collateral agent, the required lenders party thereto and the other loan parties party thereto which amended that certain Credit Agreement, dated June 30, 2017, as previously amended, by and among the Company, Credit Suisse AG, as administrative agent and collateral agent, and the lenders party thereto (collectively, the

“2017 Credit Facility” and, together with the 2019 Credit Facility, the “Credit Facilities”), as well as certain other Company financing agreements. These events of default occurred with respect to the Company’s minimum available liquidity requirements, certain interest payment obligations and certain other matters. The Company’s management is currently engaged in discussions with its lenders regarding entrance into one or more amendments to the Credit Facilities, forbearance agreements or both, which would address the Company’s compliance with covenants and obligations under the Credit Facilities. While the Company is currently engaged in these discussions with its lenders, there can be no assurance that the Company will be able to enter into agreements or amendments under the Credit Facilities that will enable it to comply with its covenants and obligations thereunder. Please also refer to Note 2 to the consolidated condensed financial statements contained herein.

Amendments to the 2017 Credit Facility

In connection with the 2019 Senior Credit Facility, on March 8, 2019, the Company entered into the Amendment to the 2017 Credit Facility together with the required lenders party thereto, Credit Suisse AG, as administrative agent and collateral agent, and the other loan parties party thereto, amending that certain Credit Agreement, dated as of June 30, 2017, by and among the Company, Credit Suisse AG, as administrative agent and collateral agent, and the lenders party thereto.

The Amendment to the 2017 Credit Facility increased the interest rate on the term loans outstanding under the 2017 Credit Facility (the “2017 Term Loans”) by, at the Company’s option, either (i) 2.00% per annum (which shall be reduced to 1.00% per annum if the Senior Secured Leverage Ratio Condition, as defined in the Amendment to the 2017 Credit Facility, is satisfied), payable in cash or (ii) 4.00% per annum, payable-in-kind. In addition, the Amendment to the 2017 Credit Facility increased the commitment fee for the undrawn portion of the revolving credit facility under the 2017 Credit Facility from 0.50% to 1.00% per annum.

If the Company has repaid all indebtedness under the 2019 Senior Credit Facility, the Amendments to the 2017 Credit Facility requires the Company to use net cash proceeds of certain asset sales and other dispositions of property to prepay outstanding term and revolving credit loans. If the 2017 Term Loans are prepaid at any time, the Amendment to the 2017 Credit Facility requires the payment of (i) a 2.00% premium if paid on or prior to the first anniversary of the closing of the Amendment to the 2017 Credit Facility and (ii) a 1.00% premium if paid after the first anniversary but before the second anniversary of the closing of the Amendment to the 2017 Credit Facility.

The Amendment to the 2017 Credit Facility amended financial covenants with respect to the Senior Secured Leverage Ratio (as defined therein) and budgeting and lender reporting covenants that mirror those contained in the 2019 Senior Credit Facility. It also restricts certain Company actions, including certain acquisitions and joint venture arrangements. Please see the disclosure under “2019 Senior Credit Facility” above for a discussion of certain events of default under the Credit Facilities and related matters.

On March 1, 2018, in conjunction with the AdCare Acquisition, we secured a $65.0 million incremental term loan commitment under the 2017 Credit Facility. In connection with the incremental term loan, we incurred $2.6 million in deferred financing costs related to underwriting and other professional fees.

2017 Credit Facility

On June 30, 2017, the Company entered into a senior secured credit agreement with Credit Suisse AG, as administrative agent and collateral agent and the lenders party thereto (the “2017 Credit Facility”). The 2017 Credit Facility initially made available to the Company a $40.0 million revolving line of credit (the “2017 Revolver”) and a term loan in an aggregate original principal amount of $210.0 million (the “2017 Term Loan”). As discussed further below, on September 25, 2017 the 2017 Revolver was increased to $55.0 million. The 2017 Credit Facility also provides for standby letters of credit in an aggregate undrawn amount not to exceed $7.0 million.

The 2017 Term Loan matures on June 30, 2023 and requires scheduled quarterly principal repayments in an amount equal to $1.7 million for September 30, 2017, through June 30, 2019, $3.4 million for September 30, 2019, through March 31, 2023, with the remaining principal balance of the term loan due on the maturity date of June 30, 2023. The 2017 Term Loan was fully drawn on June 30, 2017.

The 2017 Revolver matures on June 30, 2022. As of June 30, 2019, $52.1 million was outstanding on the 2017 Revolver. As of June 30, 2019, the Company had no availability to draw on the 2017 Revolver. The Company also had $2.9 million of outstanding letters of credit under the 2017 Revolver.

The 2017 Credit Facility also includes an incremental facility providing for the Company to incur Additional Term Loans in an aggregate principal amount of up to $25.0 million (plus such additional amounts, so long as, after giving pro forma effect to the incurrence of such additional borrowings, the Company’s Senior Secured Leverage Ratio (as defined in the 2017 Credit Facility) would be less than 3.90:1.00) (each, an “Incremental Term Loan”) and/or Additional Revolving Commitments in an aggregate principal amount of up to $15.0 million (the “Incremental Revolver”), each subject to the satisfaction of certain conditions contained in the 2017 Credit Facility, including obtaining additional commitments from existing or additional lenders. On September 25, 2017, the Company obtained its Incremental Revolver from certain incremental revolving credit lenders thereby increasing the

2017 Revolver pursuant to the 2017 Credit Facility from $40.0 million to $55.0 million. The lenders under the 2017 Credit Facility are not under any obligation to provide any Incremental Term Loans.

Prior to the March 8, 2019 amendment, borrowings under the 2017 Credit Facility bore interest at a rate tied to the Alternative Base Rate or the Adjusted London Interbank Offered Rate ("LIBOR") (at the Company's option, and both as defined in the 2017 Credit Facility). ABR Loans (as defined in the 2017 Credit Facility) made under the 2017 Revolver bore interest at a rate per annum equal to the Alternative Base Rate plus 5.0% per annum. ABR Loans made under the 2017 Term Loan bore interest at a rate per annum equal to the Alternate Base Rate plus 5.75% per annum. Eurodollar Loans (as defined in the 2017 Credit Facility) made under the 2017 Revolver bore interest at the applicable Adjusted LIBOR plus 6.0%. Eurodollar Loans made under the 2017 Term Loan bore interest at the applicable Adjusted LIBOR plus 6.75% (with a 1.0% floor). In addition, under the 2017 Credit Facility, the Company paid a commitment fee for the undrawn portion of the 2017 Revolver of 0.5% per annum.

Borrowings under the 2017 Credit Facility are guaranteed by the Company's wholly owned subsidiary, AAC and certain of its other subsidiaries pursuant to that certain Guarantee and Collateral Agreement, dated as of June 30, 2017, by and among the Company, each of the subsidiary guarantors party thereto and Credit Suisse AG, as collateral agent (the "Guarantee and Collateral Agreement"). The obligations under the 2017 Credit Facility and the Guarantee and Collateral Agreement are secured by a lien on substantially all of the Company's and each subsidiary guarantor's assets.

The Company is permitted to voluntarily reduce the unutilized portion of the commitment amount and repay outstanding loans under the 2017 Credit Facility at any time without premium or penalty, other than (i) customary "breakage" costs with respect to Eurodollar Loans and, (ii) with respect to the 2017 Term Loan, if certain repricing transactions are consummated or certain mandatory repayments are made, (x) a yield maintenance premium within one year after the closing as set forth in the 2017 Credit Facility, (y) a 2.0% premium if paid after the first anniversary of the closing but before the second anniversary of the closing and (z) a 1.0% premium if paid after the second anniversary of the closing but before the third anniversary of the closing.

In addition, the 2017 Credit Facility places certain restrictions on the ability of the Company and its subsidiaries to, among other things, incur debt and liens; merge, consolidate or liquidate; dispose of assets; enter into hedging arrangements; pay dividends and make other restricted payments; undertake transactions with affiliates; enter into restrictive agreements on dividends and other distributions; make negative pledges; enter into certain sale-leaseback transactions; make certain investments; prepay or modify the terms of certain indebtedness and modify the terms of certain organizational agreements.

The 2017 Credit Facility contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other material indebtedness, certain events of bankruptcy and insolvency, material judgments, certain ERISA events, invalidity of loan documents and certain changes in control.

During the quarter ended June 30, 2017, the Company incurred approximately $12.9 million in debt issuance costs related to underwriting and other professional fees, of which $7.6 million related to the 2017 Term Loan and $5.3 million related to the 2017 Revolver.

On October 6, 2017, in conjunction with the Company's pending acquisition of AdCare, Inc., the Company secured a $65.0 million incremental term loan commitment in conjunction with the 2017 Credit Facility, subject to customary closing conditions and regulatory provisions. In connection with the financing, the Company committed to a ticking fee that commenced on October 17, 2017, at a rate of LIBOR plus 3.375%, which increased to LIBOR plus 6.75% from November 2017, until the closing date of the acquisition.

Subordinated Note

On March 1, 2018, in conjunction with the AdCare Acquisition, in consideration for covenants and agreements set forth in the Purchase Agreement, the Company issued the AdCare Note to the Seller, in the original principal amount of $9.6 million, which 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 until the maturity date.

12. Financing Lease Obligation

On August 9, 2017, the Company closed on a sale-leaseback transaction with MedEquities Realty Operating Partnership, LP, a subsidiary of MedEquities Realty Trust, Inc. ("MedEquities"), for $25.0 million (the "2017 Sale-Leaseback"), in which MedEquities purchased from subsidiaries of the Company two drug and alcohol rehabilitation outpatient facilities and two sober living facilities: the Desert Hope Facility and Resolutions Las Vegas, each located in Las Vegas, Nevada, and the Greenhouse Facility and Resolutions Arlington, each located in Arlington, Texas (collectively, the "Sale-Leaseback Facilities").

Simultaneously with the sale of the Sale-Leaseback Facilities, the Company, through its subsidiaries and MedEquities entered into an operating lease, dated August 9, 2017, in which the Company will continue to operate the Sale-Leaseback Facilities. The operating lease provides for a 15-year term for each facility with two separate renewal terms of five years each if the Company chooses to exercise its right to extend the lease term.

The initial annual minimum rent payable from the Company to MedEquities is $2.2 million due in equal monthly installments of $0.2 million. On the first, second and third anniversary of the lease date, the annual rent will increase 1.5% from the annual rent in effect for the immediately preceding year. On the fourth anniversary of the lease date and thereafter during the lease term, the annual rent will increase to the amount equal to the CPI Factor (as defined in the Lease) multiplied by the annual rent in effect for the immediately preceding year; provided, however, that the adjusted annual rent increase will always be between 1.5% and 3.0%.

Due to the nature of the agreement between MedEquities and the Company, the transaction did not qualify for sale-leaseback accounting under GAAP. Therefore, the Sale-Leaseback Facilities remain on the Company's balance sheets and continue to be depreciated over their remaining useful lives. The Company accounted for the $25.0 million of proceeds, less $0.4 million of transaction costs, as a financing obligation, of which $24.5 million was classified as a short-term liability. On a monthly basis, a portion of the payment is allocated to principal, which reduces the obligation balance, and interest, computed based on the Company's incremental borrowing rate at the time of the transaction.

A summary of the Company's financing lease obligation is as follows (in thousands):

	June 30, 2019	December 31, 2018
Financing lease obligation: Sale-Leaseback facilities	$ 24,489	$ 24,542
Less current portion	(24,489)	(121)
Total Financing lease obligation, net of current portion	$ —	$ 24,421

13. Stockholders' Equity and Stock Based Compensation

The Company's statements of stockholder's equity for the periods indicated were as follows:

	Common Stock – AAC Holdings, Inc. Shares Outstanding	Common Stock – AAC Holdings, Inc. Amount	Additional Paid-in Capital	Retained Deficit	Total Stockholders' Equity of AAC Holdings, Inc.	Non-Controlling Interest	Total Stockholders' Equity
Balance at December 31, 2017	23,872,436	$ 24	$ 152,430	$ (38,170)	$ 114,284	$ (14,826)	$ 99,458
Common stock granted and issued under stock incentive plan, net of forfeitures	(19,503)	—	798	—	798	—	798
Common stock withheld for minimum statutory taxes	(4,145)	—	(48)	—	(48)	—	(48)
Effect of employee stock purchase plan	27,900	—	221	—	221	—	221
Common stock issued upon acquisition of AdCare, Inc.	562,051	—	5,439	—	5,439	—	5,439
Net income (loss)	—	—	—	1,056	1,056	(1,893)	(837)
Balance at March 31, 2018	24,438,739	$ 24	$ 158,840	$ (37,114)	$ 121,750	$ (16,719)	$ 105,031
Common stock granted and issued under stock incentive plan, net of forfeitures	161,398	—	1,361	—	1,361	—	1,361
Common stock withheld for minimum statutory taxes	(3,462)	—	(44)	—	(44)	—	(44)
Effect of employee stock purchase plan	—	—	—	—	—	—	—
Common stock issued upon acquisition of AdCare, Inc.	—	1	(1)	—	—	—	—
Net loss	—	—	—	(1,602)	(1,602)	(1,990)	(3,592)
Balance at June 30, 2018	24,596,675	$ 25	$ 160,156	$ (38,716)	$ 121,465	$ (18,709)	$ 102,756

	Common Stock – AAC Holdings, Inc. Shares Outstanding	Common Stock – AAC Holdings, Inc. Amount	Additional Paid-in Capital	Retained Deficit	Total Stockholders' Equity of AAC Holdings, Inc.	Non-Controlling Interest	Total Stockholders' Equity
Balance at December 31, 2018	24,573,679	$ 25	$ 161,962	$ (97,574)	$ 64,413	$ (22,140)	$ 42,273
Common stock granted and issued under stock incentive plan, net of forfeitures	(24,666)	—	364	—	364	—	364
Common stock withheld for minimum statutory taxes	—	—	—	—	—	—	—
Effect of employee stock purchase plan	116,532	—	137	—	137	—	137
Net loss	—	—	—	(22,019)	(22,019)	(2,097)	(24,116)
Balance at March 31, 2019	24,665,545	$ 25	$ 162,463	$(119,593)	$ 42,895	$ (24,237)	$ 18,658
Common stock granted and issued under stock incentive plan, net of forfeitures	553,900	—	850	—	850	—	850
Common stock withheld for minimum statutory taxes	—	—	—	—	—	—	—
Effect of employee stock purchase plan	—	—	—	—	—	—	—
Net loss	—	—	—	(16,372)	(16,372)	(2,688)	(19,060)
Balance at June 30, 2019	25,219,445	$ 25	$ 163,313	$(135,965)	$ 27,373	$ (26,925)	$ 448

Stock Based Compensation Plans

The Company granted zero and 150,000 shares of restricted common stock to certain of its employees as part of the 2014 Equity Incentive Plan, as amended from time to time (the "Plan"), during the three months ended June 30, 2019 and 2018, respectively. The Company granted zero and 150,000 shares of restricted common stock to certain of its employees as part of the Plan, during the six months ended June 30, 2019 and 2018, respectively. These restricted common shares vest annually over a period of three years beginning on December 31 of the year the restricted common stock was granted. Additionally, the Company granted 318,178 and 36,000 shares of fully vested common stock during the six months ended June 30, 2019 and 2018, respectively, to its non-employee directors pursuant to the Plan. The Company also granted 318,178 shares of restricted common stock to its non-employee directors during the six months ended June 30, 2019. The Company recognized $0.6 million and $0.4 million of compensation expense for the six months ended June 30, 2019 and 2018, respectively, as a result of the non-employee director grants.

The Company recognized $0.8 million and $1.4 million in total equity-based compensation expense for the three months ended June 30, 2019 and 2018, respectively. The Company recognized $1.2 million and $2.2 million in equity-based compensation expense for the six months ended June 30, 2019 and 2018, respectively. As of June 30, 2019, there was $1.1 million of unrecognized compensation expense related to unvested restricted stock, which is expected to be recognized over the remaining weighted average vesting period of 0.6 years.

A summary of share activity under the Plan is set forth below:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2018	181,825	$ 10.20
Granted	636,356	1.54
Vested	(318,178)	1.54
Forfeitures	(107,122)	6.95
Unvested at June 30, 2019	392,881	$ 4.08

Employee Stock Purchase Plan

For the six months ended June 30, 2019 and 2018, the Company issued 116,532 and 27,900 shares, respectively, of the Company's common stock under its Employee Stock Purchase Plan, as amended from time to time ("ESPP"). No shares were issued during the three months ended June 30, 2019 and 2018.

For both the three and six months ended June 30, 2019 and 2018, the Company recognized $0.1 million of compensation expense related to the ESPP.

14. Income Taxes

The provision for income taxes reflects an effective tax rate of 0.7% and 4.3%, for the six months ended June 30, 2019 and 2018, respectively. The difference in the Company's effective tax rate for the six months ended June 30, 2019, when compared to the prior year, was primarily due to a change in the valuation allowance the Company now maintains against certain state and federal deferred tax assets.

15. Fair Value of Financial Instruments

The carrying amounts reported at June 30, 2019 and December 31, 2018 for cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued liabilities approximate fair value because of the short-term maturity of these instruments.

The Company has debt with variable interest rates. The fair value of this debt was measured using Level 2 inputs, including good faith estimates of the market value for the particular debt instrument, which represent the amount an independent market participant would provide based upon market observations and other factors relevant under the circumstances. The estimated fair value of such debt at June 30, 2019 approximated $332.9 million. The carrying value of such debt approximated its estimated fair value at December 31, 2018.

16. Commitments and Contingencies

SEC Matter

The Company provided general accounting, finance and governance documentation in response to a subpoena received from the SEC in March 2018. Following this initial document request, the Commission requested additional information pertaining to the Company's accounting for partial payments from insurance companies, where the Company is continuing to pursue additional collections for the estimated balance. Beginning in the third quarter of 2018, the Company's Audit Committee initiated a review of the Company's accounting for these partial payments. The Audit Committee has completed this review. In connection with this review, the Audit Committee determined that the Company’s change in estimate of the collectability of accounts receivable relating to partial payments was appropriate. The Commission’s investigation is ongoing, and the Company is continuing to fully cooperate on this matter, including providing the Commission with information regarding the restatements of historical financial reports contained in the Company’s most recent Annual Report. The Commission’s investigation is neither an allegation of wrongdoing nor a finding that any violation of law has occurred. At this time, the Company is unable to predict the final outcome of this matter or what impact it might have on the Company’s consolidated financial position, results of operations or cash flows.

Securities Litigation

On May 16, 2019, an alleged shareholder filed a purported class action in the United States District Court for the Middle District of Tennessee against the Company and certain of its current and former officers *(Caudle v. AAC Holdings, Inc. et al.)*. The plaintiff generally alleges that defendants violated Sections 10(b) and/or 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by making allegedly false and/or misleading statements and failing to disclose certain information, with respect to financial statements reported by the Company for periods between 2016 and 2018, which statements were restated in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. In a related matter, on August 16, 2019, an alleged shareholder filed a derivative action on behalf of AAC Holdings, Inc. in the United States District Court in the Middle District of Tennessee *(Cooper v. Michael Cartwright et al.)* against the Company’s current and certain former members of its board of directors and senior executive team, alleging that these individuals breached their fiduciary duties and engaged in mismanagement. Given the uncertainty of litigation and the preliminary stage of these cases, we cannot at this time estimate the reasonably possible loss or range of loss that may result from these actions. The Company believes that the allegations are without merit and is vigorously defending the action.

Other Matters

The Company is also aware of various other legal matters arising in the ordinary course of business. To cover these other types of claims as well as the legal matters referenced above, the Company maintains insurance it believes to be sufficient for its operations, although some claims may potentially exceed the scope of coverage in effect and the insurer may argue that some claims, including, without limitation, the claims described above, are excluded from coverage. Plaintiffs in these matters may also request punitive or other damages that may not be covered by insurance. Except as described above, after taking into consideration the evaluation of such matters by the Company’s legal counsel, the Company’s management believes at this time that the anticipated outcome of these matters will not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are made only as of the date of this Quarterly Report. In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "may," "potential," "predicts," "projects," "should," "will," "would," and similar expressions intended to identify forward-looking statements, although not all forward-looking statements contain these words. Forward-looking statements may include information concerning the Company's possible or assumed future results of operations, including descriptions of the Company's revenue, profitability, outlook and overall business strategy. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results and performance to be materially different from the information contained in the forward-looking statements. These risks, uncertainties and other factors include, without limitation: (i) our inability to effectively operate our facilities; (ii) our reliance on our sales and marketing program to continuously attract and enroll clients; (iii) a reduction in reimbursement rates by certain third-party payors for inpatient and outpatient services and point-of-care and definitive lab testing; (iv) our failure to successfully achieve growth through acquisitions and de novo projects; (v) risks associated with estimates of the value of accounts receivable or deterioration in collectability of accounts receivable; (vi) a failure to achieve anticipated financial results from contemplated and prior acquisitions; (vii) the possibility that a governmental entity may prohibit, delay or refuse to grant approval for the consummation of an acquisition; (viii) our failure to achieve anticipated financial results from contemplated and prior acquisitions; (ix) a disruption in our ability to perform diagnostic laboratory services; (x) maintaining compliance with applicable regulatory authorities, licensure and permits to operate our facilities and laboratories; (xi) a disruption in our business and reputational and economic risks associated with the civil securities claims brought by shareholders or claims by various parties; (xii) inability to meet the covenants in the Company's loan documents or lack of borrowing capacity, including the Company's inability to enter into forbearance agreements and amendments with its lenders with respect to certain events of default; (xiii) inability to successfully raise capital to meet the Company's liquidity needs; and (xiv) general economic conditions, as well as other risks discussed in the "Risk Factors" section of the Company's most recently filed Annual Report on Form 10-K and other filings with the SEC. As a result of these factors, we cannot assure that the forward-looking statements in this Quarterly Report on Form 10-Q will prove to be accurate. Investors should not place undue reliance upon forward-looking statements.

Overview

We are a provider of inpatient and outpatient substance use treatment services for individuals with drug addiction, alcohol addiction and co-occurring mental/behavioral health issues. In connection with our treatment services, we perform diagnostic laboratory services and provide physician services to our clients. As of June 30, 2019, we operated 9 inpatient substance abuse treatment facilities located throughout the United States, focused on delivering effective clinical care and treatment solutions across 996 inpatient beds, including 616 licensed detoxification beds, 15 standalone outpatient centers, and 4 sober living facilities across 447 beds for a total of 1,443 combined inpatient and sober living beds.

Our highly trained clinical staff deploy research-based treatment programs with structured curricula for detoxification, inpatient treatment, partial hospitalization and intensive outpatient care. By applying a tailored treatment program based on the individual needs of each client, many of whom require treatment for a co-occurring mental health disorder such as depression, bipolar disorder or schizophrenia, we believe we offer the level of quality care and service necessary for our clients to achieve and maintain sobriety.

Facilities

The following table presents information about our network of substance use treatment facilities as of June 30, 2019:

Facility Name	State	Beds[1]	Property
Residential[2]			
Laguna Treatment Hospital	CA	93	Owned
River Oaks	FL	162	Owned
Recovery First	FL	56	Owned/Leased
AdCare Hospital	MA	114	Owned
Oxford Treatment Center	MS	124	Owned
Sunrise House	NJ	110	Owned
Desert Hope	NV	148	Owned
AdCare Rhode Island	RI	59	Owned
Greenhouse	TX	130	Owned
Total Residential Beds		**996**	
Sober Living			
Recovery First - Ft. Lauderdale East	FL	83	Leased
Resolutions Oxford	MS	48	Owned
Resolutions Las Vegas	NV	159	Leased
Resolutions Arlington	TX	157	Leased
Total Sober Living Beds		**447**	
Total Beds		**1,443**	

	State	Location	Property
Outpatient[3]			
Recovery First Outpatient	FL	1	Leased
Oxford Outpatient Center	MS	1	Owned
AdCare Outpatient Centers	MA/RI	10	Owned/Leased
Sunrise House Outpatient	NJ	1	Owned
Desert Hope Outpatient Center	NV	1	Leased
Greenhouse Outpatient	TX	1	Leased
Total Outpatient Facilities		**15**	

(1) Bed capacity reflected in the table represents total available beds. Actual capacity utilized depends on current staffing levels at each facility and may not equal total bed capacity at any given time.

(2) Inpatient facilities generally have the ability to provide detox, residential, partial hospitalization and intensive outpatient services.

(3) Outpatient facilities generally have the ability to provide partial hospitalization and intensive outpatient services.

Bed Count Summary

The following table presents information about our total bed count between inpatient beds and sober living beds as of June 30, 2019 and December 31, 2018, respectively:

	As of June 30, 2019	As of December 31, 2018	Decrease
Inpatient Beds	996	1,080	(84)
Sober Living Beds	447	471	(24)
Total Beds	1,443	1,551	(108)

Recent Developments

Consolidation and Exit of Certain Markets and AdCare Acquisition

In the fourth quarter of 2018 and the first quarter of 2019, we took a number of steps to consolidate and exit certain of our markets, as well as reduce corporate staffing and administrative expenses and increase operational efficiency. On December 1, 2018, we ceased operations at our 36-bed sober-living center and outpatient center operations in San Diego, California, consolidating its operations with our Laguna Treatment Hospital. Also, during the fourth quarter of 2018, we announced that we were seeking strategic alternatives for our Louisiana operations, which we subsequently sold effective as of January 28, 2019.

In February 2019, we took action to reduce bed count and staffing in our Las Vegas, Nevada market, by consolidating our Solutions Recovery treatment operations into those of our Desert Hope operations. Earlier in 2018, we consolidated our Clinical Services of Rhode Island outpatient centers into AdCare's Rhode Island outpatient operations. We also consolidated our diagnostic test operations, moving our laboratory operations in Louisiana to Tennessee. During the fourth quarter of 2018 and the first quarter of 2019, we also conducted reductions in force at our corporate headquarters in Brentwood, Tennessee and at certain of our facilities.

In 2018, we acquired AdCare, a 114-bed hospital in Worcester, Massachusetts that also operates five outpatient centers in Massachusetts, as well as a 59-bed residential treatment center and two outpatient centers in Rhode Island. AdCare participates in both Medicare and Medicaid and the acquisition therefore significantly increased our company's overall participation in governmental payor programs.

Financing

2019 Senior Credit Facility

On March 8, 2019, we entered into that certain Credit Agreement (the "2019 Senior Credit Facility") with Credit Suisse AG, as administrative agent and collateral agent, and the lenders party thereto. The 2019 Senior Credit Facility is a term loan in the principal amount of $30.0 million. The 2019 Senior Credit Facility will mature on April 15, 2020. Net proceeds from funding of the 2019 Senior Credit Facility were approximately $23 million after the payment of fees, costs and other expenses.

The 2019 Senior Credit Facility is guaranteed by the Company's wholly-owned subsidiary, American Addiction Centers, Inc., and certain of its other subsidiaries. The obligations are secured by a first priority lien (senior to liens granted in connection with the 2017 Credit Facility) on substantially all of the Company's and each subsidiary guarantor's assets.

The 2019 Senior Credit Facility bears interest at a rate per annum equal to LIBOR (with a 1.0% floor) plus 11.00% per annum. In the event of any repayment or prepayment of the 2019 Senior Credit Facility or any acceleration of the 2019 Senior Credit Facility after an event of default, the Company must make a payment equal to 1.00% of the then outstanding principal amount of the 2019 Senior Credit Facility (the "Exit Payment") if such event occurs on or prior to the date that is nine months after the closing date of the 2019 Senior Credit Facility (the "2019 Senior Credit Facility Closing Date"). The Exit Payment will be increased by an additional 1.0% at the end of each 30-day period after the nine-month anniversary of the 2019 Senior Credit Facility Closing Date until the 2019 Senior Credit Facility matures.

The 2019 Senior Credit Facility requires the Company to prepay outstanding term loans thereunder, subject to certain exceptions, with:

- 100.0% of the net cash proceeds of certain asset sales or other dispositions of property or certain casualty events;
- 100.0% of the net cash proceeds of the incurrence of debt and issuance of Disqualified Stock (as defined in the 2019 Senior Credit Facility) other than proceeds of debt permitted under the 2019 Senior Credit Facility;
- 100.0% of the net cash proceeds of equity issuances in the event the Senior Secured Leverage Ratio (as defined in the 2019 Senior Credit Facility) is greater than 3.00:1.00, calculated on a pro forma basis, at the time of such issuance (or such lesser percentage required for the Senior Secured Leverage Ratio to be equal to or less than 3.00:1.00); and
- 75.0% (which percentage will be reduced to 50.0% if the Company's Senior Secured Leverage Ratio is not greater than 3.25:1.00 and to 25.0% if the Company's Senior Secured Leverage Ratio is not greater than 2.75:1.00) of the Company's annual excess cash flow (as defined by the 2019 Senior Credit Facility), but only to the extent that such excess cash flow for such fiscal year exceeds $3.0 million.

The terms of the 2019 Senior Credit Facility contains certain financial covenants, including, a maximum Senior Secured Leverage Ratio of (i) 7.75:1.00 as of the last day of the fiscal quarter ended June 30, 2019, (ii) 6.50:1.00 as of the last day of the fiscal quarter ending September 30, 2019, (iii) 6.25:1.00 as of the last day of the fiscal quarter ending December 31, 2019, (iv) 5.75:1.00 as of the last day of the fiscal quarter ending March 31, 2020, (v) 5.50:1.00 as of the last day of the fiscal quarter ending June 30, 2020,

(vi) 5.25:1.00 as of the last day of the fiscal quarters ending September 30, 2020 and December 31, 2020, (vii) 5.00:1.00 as of the last day of the fiscal quarters ending March 31 and June 30, 2021 and (viii) 4.75:1.00 as of the last day of each fiscal quarter ending on and after December 31, 2020. The 2019 Senior Credit Facility requires the Company to periodically report to lenders with respect to, and to comply with, the Company's operating budget. The Company is also required to (i) maintain no less than \$5.0 million at any time of cash, cash equivalents and undrawn revolving loans under the 2017 Credit Facility ("Available Liquidity") and (ii) to maintain no less than \$7.5 million of Available Liquidity for any calendar week.

Amendments to the 2017 Credit Facility

In connection with the 2019 Senior Credit Facility, on March 8, 2019, we entered into that certain Amendment and Waiver No. 1 to Credit Agreement (the "Amendment to the 2017 Credit Facility") together with the required lenders party thereto, Credit Suisse AG, as administrative agent and collateral agent, and the other loan parties party thereto, amending that certain Credit Agreement (the "2017 Credit Facility"), dated as of June 30, 2017, by and among the Company, Credit Suisse AG, as administrative agent and collateral agent, and the lenders party thereto.

The Amendment to the 2017 Credit Facility increased the interest rate on the term loans outstanding under the 2017 Credit Facility (the "2017 Term Loans") by, at the Company's option, either (i) 2.00% per annum (which shall be reduced to 1.00% per annum if the Senior Secured Leverage Ratio Condition is satisfied), payable in cash or (ii) 4.00% per annum, payable-in-kind. The Senior Secured Leverage Ratio condition, as defined in the amendment to the 2017 Credit Facility, is satisfied. In addition, the Amendment to the 2017 Credit Facility increased the commitment fee for the undrawn portion of the revolving credit facility under the 2017 Credit Facility from 0.50% to 1.00% per annum.

If the Company has repaid all indebtedness under the 2019 Senior Credit Facility, the Amendments to the 2017 Credit Facility requires the Company to use net cash proceeds of certain asset sales and other dispositions of property to prepay outstanding term and revolving credit loans. If the 2017 Term Loans are prepaid at any time, the Amendment to the 2017 Credit Facility requires the payment of (i) a 2.00% premium if paid on or prior to the first anniversary of the closing of the Amendment to the 2017 Credit Facility and (ii) a 1.00% premium if paid after the first anniversary but before the second anniversary of the closing of the Amendment to the 2017 Credit Facility.

The Amendment to the 2017 Credit Facility contains financial covenants with respect to the Senior Secured Leverage Ratio (as defined therein) and budgeting and lender reporting covenants that mirror those contained in the 2019 Senior Credit Facility. It also restricts certain Company actions, including certain acquisitions and joint venture arrangements. Please see the disclosure under "2019 Senior Credit Facility" above for a discussion of certain events of default under the Credit Facilities and related matters.

On March 1, 2018, in conjunction with the AdCare Acquisition, we secured a \$65.0 million incremental term loan commitment under the 2017 Credit Facility. In connection with the incremental term loan, we incurred \$2.6 million in deferred financing costs related to underwriting and other professional fees.

On March 1, 2018, and also in conjunction with the AdCare Acquisition, in consideration for covenants and agreements set forth in the Purchase Agreement, we issued the AdCare Note to the Seller in the original principal amount of \$9.6 million, which 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.

The 2017 Credit Facility requires the maintenance of a certain coverage ratio in order for the Company to be in compliance with the agreement. As of December 31, 2018, the Company would have been in violation of this covenant absent the March 8, 2019 amendment.

Defaults Under Credit Facilities

During the quarter ended June 30, 2019 and subsequent thereto, certain events of default occurred under the 2019 Senior Credit Facility and the 2017 Credit Facility (collectively, the “Credit Facilities”), as well as certain other Company financing agreements. These events of default occurred with respect to the Company’s minimum available liquidity requirements, certain interest payment obligations, leverage ratio conditions and certain other matters. The Company’s management is currently engaged in discussions with its lenders regarding entrance into one or more amendments to the Credit Facilities, forbearance agreements or both, which would address the Company’s compliance with covenants and obligations under the Credit Facilities. While the Company is currently engaged in these discussions with its lenders, there can be no assurance that the Company will be able to enter into agreements or amendments under the Credit Facilities that will enable it to comply with its covenants and obligations thereunder.

Evaluation of Strategic Alternatives in the Company’s Real Estate Portfolio

The Company has commenced a process to generate additional value from its assets, including its real estate portfolio consisting of treatment centers located across the United States. Management’s goal is to leverage the portfolio to lower its cost of capital and enhance shareholder value. Real estate strategic alternatives could include further sale leasebacks of individual facilities or larger portions of the Company's real estate portfolio. There can be no assurance that the Company will be successful in completing asset sales as attractive values or completing additional sale leaseback transactions.

Going Concern

The Company incurred a loss from operations and had negative cash flows from operations for the year ended December 31, 2018 and the first half of 2019, which has contributed to limited liquidity. This resulted primarily from declines in patient census during the second half of 2018 and into the first half of 2019. The Company’s revenue is directly impacted by its ability to maintain census, which is dependent on a variety of factors, many of which are outside of the Company’s control, including its referral relationships, average length of stay of its clients, the extent to which third-party payors require preadmission authorization or utilization review controls, competition in the industry, the effectiveness of the Company’s multi-faceted sales and marketing strategy and the individual decisions of the Company’s clients to seek and commit to treatment. On March 8, 2019 the Company entered into 2019 Senior Credit Facility which originally matured on March 31, 2020 and was subsequently amended to mature on April 15, 2020. As noted above, the quarter ended June 30, 2019 and subsequent thereto, certain events of default occurred under the 2019 Senior Credit Facility and the 2017 Credit Facility.

The uncertainties associated with the factors described above raise substantial doubt about the Company’s ability to continue as a going concern. In order for the Company to continue operations beyond August 2020 and to be able to discharge its liabilities and commitments in the normal course of business, the Company must do some or all of the following: (i) improve operating results by increasing census while maintaining efficiency regarding operating expenses through the cost savings initiatives implemented in late 2018 and early 2019; (ii) execute strategic alternatives related to the Company’s real-estate portfolio which could include further sale leasebacks of individual facilities or larger portions of the Company’s real estate portfolio; (iii) sell additional non-core or non-essential assets; and/or (iv) obtain additional financing. There can be no assurance that the Company will be able to achieve any or all of the foregoing. An inability to obtain funding from sale leasebacks, sales of non-core assets or to obtain additional debt or equity financing, on attractive terms or at all, could have a substantial negative effect on our liquidity and our ability to continue to operate without pursuing restructuring alternatives. Furthermore, as noted above, while the Company is pursuing discussions with its lenders to enter into agreements or amendments under the Credit Facilities to enable it to comply with its covenants and obligations thereunder, management can provide no assurance that these efforts will prove successful. If the Company is unable to obtain amendments or forbearance agreements for the defaults under the Credit Facilities or to refinance the Credit Facilities, the Company would not have sufficient liquidity to continue operating without pursuing a restructuring.

The consolidated financial statements were prepared on a going concern basis in accordance with GAAP. The going concern basis of presentation assumes that the Company will continue in operation for the next twelve months and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. It does not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from its inability to continue as a going concern.

Please refer to the risk factors contained in Part 1 Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, which are incorporated by reference, including those entitled: “Our level of indebtedness could adversely affect our ability to meet our obligations, react to changes in the economy or our industry and to raise additional capital to fund our operations.”; “Our operating flexibility is limited in significant respects by the restrictive covenants in our credit facilities, and we may be unable to comply with all covenants in the future.”; “Liquidity risk could impair our ability to fund operations and meet our obligations as they become due, and our funding sources may be insufficient to fund our future operations and growth.”; and “We will need additional financing to execute our long-term business plan and fund operations, at which time additional financing may not be available on reasonable terms or at all.

Components of Results of Operations

Client Related Revenue. Our client related revenue primarily consists of service charges related to providing addiction treatment and related services, including clinical diagnostic laboratory services. We recognize revenue at the estimated net realizable value in the period in which services are provided. For all periods presented, a substantial majority of our client related revenue was reimbursable by commercial payors, including amounts paid by such payors to clients, with the remaining revenue payable directly by our clients.

Given the scale and nationwide reach of our network of substance use treatment facilities, we generally have the ability to serve clients located across the country from any of our facilities, which allows us to operate our business and analyze revenue on a system-wide basis rather than focusing on any individual facility.

We recognize client related revenues from commercial payors at the time services are provided based on our estimate of the amount that payors will pay us for the services performed. We estimate the net realizable value of revenue by adjusting gross client charges using our expected realization and applying this discount to gross client charges. Our expected realization is determined by management after taking into account the type of services provided and the historical collections received from commercial payors, on a per facility basis, compared to gross client charges billed.

Our accounts receivable primarily consists of amounts due from commercial payors. From time to time, we may provide free care to clients, which we refer to as scholarships. We do not recognize revenue for services provided to clients on scholarships. Included in the aging of accounts receivable are amounts for which the commercial insurance company paid out-of-network claims directly to the client and for which the client has yet to remit the insurance payment to us (which we refer to as “paid to client”). Such amounts paid to clients continue to be reflected in our accounts receivable aging as amounts due from commercial payors. Accordingly, our accounts receivable aging does not provide for the distinct identification of paid to client receivables. Also included in the aging of accounts receivable are amounts where we have received a partial payment from the commercial insurance company, and we are continuing to pursue additional collections for the balance that we estimate remains outstanding.

Non-Client Related Revenue. Our non-client related revenue primarily consists of service charges for diagnostic laboratory services provided to clients of third-party addiction treatment providers, addiction care treatment services for individuals in the criminal justice system and payments by third-party behavioral healthcare providers who use our digital outreach platforms. Non-client related revenue is recognized when persuasive evidence of an arrangement exists, services have been rendered, the fee for services is fixed or determinable and collectability of the fee is reasonably assured.

Provision for doubtful accounts. Substantially all of our adjustments related to collectability are considered implicit variable price concessions and are recorded as a direct reduction to revenue. The only activity that is recorded in operating expenses is bad debt related to specific customers that experience significant adverse changes in creditworthiness, such as bankruptcies.

Operating Expenses. Our operating expenses are grouped into the following major categories:

- *Salaries, wages and benefits*. We employ a variety of staff related to providing client care, including case managers, therapists, medical technicians, housekeepers, cooks and drivers, among others. Our clinical salaries, wages and benefits expense is largely driven by the total number of effective beds in our facilities and our average daily census. We also employ business development professionals and trained professionals who answer calls to our helplines. Our corporate staff includes personnel in accounting, finance, billing, marketing, compliance, human resources, IT, legal and senior management.
- *Client related services*. Client related services consist of physician and medical services as well as client meals, pharmacy and various other expenses associated with client treatment. Client related services are significantly influenced by our average daily inpatient and sober living census.
- *Advertising and marketing*. We promote our treatment facilities through a variety of channels including television advertising and internet sites, among others. While we do not compensate our referral sources for client referrals, we do have customary arrangements with third-party marketing channels in which fees are based upon the number of responses to or inquiries made in response to advertisements or other outreach efforts. We also host and attend industry conferences. Our advertising and marketing efforts and expense is largely driven by the overall bed capacity of our facilities.
- *Professional fees*. Professional fees consist of various professional services used to support primarily corporate related functions. These services include accounting related fees for financial statement audits and tax preparation and legal fees for, among other matters, employment, compliance and general corporate matters. These fees also consist of information technology, consulting and payroll fees.
- *Other operating expenses*. Other operating expenses consists primarily of utilities, insurance, telecom, employee travel and repairs and maintenance expenses and is significantly influenced by the total number of our facilities and our average daily inpatient census.

- *Rentals and leases*. Rentals and leases mainly consist of properties and various equipment under operating leases, which includes space required to perform client services and space for administrative facilities.
- *Litigation settlement*. Litigation settlement represents settlement funds and expenses incurred for activities undertaken in defense of the Company from claims and other legal matters or to resolve such matters.
- *Depreciation and amortization*. Depreciation and amortization represent the ratable use of our capitalized property and equipment, including assets under capital leases, over the estimated useful lives of the assets, and amortizable intangible assets, which mainly consist of trademark and marketing related intangibles and non-compete agreements.
- *Acquisition-related expenses.* Acquisition-related expenses consist primarily of professional fees, expenses and travel costs associated with our acquisition activities.

Key Drivers of Our Results of Operations. Our results of operations and financial condition are affected by numerous factors, including those described under "Risk Factors" and those described below:

- *New Admissions.* Our New Admissions are total client admissions at our inpatient facilities. Our ADC is directly impacted by our New Admissions.
- *Average Daily Inpatient Census ("ADC").* We refer to the average number of clients to whom we are providing services at our inpatient facilities on a daily basis over a specific period as our ADC. Our revenues are directly impacted by our ADC, which fluctuates based on the total number of effective beds, the number of client admissions and discharges in a period and the average length of stay.
- *Average Daily Sober Living Census*. We refer to the average number of clients to whom we are providing services at our sober living facilities on a daily basis over a specific period as our average daily sober living census. Our revenues are directly impacted by our average daily sober living census, which fluctuates based on the total number of beds, the number of client admissions and discharges in a period and the average length of stay.
- *Average Daily Inpatient Revenue ("ADR")*. Our ADR is a per census metric equal to our total inpatient revenues for a period divided by our average daily inpatient census for the same period divided by the number of days in the period. The key drivers of ADR include the mix of out-of-network beds versus in-network beds, the level of care that we provide to our clients during the period and payor mix.
- *Outpatient Visits.* Our outpatient visits represent the total number of outpatient visits at our standalone outpatient centers during the period. Our revenue is directly impacted by our outpatient visits, which fluctuates based on our average daily sober living census, sales and marketing efforts, utilization review and the average length of stay.
- *Average Revenue per Outpatient Visit ("ARV")*. We refer to ARV as outpatient facility and sober living services revenue for a period divided by our outpatient visits for the same period. The key drivers of ARV include the mix of out-of-network visits versus in-network visits and payor mix.
- *Revenue Per Admission.* Revenue per admission represents total client related revenue recognized for each patient admitted to our treatment facilities. The drivers of revenue per admission include in-network or out-of-network insurance coverage, the level of care for which the patient is receiving, and the average length of stay for each patient, among other drivers.
- *Client Related Clinical Diagnostic Services as a Percentage of Total Client Related Revenue.* We refer to client related diagnostic services as a percentage of total client related revenue as client related diagnostic services revenue for a period divided by total client related revenue. Client related diagnostic services includes toxicology, hematology and pharmacogenetics testing.
- *Expense Management*. Our profitability is directly impacted by our ability to manage our expenses, most notably salaries, wages and benefits, and to adjust accordingly based upon our capacity.
- *Billing and Collections*. Our revenue and cash flow are directly impacted by our ability to properly verify our clients' insurance benefits, obtain authorization for levels of care, properly submit insurance claims and manage collections.

Results of Operations

Comparison of Three Months Ended June 30, 2019 to Three Months Ended June 30, 2018

The following table presents our condensed consolidated statements of operations as reported (in thousands):

	Three Months Ended June 30,				Increase (Decrease)	
	2019		2018			
	Amount	%	Amount	%	Amount	%
Revenues						
Client related revenue	$ 60,595	96.6	$ 84,620	96.1	$ (24,025)	(28.4)
Non-client related revenue	2,129	3.4	3,474	3.9	(1,345)	(38.7)
Total revenues	62,724	100.0	88,094	100.0	(25,370)	(28.8)
Operating expenses						
Salaries, wages and benefits	38,928	62.1	46,850	53.2	(7,922)	(16.9)
Client related services	5,975	9.5	8,393	9.5	(2,418)	(28.8)
Provision for doubtful accounts	—	—	366	0.4	(366)	(100.0)
Advertising and marketing	2,725	4.3	2,584	2.9	141	5.5
Professional fees	5,557	8.9	4,950	5.6	607	12.3
Other operating expenses	10,260	16.4	12,194	13.8	(1,934)	(15.9)
Rentals and leases	2,094	3.3	2,563	2.9	(469)	(18.3)
Litigation settlement	—	—	244	0.3	(244)	(100.0)
Depreciation and amortization	3,572	5.7	5,909	6.7	(2,337)	(39.5)
Acquisition-related expenses	—	—	176	0.2	(176)	(100.0)
Total operating expenses	69,111	110.2	84,229	95.6	(15,118)	(17.9)
(Loss) income from operations	(6,387)	(10.2)	3,865	4.4	(10,252)	(265.3)
Interest expense, net	12,582	20.1	7,893	9.0	4,689	59.4
Gain on contingent consideration	—	—	(176)	(0.2)	176	(100.0)
Other income, net	(232)	(0.4)	(98)	(0.1)	(134)	136.7
Loss before income tax benefit	(18,737)	(29.9)	(3,754)	(4.3)	(14,983)	399.1
Income tax expense (benefit)	323	0.5	(162)	(0.2)	485	(299.4)
Net loss	(19,060)	(30.4)	(3,592)	(4.1)	(15,468)	430.6
Less: net loss attributable to noncontrolling interest	2,688	4.3	1,990	2.3	698	35.1
Net loss attributable to AAC Holdings, Inc. common stockholders	$ (16,372)	(26.1)	$ (1,602)	(1.8)	$ (14,770)	922.0

Client Related Revenue

Client related revenues decreased $24.0 million, or 28.4%, to $60.6 million for the three months ended June 30, 2019 from $84.6 million for the three months ended June 30, 2018.

Our client related revenue was as follows (in thousands):

	Three Months Ended June 30, 2019		Three Months Ended June 30, 2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Inpatient treatment facility services	$ 57,690	95.2	$ 67,426	79.7	$ (9,736)	(14.4)
Outpatient facility and sober living services	5,407	8.9	9,564	11.3	(4,157)	(43.5)
Client related diagnostic services	(2,502)	(4.1)	7,630	9.0	(10,132)	(132.8)
Total client related revenue	$ 60,595	100.0	$ 84,620	100.0	$ (24,025)	(28.4)

Inpatient Treatment Facility Services Revenue

Inpatient treatment facility services revenue decreased $9.7 million, or 14.4%, to $57.7 million for the three months ended June 30, 2019 from $67.4 million for the three months ended June 30, 2018. The decrease in inpatient treatment facility services revenue was primarily related to an 8.0% decrease in ADC combined with a 7.1% decrease in ADR.

Our ADC decreased 70, or 8%, to 802 for the three months ended June 30, 2019 from 872 for the three months ended June 30, 2018. The decrease in ADC was primarily due to a decline in admissions of 7.9%.

Our ADR decreased 7.1% to $790 for the three months ended June 30, 2019 from $850 for the three months ended June 30, 2018. The decrease in ADR was primarily related to a greater concentration of our inpatient treatment facility services revenue subject to commercial in-network managed care contracts, Medicare, and managed Medicaid plans; combined with other unfavorable changes in our payor mix.

Outpatient Facility and Sober Living Services Revenue

Outpatient facility and sober living revenue decreased $4.2 million, or 43.5%, to $5.4 million for the three months ended June 30, 2019, from $9.6 million for the three months ended June 30, 2018.

Outpatient visits decreased 25.7% to 37,903 for the three months ended June 30, 2019 from 51,019 for the three months ended June 30, 2018. The decrease in outpatient visits is primarily due to the corresponding decrease in ADC as well as the consolidation and exit of certain markets as previously discussed under Recent Developments.

ARV decreased 23.5% to $143 for the three months ended June 30, 2019 compared with $187 for the three months ended June 30, 2018. The decrease in outpatient ARV is primarily related to the payor mix of outpatient visits.

Client Related Diagnostic Services

Client related diagnostic services revenue decreased to ($2.5) million for the three months ended June 30, 2019 from $7.6 million for the three months ended June 30, 2018. The decrease is primarily related to continued pressure on reimbursement for these services.

Non-Client Related Revenue

Our non-client related revenue primarily consists of addiction care treatment services for individuals in the criminal justice system and payments by third-party behavioral healthcare providers who use our digital outreach platform to serve people seeking treatment. Non-client related revenue decreased $1.3 million, or 38.7%, to $2.1 million for the three months ended June 30, 2019 from $3.5 million for the three months ended June 30, 2018.

Salaries, Wages and Benefits

Salaries, wages and benefits decreased $7.9 million, or 16.9%, to $38.9 million for the three months ended June 30, 2019, from $46.9 million for the three months ended June 30, 2018. The decrease in salaries, wages and benefits is primarily related to reductions in force completed in late 2018 and the first quarter of 2019 to better align salaries, wages and benefits costs with ADC.

Client Related Services

Client related services expense decreased $2.4 million, or 28.8%, to $6.0 million for the three months ended June 30, 2019, from $8.4 million for the three months ended June 30, 2018. The decrease in client related services is primarily related to the consolidation and exit of certain markets as previously discussed under Recent Developments.

Professional Fees

Professional fees increased $0.6 million, or 12.3%, to $5.6 million for the three months ended June 30, 2019, from $5.0 million for the three months ended June 30, 2018. The increase in professional fees was primarily related to increased legal and other costs related to certain litigation, government relations and regulatory matters as further discussed in Note 16, Commitments and Contingencies, to our condensed consolidated financial statements included in this Quarterly Report.

Other Operating Expenses

Other operating expenses decreased $1.9 million, or 15.9%, to $10.3 million for the three months ended June 30, 2019, from $12.2 million for the three months ended June 30, 2018. The decrease in other operating expenses is primarily related to the exit of certain markets as previously discussed under Recent Developments.

Rentals and Leases

Rentals and leases expense decreased $0.5 million, or 18.3%, to $2.1 million for the three months ended June 30, 2019, from $2.6 million for the three months ended June 30, 2018. The decrease in rentals and leases expense is primarily related to the exit of certain markets as previously discussed under Recent Developments.

Litigation Settlement

Litigation settlement expense was $0.2 million for the three months ended June 30, 2018. We had no litigation settlement expense for the three months ended June 30, 2019. For further discussion of significant legal matters, see Note 16, Commitments and Contingencies, to our condensed consolidated financial statements included in this Quarterly Report.

Depreciation and Amortization

Depreciation and amortization expense decreased $2.3 million, or 39.5%, to $3.6 million for the three months ended June 30, 2019, from $5.9 million for the three months ended June 30, 2018. The decrease in depreciation and amortization expense is partially attributable to the consolidation and exit of certain markets as previously discussed under Recent Developments.

Acquisition-related Expenses

Acquisition-related expenses were $0.2 million for the three months ended June 30, 2018. We had no acquisition-related expenses for the three months ended June 30, 2019.

Interest Expense

Interest expense increased $4.7 million, or 59.4%, to $12.6 million for the three months ended June 30, 2019, compared to $7.9 million for the three months ended June 30, 2018. The increase in interest expense was primarily the result of increased borrowings and an increase in the average interest rate on outstanding debt related to the 2019 Senior Credit Facility entered into during the first quarter of 2019.

Outstanding debt at June 30, 2019 was approximately $354.0 million, compared to $311.0 million at June 30, 2018. Our weighted average interest rate on outstanding debt at June 30, 2019 was 12.5% compared to 8.5% at June 30, 2018. Refer to Note 11, Debt, to our condensed consolidated financial statements included in this Quarterly Report for additional information on outstanding debt.

Income Taxes

For the three months ended June 30, 2019, income tax expense was $0.3 million, reflecting an effective tax rate of 1.7%, compared to income tax benefit of $0.2 million, reflecting an effective tax rate of 4.3%, for the three months ended June 30, 2018. The difference in the Company's effective tax rate for the three months ended June 30, 2019, when compared to the prior year, was primarily due to the change in the valuation allowance the Company now maintains against certain state and federal deferred tax assets.

Net Loss Attributable to Noncontrolling Interest

For the three months ended June 30, 2019, net loss attributable to noncontrolling interest was $2.7 million compared to $2.0 million for the three months ended June 30, 2018. The net loss attributable to noncontrolling interest is directly related to the results of operations of our consolidated VIEs.

Comparison of Six Months Ended June 30, 2019 to Six Months Ended June 30, 2018

The following tables present our condensed consolidated statements of operations as reported (in thousands):

	Six Months Ended June 30,					
	2019		2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenues						
Client related revenue	$ 114,084	96.6	$ 163,250	96.4	$ (49,166)	(30.1)
Non-client related revenue	4,010	3.4	6,031	3.6	(2,021)	(33.5)
Total revenues	118,094	100.0	169,281	100.0	(51,187)	(30.2)
Operating expenses						
Salaries, wages and benefits	79,481	67.3	86,934	51.4	(7,453)	(8.6)
Client related services	12,016	10.2	16,140	9.5	(4,124)	(25.6)
Provision for doubtful accounts	—	—	366	0.2	(366)	(100.0)
Advertising and marketing	6,020	5.1	5,183	3.1	837	16.1
Professional fees	9,679	8.2	8,600	5.1	1,079	12.5
Other operating expenses	21,623	18.3	22,782	13.5	(1,159)	(5.1)
Rentals and leases	4,094	3.5	4,679	2.8	(585)	(12.5)
Litigation settlement	(1,238)	(1.0)	3,035	1.8	(4,273)	(140.8)
Depreciation and amortization	7,916	6.7	11,373	6.7	(3,457)	(30.4)
Gain on sale	(1,010)	(0.9)	—	—	(1,010)	—
Acquisition-related expenses	—	—	481	0.3	(481)	(100.0)
Total operating expenses	138,581	117.3	159,573	94.3	(20,992)	(13.2)
(Loss) income from operations	(20,487)	(17.3)	9,708	5.7	(30,195)	(311.0)
Interest expense, net	22,842	19.3	14,602	8.6	8,240	56.4
Gain on contingent consideration	—	—	(176)	(0.1)	176	(100.0)
Other income, net	(443)	(0.4)	(89)	(0.1)	(354)	397.8
Loss before income tax benefit	(42,886)	(36.3)	(4,629)	(2.7)	(38,257)	826.5
Income tax expense (benefit)	290	0.2	(200)	(0.1)	490	(245.0)
Net loss	(43,176)	(36.6)	(4,429)	(2.6)	(38,747)	874.8
Less: net loss attributable to noncontrolling interest	4,785	4.1	3,883	2.3	902	23.2
Net loss attributable to AAC Holdings, Inc. common stockholders	$ (38,391)	(32.5)	$ (546)	(0.3)	$ (37,845)	6,931.3

Client Related Revenue

Client related revenues decreased $49.2 million, or 30.1%, to $114.1 million for the six months ended June 30, 2019 from $163.3 million for the six months ended June 30, 2018.

Our client related revenue was as follows (in thousands):

	Six Months Ended June 30, 2019		Six Months Ended June 30, 2018		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Inpatient treatment facility services	$ 102,579	89.9	$ 134,301	82.3	$ (31,722)	(23.6)
Outpatient facility and sober living services	11,861	10.4	18,510	11.3	(6,649)	(35.9)
Client related diagnostic services	(356)	(0.3)	10,439	6.4	(10,795)	(103.4)
Total client related revenue	$ 114,084	100.0	$ 163,250	100.0	$ (49,166)	(30.1)

Inpatient Treatment Facility Services Revenue

Inpatient treatment facilities services revenue decreased $31.7 million, or 23.6%, to $102.6 million for the six months ended June 30, 2019 from $134.3 million for the six months ended June 30, 2018. The decrease in inpatient treatment facility services revenue was primarily related to a 6.3% decrease in ADC combined with an 18.5% decrease in ADR.

Our ADC decreased 52 to 771 for the six months ended June 30, 2019 from 823 for the six months ended June 30, 2018. The decrease in ADC was primarily due to a decline in admissions of 9.9% excluding AdCare, partially offset by a 39.8% increase in AdCare admissions due to the full six months of June 30, 2019 as compared to four months of admissions in prior year due to AdCare acquisition on March 1, 2018. The consolidated increase in admissions of 5.5% was offset by the mix in length of stay between facilities.

Our ADR decreased 18.5% to $735 for the three months ended June 30, 2019 from $902 for the three months ended June 30, 2018. The decrease in ADR was primarily related to a greater concentration of our inpatient treatment facility services revenue subject to commercial in-network managed care contracts, Medicare, and managed Medicaid plans; combined with other unfavorable changes in our payor mix. The increase in the concentration of inpatient treatment facility services revenue subject to commercial in-network managed care contracts, Medicare, and managed Medicaid plans was partially attributable to the acquisition of AdCare in March 2018, AdCare has a significantly higher concentration in these type of payor arrangements than the historical results of AAC.

Outpatient Facility and Sober Living Services Revenue

Outpatient facility and sober living revenue decreased $6.6 million, or 35.9%, to $11.9 million for the six months ended June 30, 2019, from $18.5 million for the six months ended June 30, 2018.

Outpatient visits decreased 4.6% to 77,620 for the six months ended June 30, 2019 from 81,332 for the six months ended June 30, 2018. The decrease in outpatient visits was primarily due to the corresponding decrease in ADC as well as the consolidation and exit of certain markets as previously discussed under Recent Developments.

ARV decreased 32.9% to $153 for the six months ended June 30, 2019 compared with $228 for the six months ended June 30, 2018. The decrease in outpatient ARV is primarily related to the payor mix of outpatient visits.

Client Related Diagnostic Services

Client related diagnostic services revenue decreased to ($0.4) million for the six months ended June 30, 2019 from $10.4 million for the six months ended June 30, 2018. The decrease in outpatient ARV is primarily related to continued pressure on reimbursement for these services.

Non-Client Related Revenue

Our non-client related revenue primarily consists of addiction care treatment services for individuals in the criminal justice system and payments by third-party behavioral healthcare providers who use our digital outreach platform to serve people seeking treatment. Non-client related revenue decreased $2.0 million, or 33.5%, to $4.0 million for the six months ended June 30, 2019 from $6.0 million for the six months ended June 30, 2018.

Salaries, Wages and Benefits

Salaries, wages and benefits decreased $7.5 million, or 8.6%, to $79.5 million for the six months ended June 30, 2019, from $86.9 million for the six months ended June 30, 2018. The decrease in salaries, wages and benefits is primarily related to the reductions in force completed in late 2018 and the first quarter of 2019 to better align salaries, wages and benefits costs with ADC.

Client Related Services

Client related services expense decreased $4.1 million, or 25.6%, to $12.0 million for the six months ended June 30, 2019, from $16.1 million for the six months ended June 30, 2018. The decrease in client related services is primarily related to the consolidation and exit of certain markets as previously discussed under Recent Developments as partially offset by the acquisition of AdCare on March 1, 2018.

Advertising and Marketing

Advertising and marketing expense increased $0.8 million, or 16.1%, to $6.0 million for the six months ended June 30, 2019, from $5.2 million for the six months ended June 30, 2018. The increase in advertising and marketing expense is primarily related to higher levels of advertising and marketing to help offset the impact of the Google algorithm change, partially offset by reduced spending due to a focus on more efficient and cost-effective advertising platforms including AAC owned websites.

Professional Fees

Professional fees increased $1.1 million, or 12.5%, to $9.7 million for the six months ended June 30, 2019, from $8.6 million for the six months ended June 30, 2018. The increase in professional fees was primarily related to increased legal and other costs related to certain litigation, government relations and regulatory matters as further discussed in Note 16, Commitments and Contingencies, to our condensed consolidated financial statements included in this Quarterly Report.

Other Operating Expenses

Other operating expenses decreased $1.2 million, or 5.1%, to $21.6 million for the six months ended June 30, 2019, from $22.8 million for the six months ended June 30, 2018. The decrease in other operating expenses is primarily related to the exit of certain markets as previously discussed under Recent Developments, partially offset by the acquisition of AdCare on March 1, 2018

Rentals and Leases

Rentals and leases expense decreased $0.6 million, or 12.5%, to $4.1 million for the six months ended June 30, 2019, from $4.7 million for the six months ended June 30, 2018. The decrease in rentals and leases expense is primarily related to the exit of certain markets as previously discussed under Recent Developments.

Litigation Settlement

Litigation settlement expense decreased $4.3 million, or 140.8%, to ($1.2) million for the six months ended June 30, 2019, from $3.0 million for the six months ended June 30, 2018. The decrease is due to insurance recoveries for settlement costs.

For further discussion of significant legal matters, see Note 16, Commitments and Contingencies to our condensed consolidated financial statements included in this Quarterly Report.

Depreciation and Amortization

Depreciation and amortization expense decreased $3.5 million, or 30.4%, to $7.9 million for the six months ended June 30, 2019, from $11.4 million for the six months ended June 30, 2018. The decrease in depreciation and amortization expense is primarily related to the consolidation and exit of certain markets as previously discussed under Recent Developments and partially offset by the acquisition of AdCare on March 1, 2018.

Gain on Sale

The Company recognized a gain on sale of $1.0 million for the six months ended June 30, 2019 related to the sale of our Townsend subsidiary.

Acquisition-Related Expenses

Acquisition-related expenses were $0.5 million for the six months ended June 30, 2018. We had no acquisition-related expenses for the six months ended June 30, 2019.

Interest Expense

Interest expense increased $8.2 million, or 56.4%, to $22.8 million for the six months ended June 30, 2019, compared to $14.6 million for the six months ended June 30, 2018. The increase in interest expense was primarily the result of increased borrowings and an increase in the average interest rate on outstanding debt related to the 2019 Senior Credit Facility entered into during the first quarter of 2019.

Outstanding debt at June 30, 2019 was approximately $354.0 million, compared to $311.0 million at June 30, 2018. Our weighted average interest rate on outstanding debt at June 30, 2019 was 12.5% compared to 8.5% at June 30, 2018. Refer to Note 11, Debt, to our condensed consolidated financial statements included in this Quarterly Report for additional information on outstanding debt.

Income Taxes

For the six months ended June 30, 2019, income tax expense was $0.3 million, reflecting an effective tax rate of 0.7%, compared to income tax benefit of $0.2 million, reflecting an effective tax rate of 4.3%, for the six months ended June 30, 2018. The difference in the Company's effective tax rate for the six months ended June 30, 2019, when compared to the prior year, was primarily due to the change in the valuation allowance the Company now maintains against certain state and federal deferred tax assets.

Net Loss Attributable to Noncontrolling Interest

For the six months ended June 30, 2019, net loss attributable to noncontrolling interest was $4.8 million compared to $3.9 million for the six months ended June 30, 2018. The net loss attributable to noncontrolling interest is directly related to the operating results of our consolidated VIEs

Liquidity and Capital Resources

General

Our primary sources of liquidity are net cash generated from operations, borrowings under the Company's Credit Facilities, anticipated access to debt markets and anticipated proceeds from asset and sale-leaseback transactions.

We expect that our future funding for working capital needs, capital expenditures, long-term debt repayments and other financing activities will continue to be provided from some or all of these sources. Our future liquidity could be impacted by a decrease in our net cash generated from operations due to a decrease in payments from commercial insurance companies or our ability to access debt markets, which may be restricted as a result of our leverage capacity, existing or future debt agreements, credit ratings and general market conditions. Any substantial, unexpected and/or prolonged change in the level or cost of liquidity could have a material adverse effect on our ability to fund our future operations, which could have a material adverse effect on our assets, business, cash flow, condition (financial or otherwise), liquidity, and results of operations.

We anticipate that our current level of cash on hand, internally generated cash flows in combination with any access to debt markets and/or anticipated proceeds from sale-leaseback transactions or other strategic capital-raising transactions will be sufficient to fund our anticipated working capital needs, debt service and repayment obligations and capital expenditures for at least the next twelve months. For further discussion, please see Note 2 to the Condensed Consolidated financial statements contained herein.

Cash Flow Analysis

Our cash flows are summarized as follows (in thousands):

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	Increase (Decrease)
Used in operating activities	$ (23,069)	$ (15,709)	$ (7,360)
Used in investing activities	(1,101)	(76,381)	75,280
Provided by financing activities	21,342	89,625	(68,283)
Net change in cash and cash equivalents	(2,828)	(2,465)	(363)
Cash and cash equivalents at end of period	$ 2,581	$ 11,353	$ (8,772)

Operating Activities

Cash used in operating activities was $23.1 million for the six months ended June 30, 2019, compared to $15.7 million for the six months ended June 30, 2018. Included in the cash used in operating activities for the six months ended June 30, 2018 was $25.0 million paid related to the Tennessee claim and $1.0 million paid related to the Nevada claim.

Investing Activities

Cash used in investing activities was $1.1 million for the six months ended June 30, 2019, compared to $76.4 million for the six months ended June 30, 2018. Cash used in investing activities for the six months ended June 30, 2019, was primarily used for maintenance capital expenditures. Cash used in investing activities for the six months ended June 30, 2018 reflected the AdCare acquisition.

Financing Activities

Cash provided by financing activities was $21.3 million for the six months ended June 30, 2019, compared to $89.6 million for the six months ended June 30, 2018. Cash provided by financing activities for the six months ended June 30, 2019, was primarily related to the net proceeds from the 2019 Senior Credit Facility. Refer to Note 11, Debt, to our condensed consolidated financial statements included in this Quarterly Report for additional information on the 2019 Senior Credit Facility.

Financing Relationships

For a summary of the terms of our financing relationships, see Note 11, Debt, to the accompanying condensed consolidated financial statements.

2019 Senior Credit Facility

On March 8, 2019, we entered into the 2019 Senior Credit Facility with Credit Suisse AG, as administrative agent and collateral agent, and the lenders party thereto. The 2019 Senior Credit Facility makes available to the Company a term loan in the principal amount of $30.0 million. The 2019 Senior Credit Facility will mature on April 15, 2020. Net proceeds from funding of the 2019 Senior Credit Facility were approximately $23 million after the payment of fees, costs and other expenses.

The 2019 Senior Credit Facility is guaranteed by the Company's wholly-owned subsidiary, American Addiction Centers, Inc., and certain of its other subsidiaries. The obligations are secured by a first priority lien (senior to liens granted in connection with the 2017 Credit Facility) on substantially all of the Company's and each subsidiary guarantor's assets.

The 2019 Senior Credit Facility bears interest at a rate per annum equal to LIBOR (with a 1.0% floor) plus 11.00% per annum. In the event of any repayment or prepayment of the 2019 Senior Credit Facility or any acceleration of the 2019 Senior Credit Facility after an event of default, the Company must make a payment equal to 1.00% of the then outstanding principal amount of the 2019 Senior Credit Facility (the "Exit Payment") if such event occurs on or prior to the date that is nine months after the closing date of the 2019 Senior Credit Facility (the "2019 Senior Credit Facility Closing Date"). The Exit Payment will be increased by an additional 1.0% at the end of each 30-day period after the nine-month anniversary of the 2019 Senior Credit Facility Closing Date until the 2019 Senior Credit Facility matures.

During the quarter ended June 30, 2019 and subsequent thereto, certain events of default occurred under the Company's Credit Facilities, as well as certain other Company financing agreements. These events of default occurred with respect to the Company's minimum available liquidity requirements, certain interest payment obligations, leverage ratio conditions and certain other matters. The Company's management is currently engaged in discussions with its lenders regarding entrance into one or more amendments to the Credit Facilities, forbearance agreements or both, which would address the Company's current liquidity and its compliance with covenants and obligations under the Credit Facilities. While the Company is currently engaged in these discussions with its lenders, there can be no assurance that the Company will be able to enter into agreements or amendments under the Credit Facilities that will enable it to comply with its covenants and obligations thereunder. Please refer to the risk factors contained in Part 1 Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2018, which are incorporated by reference, including those entitled: "Our level of indebtedness could adversely affect our ability to meet our obligations, react to changes in the economy or our industry and to raise additional capital to fund our operations."; "Our operating flexibility is limited in significant respects by the restrictive covenants in our credit facilities, and we may be unable to comply with all covenants in the future."; "Liquidity risk could impair our ability to fund operations and meet our obligations as they become due, and our funding sources may be insufficient to fund our future operations and growth."; and "We will need additional financing to execute our long-term business plan and fund operations, at which time additional financing may not be available on reasonable terms or at all. Please also refer to Note 2 to the consolidated condensed financial statements contained herein.

Amendments to the 2017 Credit Facility

In connection with the 2019 Senior Credit Facility, on March 8, 2019, we entered into the Amendment to the 2017 Credit Facility together with the required lenders party thereto, Credit Suisse AG, as administrative agent and collateral agent, and the other loan parties party thereto, amending that certain Credit Agreement (the "2017 Credit Facility"), dated as of June 30, 2017, by and among the Company, Credit Suisse AG, as administrative agent and collateral agent, and the lenders party thereto.

The Amendment to the 2017 Credit Facility increased the interest rate on the term loans outstanding under the 2017 Credit Facility (the "2017 Term Loans") by, at the Company's option, either (i) 2.00% per annum (which shall be reduced to 1.00% per annum if the Senior Secured Leverage Ratio Condition as defined in the amended 2017 Credit Facility, is satisfied), payable in cash or (ii) 4.00% per annum, payable-in-kind. In addition, the Amendment to the 2017 Credit Facility increased the commitment fee for the undrawn portion of the revolving credit facility under the 2017 Credit Facility from 0.50% to 1.00% per annum.

If the Company has repaid all indebtedness under the 2019 Senior Credit Facility, the Amendments to the 2017 Credit Facility requires the Company to use net cash proceeds of certain asset sales and other dispositions of property to prepay outstanding term and revolving credit loans. If the 2017 Term Loans are prepaid at any time, the Amendment to the 2017 Credit Facility requires the payment of (i) a 2.00% premium if paid on or prior to the first anniversary of the closing of the Amendment to the 2017 Credit Facility and (ii) a 1.00% premium if paid after the first anniversary but before the second anniversary of the closing of the Amendment to the 2017 Credit Facility.

The Amendment to the 2017 Credit Facility amended financial covenants with respect to the Senior Secured Leverage Ratio (as defined therein) and contains budgeting and lender reporting covenants that mirror those contained in the 2019 Senior Credit Facility. It also restricts certain Company actions, including certain acquisitions and joint venture arrangements. Please see the disclosure under “2019 Senior Credit Facility” above for a discussion of certain events of default under the Credit Facilities and related matters.

On March 1, 2018, in conjunction with the AdCare Acquisition, we secured a $65.0 million incremental term loan commitment under the 2017 Credit Facility. In connection with the incremental term loan, we incurred $2.6 million in deferred financing costs related to underwriting and other professional fees.

On March 1, 2018, and also in conjunction with the AdCare Acquisition, in consideration for covenants and agreements set forth in the Purchase Agreement, we issued the AdCare Note to the Seller in the original principal amount of $9.6 million, which 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.

2017 Credit Facility

On June 30, 2017, we entered into the 2017 Credit Facility (as defined above) with Credit Suisse AG, as administrative agent for the lenders party thereto. The 2017 Credit Facility initially made available to us the 2017 Term Loan (as defined above) in the aggregate principal amount of $210.0 million and the $40.0 million 2017 Revolver (as defined above). The 2017 Credit Facility also provides for standby letters of credit in an aggregate undrawn amount not to exceed $7.0 million. We incurred approximately $12.9 million in debt issuance costs related to underwriting and other professional fees, of which $7.6 million related to the 2017 Term Loan and $5.3 million related to the 2017 Revolver.

The proceeds of the 2017 Term Loan were used by the Company to (i) prepay all existing indebtedness outstanding under the 2015 Credit Agreement (as defined below) and the Deerfield Facility (as further described below), (ii) to pay transaction costs associated with the foregoing and (iii) for general corporate purposes. The proceeds of the 2017 Revolver drawn at closing were used (i) to pay the Deerfield Consent Fee in full, (ii) to pay transaction costs associated with the foregoing and (iii) for general corporate purposes. Proceeds from any additional borrowings under the 2017 Revolver will be used solely for general corporate purposes.

The 2017 Term Loan matures on June 30, 2023, and the 2017 Revolver matures on June 30, 2022.

On September 25, 2017, we entered into the Incremental Agreement, relating to the 2017 Credit Facility. The Incremental Agreement provided for an increase in our existing revolving line of credit from $40.0 million to $55.0 million. This was entered into in connection with providing financing and debt capacity for operations and the then pending AdCare acquisition.

On October 6, 2017, in conjunction with our pending acquisition of AdCare, we also secured a $65.0 million incremental term loan commitment in conjunction with the 2017 Credit Facility, subject to customary closing conditions and regulatory provisions.

Financing Lease Obligation

On August 9, 2017, the Company closed on a sale-leaseback for $25.0 million (the “2017 Sale-Leaseback”), in which subsidiaries of the Company sold two drug and alcohol rehabilitation outpatient facilities and two sober living facilities: the Desert Hope Facility and Resolutions Las Vegas, each located in Las Vegas, Nevada, and the Greenhouse Facility and Resolutions Arlington, each located in Arlington, Texas (collectively, the “Sale-Leaseback Facilities”).

Simultaneously with the sale of the Sale-Leaseback Facilities, the Company, through its subsidiaries, entered into an operating lease, dated August 9, 2017, in which the Company will continue to operate the Sale-Leaseback Facilities. The operating lease provides for a 15-year term for each facility with two separate renewal terms of five years each if the Company chooses to exercise its right to extend the lease term.

The initial annual minimum rent payable from the Company is $2.2 million due in equal monthly installments of $0.2 million. On the first, second and third anniversary of the lease date, the annual rent will increase 1.5% from the annual rent in effect for the immediately preceding year. On the fourth anniversary of the lease date and thereafter during the lease term, the annual rent will increase to the amount equal to the CPI Factor (as defined in the Lease) multiplied by the annual rent in effect for the immediately preceding year; provided, however, that the adjusted annual rent increase will always be between 1.5% and 3.0%.

Due to the nature of the agreement and because of our continuing involvement in the Sale-Leaseback Facilities, the transaction does not qualify for sale-leaseback accounting under GAAP. Therefore, the Sale-Leaseback Facilities will remain on our balance sheet and will continue to be depreciated over the remaining life of the asset. We accounted for the $25.0 million of proceeds, less $0.4 million of transaction costs, as a financing obligation, of which $0.1 million was classified as a short-term liability. On a monthly basis, a portion of the payment is allocated to principal, which reduces the obligation balance, and interest, computed based on our incremental borrowing rate.

Consolidation of VIEs

The Professional Groups engage physicians and mid-level service providers to provide professional services to our clients through professional services agreements with each treatment facility. Under the professional services agreements, the Professional Groups also provide a physician to serve as medical director for the applicable facility. The Professional Groups either bill the payor for their services directly or are compensated by the treatment facility based on fair market value hourly rates. Each of the professional services agreements has a term of five years and will automatically renew for additional one-year periods.

We provided the initial working capital funding in connection with the formation of the Professional Groups and recorded the balance as a receivable on our balance sheet. We make additional advances to the Professional Groups during periods in which there is a shortfall between revenue collected by the Professional Groups from the treatment facilities and payors, on the one hand, and the Professional Group's contracting expenses and payroll requirements, on the other hand, thereby increasing the balance of the receivable. Excess cash flow of the Professional Groups is repaid to us, resulting in a decrease in the receivable. The Professional Groups are obligated to repay these funds and are charged interest at commercially reasonable rates. The receivables due to us from the Professional Groups are eliminated in consolidation as the Professional Groups are VIEs of which we are the primary beneficiary.

We have entered into written management services agreements with each of the Professional Groups under which we provide management and other administrative services to the Professional Groups. These services include billing, collection of accounts receivable, accounting, management and human resource functions. Pursuant to the management services agreements, the Professional Groups' monthly revenue will first be applied to the payment of operating expenses consisting of refunds or rebates owed to clients or payors, compensation expenses of the physicians and other service providers, lease payments, professional and liability insurance premiums and any other costs or expenses incurred by us for the benefit of the Professional Groups and, thereafter, applied to the payment of a management fee equal to 20% of the Professional Groups' gross collected monthly revenue. As described above, we also provide financial support to each Professional Group on an as-needed basis to cover any shortfall between revenue collected by such Professional Groups from the treatment facilities and payors and the Professional Group's contracting expenses and payroll requirements. Through these arrangements, we are directing the activities that most significantly impact the financial results of the respective Professional Groups; however, treatment decisions are made solely by licensed healthcare professionals employed or engaged by the Professional Groups as required by various state laws. Based on our ability to direct the activities that most significantly impact the financial results of the Professional Groups, provide necessary funding and the obligation and likelihood of absorbing all expected gains and losses, we have determined that we are the primary beneficiary, and, therefore, consolidate the seven Professional Groups as VIEs.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our interest expense is sensitive to changes in market interest rates. With respect to our interest-bearing liabilities, our long-term debt outstanding at June 30, 2019 consisted of $345.6 million of variable rate debt with interest based on LIBOR, plus an applicable margin. A hypothetical 1.0% increase in interest rates would decrease our pre-tax income and cash flows by approximately $3.5 million on an annual basis based upon our borrowing level at June 30, 2019.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As previously disclosed in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2018, management had concluded that there was a material weakness in internal control over financial reporting related to its previously issued annual financial statements included in the Company's Annual Report on Form 10-K for the years ended December 31, 2017 and 2016 and the unaudited financial statements included in the Company's quarterly reports on Form 10-Q for the quarters ended September 30, 2018 and 2017, June 30, 2018 and 2017, and March 31, 2018 and 2017. While the Company has restated the financial statements for those periods, we are in the process of remediating the material weakness as of the end of the period covered by this Quarterly Report on Form 10-Q.

Management conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were not effective as of the end of the reporting period covered in this Quarterly Report on Form 10-Q, as a result of the materials weakness discussed above. Notwithstanding the identified material weakness, our management has concluded that the unaudited condensed consolidated financial statements in this quarterly filing on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows as of and for the periods presented in conformity with GAAP.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be engaged in various lawsuits and legal proceedings in the ordinary course of our business. Except as described in Note 16, Commitments and Contingencies, to the Company's condensed consolidated financial statements included in this Quarterly Report and incorporated by reference in this Part II, Item 1, we are currently not aware of any legal proceedings the ultimate outcome of which, in our judgment based on information currently available, would have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors

In addition to the other information contained in this Quarterly Report, the risks and uncertainties that we believe could materially affect our business and financial condition, or future results and are most important for you to consider are discussed in our most recently filed Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. Additional risks and uncertainties which are not presently known to us, which we currently deem immaterial or which are similar to those faced by other companies in our industry or business in general, may also materially and adversely affect any of our business, financial position or future results.

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

Not applicable.

Item 3. Defaults on Senior Securities

Refer to Note 11, Debt, for further discussion.

Item 6. Exhibits

Number	Exhibit Description
10.1	Confidential Separation Agreement and Mutual Release, by and between the Company and Michael J. Nanko, effective June 14, 2019 (previously filed as Exhibit 10.1 to the Current Report on Form 8-K filed on June 20, 2019 and incorporated by reference herein)
31.1*	Certification of Michael T. Cartwright, Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934.
31.2*	Certification of Andrew W. McWilliams, Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934.
32.1**	Certification of Michael T. Cartwright, Chief Executive Officer, pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Andrew W. McWilliams, Chief Financial Officer, pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** This certification is not deemed filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

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, thereunto duly authorized.

AAC Holdings, Inc.

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

By: /s/ Andrew W. McWilliams
Andrew W. McWilliams
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: September 9, 2019

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Michael T. Cartwright, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AAC Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods covered by this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: September 9, 2019

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

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Andrew W. McWilliams, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AAC Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods covered by this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: September 9, 2019

By: /s/ Andrew W. McWilliams
Andrew W. McWilliams
Chief Financial Officer

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Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AAC Holdings, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 9, 2019

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AAC Holdings, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated:	September 9, 2019	By:	/s/ Andrew W. McWilliams
			Andrew W. McWilliams
			Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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