STONERIDGE INC
Form 8-K
October 25, 2010

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 22, 2010

Commission file number: 001-13337

STONERIDGE, INC.
(Exact name of registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation or organization)	34-1598949 (I.R.S. Employer Identification No.)
9400 East Market Street, Warren, Ohio (Address of principal executive offices)	44484 (Zip Code)

(330) 856-2443
Registrant's telephone number, including area code

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

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

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

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

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

ITEM 2.02 Results of Operations and Financial Condition.

On October 22, 2010, Stoneridge, Inc. issued a press release announcing its results for the third quarter of 2010. A copy of the press release is attached hereto as Exhibit 99.1. This information shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

SIGNATURES

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

	Stoneridge, Inc.
Date: October 22, 2010	/s/ George E. Strickler George E. Strickler, Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

Exhibit Index

99.1 Press release dated October 22, 2010, announcing results for the third quarter of 2010.

t style="font-family:inherit;font-size:10pt;">
$
9,452

$
44,752

$
29,935

$
74,687

Unique
3,939

22

3,961

1,985

5,946

Aging Well and Living Well
9,035

12

9,047

4,105

13,152

Other acquisitions
5,292

234

5,526

508

6,034

Total
$
53,566

$
9,720

$
63,286

$
36,533

$
99,819

The Company's consolidated statement of income for the year ended September 30, 2018 included revenue totaling approximately $48.0 million from the acquisition date of each respective acquisition. The Company has not disclosed income from operations because it is immaterial.

Fiscal 2017 Acquisitions

During the year ended September 30, 2017, the Company acquired the assets or equity interests of 11 companies for total cash consideration of $82.1 million, net of $0.5 million of cash acquired.

The following table summarizes the recognized amounts of identifiable net assets acquired at the date of each acquisition:

(in thousands)	Identifiable Intangible Assets	Other Assets, Net	Total Identifiable Assets	Goodwill	Purchase Consideration
Loma Linda	$ 2,225	$ 33	$ 2,258	$ 483	$ 2,741
Rainbow ADH	13,260	1,497	14,757	9,852	24,609
JLH	1,301	60	1,361	136	1,497
Mi Casa	2,960	59	3,019	1,921	4,940
Harbor Rehab	1,642	—	1,642	461	2,103
Brockton Stoughton ADH	4,000	195	4,195	2,055	6,250
Country Life	6,177	72	6,249	3,156	9,405
HSI	18,860	1,539	20,399	9,569	29,968
Other acquisitions	432	138	570	8	578
Total	$ 50,857	$ 3,593	$ 54,450	$ 27,641	$ 82,091

Loma Linda Management Company, Inc. ("Loma Linda"). On January 31, 2017, the Company acquired the assets of Loma Linda for $2.7 million. Loma Linda is located in California and provides adult day health and community integration services to individuals with developmental disabilities and other special needs. The Company acquired $2.2 million of identifiable intangible assets which included approximately $1.7 million of agency contracts with a weighted average useful life of 12 years. As a result of the acquisition, the Company recorded $0.5 million of goodwill in the CSS segment, which is expected to be deductible for tax purposes.

Rainbow Adult Day Health ("Rainbow ADH"). On March 1, 2017, the Company acquired the assets of Rainbow ADH for $24.6 million. Rainbow ADH is located in Maryland and provides adult day health services. The Company acquired $13.3 million of identifiable intangible assets which included $11.3 million of agency contracts with a weighted average useful life of 12 years, and $2.0 million of licenses and permits with a weighted average useful life of 10 years. In addition, the Company acquired total tangible assets of $1.5 million, consisting primarily of vehicles. As a result of this acquisition, the Company recorded $9.9 million of goodwill in the Corporate and other segment, which is expected to be deductible for tax purposes.

JLH Enterprises, Chippewa Valley, Inc ("JLH"). On June 1, 2017, the Company acquired the assets of JLH for $1.5 million. JLH is located in Wisconsin and is engaged in the business of providing residential services, supported living services, day program services and similar services to individuals with developmental disabilities and similar conditions. The Company acquired $1.3 million of identifiable intangible assets, all of which were agency contracts with a weighted average useful life of 12 years. As a result of this acquisition, the Company recorded $0.1 million of goodwill in the CSS segment, which is expected to be deductible for tax purposes.

Mi Casa es Su Casa, Inc. ("Mi Casa"). On June 9, 2017, the Company acquired the assets of Mi Casa for $4.9 million. Mi Casa is located in New Jersey and provides adult day health services. The Company acquired $3.0 million of identifiable intangible assets which included $2.5 million of agency contracts with a weighted average useful life of 12. As a result of this acquisition, the Company recorded $1.9 million of goodwill in the Corporate and other segment, which is expected to be deductible for tax purposes.

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Harbor Rehabilitation, LLC ("Harbor Rehab"). On June 12, 2017, the Company acquired the assets of Harbor Rehab for $2.1 million. Harbor Rehab is located in Michigan and provides physical therapy, rehabilitation and related services to individuals with injuries or impairments. The Company acquired $1.6 million of identifiable intangible assets which included $1.1 million of agency contracts with a weighted average useful life of 12 years. As a result of this acquisition, the Company recorded $0.5 million of goodwill in the SRS segment, which is expected to be deductible for tax purposes.

Brockton and Stoughton Adult Medical Day Care Center, Inc. ("Brockton Stoughton ADH"). On June 26, 2017, the Company acquired the assets of Brockton Stoughton ADH for $6.3 million. Brockton Stoughton ADH is located in Massachusetts and provides adult day health services. The Company acquired $4.0 million of identifiable intangible assets which included $3.4 million of agency contracts with a weighted average useful life of 12 years. As a result of this acquisition, the Company recorded $2.1 million of goodwill in the Corporate and other segment, which is expected to be deductible for tax purposes.

Country Life Care Centers, Inc. ("Country Life"). On July 1, 2017, the Company acquired the assets of Country Life for $9.4 million. Country Life is located in Utah and is engaged in the business of operating a rehabilitation and sub-acute care facility that provides short-term and long-term medical care for people after a catastrophic injury or illness or with chronic medical conditions. The Company acquired $6.2 million of identifiable intangible assets which included $4.8 million of agency contracts with a weighted average useful life of 11 years. As a result of this acquisition, the Company recorded $3.2 million of goodwill in the SRS segment, which is expected to be deductible for tax purposes.

Habilitative Services, Inc. ("HSI"). On September 29, 2017, the Company acquired all of the outstanding capital stock of HSI and two related companies for $30.0 million. HSI is located in Minnesota and is engaged in the business of providing residential or supported living services and other services to individuals with developmental disabilities, traumatic brain injuries or mental illness. The Company acquired $18.9 million of identifiable intangible assets which included $14.7 million of agency contracts with a weighted average useful life of 12 years, and $4.1 million of licenses and permits with a weighted average useful life of 10 years. The Company also acquired $1.5 million of other assets, net of liabilities, consisting primarily of accounts receivable and fixed assets. As a result of this acquisition, the Company recorded $9.6 million of goodwill in the CSS segment, which is not expected to be deductible for tax purposes.

Other Acquisitions. During fiscal 2017, the Company acquired the assets of Hope Homes, Inc. ("Hope Homes"), Res-Care Wisconsin, Inc. ("RC"), and Micki's Creative Option, Inc. ("Micki's"). Hope Homes provides residential and day program services for individuals with developmental disabilities in Ohio, RC provides adult family home residential services to elderly individuals in Wisconsin, and Micki's provides group home services, supported living services and related services to individuals with intellectual and developmental disabilities in Ohio. These acquisitions are included in our CSS segment. Total cash consideration for these companies was $0.6 million.

The Company's consolidated statement of income for the year ended September 30, 2017 included revenue totaling approximately $18.2 million from the acquisition date of each respective acquisition. The Company has not disclosed income from operations because it is immaterial.

Fiscal 2016 Acquisitions

During the fiscal year ended September 30, 2016, the Company acquired certain assets of 12 companies for total cash consideration of $45.2 million.

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The following table summarizes the recognized amounts of identifiable assets acquired at the date of each acquisition:

(in thousands)	Identifiable Intangible Assets	Tangible Assets	Total Identifiable Assets	Goodwill	Purchase Consideration
Mother's Touch	$ 2,741	$ 9	$ 2,750	$ 650	$ 3,400
Winways	619	29	648	108	756
Triumph	2,335	—	2,335	265	2,600
Brighton Worcester ADH	10,600	363	10,963	2,677	13,640
TLC Duluth	7,132	26	7,158	1,342	8,500
Maryland ADH	7,680	769	8,449	3,835	12,284
Eagle Crest	1,698	—	1,698	302	2,000
CRM	934	87	1,021	119	1,140
RHD	18	43	61	—	61
Learning Services	100	—	100	—	100
Pine Grove	407	—	407	93	500
Milne	210	5	215	—	215
Total	$ 34,474	$ 1,331	$ 35,805	$ 9,391	$ 45,196

Mother's Touch, LLC ("Mother's Touch"). On November 30, 2015, the Company acquired the assets of Mother's Touch for $3.4 million. Mother's Touch is located in Indiana and provides residential and community-based services to individuals with developmental disabilities. The Company acquired $2.7 million of identifiable intangible assets which included approximately $2.7 million of agency contracts with a weighted average useful life of 12 years. As a result of the acquisition, the Company recorded $0.7 million of goodwill in the CSS segment, which is expected to be deductible for tax purposes.

Winways, LLC ("Winways"). On December 31, 2015, the Company acquired the assets of Winways for $0.8 million. Winways is located in California and provides residential and day treatment services to individuals with traumatic brain injuries, neurological illnesses and similar conditions. The Company acquired $0.6 million of identified intangible assets which included $0.5 million of agency contracts with a weighted average useful life of 12 years. As a result of this acquisition, the Company recorded $0.1 million of goodwill in the SRS segment, which is expected to be deductible for tax purposes.

Triumph Rehabilitation, LLC ("Triumph"). On February 1, 2016, the Company acquired the assets of Triumph for $2.6 million. Triumph is located in Michigan and provides physical therapy, rehabilitation and related services to individuals with traumatic brain injuries, neurological illnesses, and similar conditions. The Company acquired $2.3 million of identifiable intangible assets which included $2.2 million of agency contracts with a weighted average useful life of 12 years. As a result of this acquisition, the Company recorded $0.3 million of goodwill in the SRS segment, which is expected to be deductible for tax purposes.

Brighton Worcester Massachusetts Adult Day Health, Inc. ("Brighton Worcester ADH"). On February 1, 2016 the Company acquired the assets of Brighton Worcester ADH for $13.6 million. Brighton Worcester ADH is located in Massachusetts and provides nursing and health oversight, medication management, therapy services, nutritional and dietary services, counseling and case management to elders. The Company acquired $10.6 million of identifiable intangible assets which included $9.9 million of agency contracts with a weighted average useful life of 12 years and $0.7 million of tradenames with a weighted average useful life of 5 years. As a result of this acquisition, the Company recorded $2.7 million of goodwill in the Corporate and other segment, which is expected to be deductible for tax purposes.

Tender Loving Care Duluth, LLC ("TLC Duluth"). On February 29, 2016, the Company acquired the assets of TLC Duluth for $8.5 million. TLC Duluth is located in Minnesota and provides full-time services in the community residential setting for individuals with developmental disabilities, traumatic brain injuries or mental illness. The Company acquired $7.1 million of identifiable intangible assets which included $6.2 million of agency contracts with a weighted average useful life of 12 years and $0.9 million of licenses and permits with a weighted average useful life of 10 years. As a result of this acquisition, the Company recorded $1.3 million of goodwill in the CSS segment, which is expected to be deductible for tax purposes.

Maryland Adult Day Health, Inc. ("Maryland ADH"). On March 14, 2016, the Company acquired the assets of Maryland ADH for $12.3 million. Maryland ADH is located in Maryland and provides adult day health care services to the Medicaid eligible elderly population. The Company acquired $7.7 million of identifiable intangible assets which included $6.7 million of agency contracts with a weighted average useful life of 12 years and $1.0 million of tradenames with a weighted average useful life of 5 years. In addition, the Company acquired total tangible assets, consisting primarily of vehicles, of $0.8 million. As a result of this acquisition, the Company recorded $3.8 million of goodwill in the Corporate and other segment, which is expected to be deductible for tax purposes.

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Eagle Crest Center, LLC ("Eagle Crest"). On March 15, 2016, the Company acquired the assets of Eagle Crest for $2.0 million. Eagle Crest is located in California and provides skilled nursing services and related services to individuals with traumatic brain injuries, spinal cord injuries, neuro-muscular or congenital anomalies, and similar conditions. The Company acquired $1.7 million of identifiable intangible assets which included $1.4 million of agency contracts with a weighted average useful life of 12 years. As a result of this acquisition, the Company recorded $0.3 million of goodwill in the SRS segment, which is expected to be deductible for tax purposes.
CRM Habilitative Services, Inc. ("CRM"). On March 31, 2016, the Company acquired the assets of CRM for $1.1 million. CRM is located in Pennsylvania and provides group home services and day program services and related services to individuals with intellectual and developmental disabilities. The Company acquired $0.9 million of identifiable intangible assets which included $0.8 million of agency contracts with a weighted average useful life of 12 years. As a result of this acquisition, the Company recorded $0.1 million of goodwill in the CSS segment, which is expected to be deductible for tax purposes.
Other acquisitions. During fiscal 2016, the Company acquired the assets of Resources for Human Development ("RHD"), Learning Services, Inc. ("Learning Services"), Pine Grove Habilitation Center ("Pine Grove"), and Alexander Milne Developmental Services ("Milne"). RHD, Pine Grove and Milne are in the business of providing residential group home services to individuals with developmental disabilities and similar conditions and is included in our CSS segment. Learning Services is engaged in the business of providing supported living and rehabilitation services for individuals with acquired brain injuries and similar conditions and is included in our SRS segment. Total cash consideration for these companies was $0.9 million.

The Company's consolidated statement of income for the year ended September 30, 2016 included revenue totaling approximately $27.6 million. The Company has not disclosed income from operations because it is immaterial.
5. Proforma Results of Operations (unaudited)

The following table reflects the unaudited pro forma results of operations for fiscal 2018, 2017, and 2016 assuming that the acquisitions made during fiscal 2018, 2017, and 2016 had occurred on October 1, 2016, 2015 and 2014, respectively.

(in thousands)	Year Ended September 30, 2018	Year ended September 30, 2017	Year ended September 30, 2016
Net revenue	$1,616,206	$1,597,562	$1,507,342
Net income	16,290	16,316	19,254

The unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of the actual results that would have been achieved had the acquisitions occurred as of October 1, 2016, 2015 and 2014, or the results that may be achieved in future periods.

6. Dispositions

In connection with a review of under-performing and/or non-strategic programs that began during the second quarter of fiscal 2018, the Company decided to close and/or consolidate a number of programs primarily within the SRS and CSS segments. During the year ended September 30, 2018, the Company incurred exit costs associated with these completed and planned divestitures of $10.7 million, including $10.0 million in lease termination costs, and $0.7 million in severance. In addition, the Company recorded $6.1 million of accelerated amortization related to definite-lived intangible assets and a $1.2 million loss on the disposition of fixed assets associated with these programs.

As part of a strategic review of CFS operations, the Company decided to discontinue CFS services in the states of Florida, Louisiana, Indiana, North Carolina and Texas in fiscal 2015. These operations were included in the CFS segment. On December 1, 2015, the Company completed the sale of its CFS operations in the state of North Carolina. As consideration, the buyer assumed the lease and service delivery obligations in exchange for the assets of the business, excluding working capital items, and a cash payment of $1.3 million to the buyer. Upon the completion of the sale, the Company recorded a loss of $1.3 million. The closures of the CFS operations in Florida and Louisiana were complete as of December 31, 2015 and the closures of CFS operations in Indiana and Texas were completed in January 2016. During fiscal 2016, the Company recorded cash charges of approximately $2.0 million, consisting of severance costs of $0.5 million and lease termination costs of $1.5 million.

For the CFS services that were discontinued in fiscal 2015, the Company assessed the disposal group under the guidance of ASU 2014-08, Discontinued Operations and Disclosures of Disposals of Components of an Entity and concluded

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that the closure of the disposal group does not represent a "strategic shift" and therefore has not been classified as discontinued operations for any of the periods presented. However, the Company has concluded that the disposal group was an individually significant disposal group. There were no operating results for the disposal group during the years ended September 30, 2018 and September 30, 2017. Pretax losses for this disposal group were $5.6 million for the fiscal year ended September 30, 2016. Pretax losses for the year ended September 30, 2016 included exit costs of $2.0 million disclosed above.

7. Goodwill and Intangible Assets

Goodwill

The Company has three reportable business segments: the CSS segment, the SRS segment and the CFS segment. The ADH operating segment is included in Corporate and Other. For more information refer to Note 19, "Segment Information."

The changes in goodwill for the fiscal years ended September 30, 2018 and 2017 are as follows (in thousands):

	CSS	SRS	CFS	Corporate/Other	Total
Balance as of September 30, 2016	$104,155	$81,909	$73,464	$ 14,132	$273,660
Impact of segment change	44,980	—	(44,980)	—	—
Acquisition adjustments	(17)	—	—	10	(7)
Goodwill acquired through acquisitions	10,198	3,616	—	13,827	27,641
Impairment	—	—	—	(27,969)	(27,969)
Balance as of September 30, 2017	159,316	85,525	28,484	—	273,325
Goodwill acquired through acquisitions	508	31,920	—	4,105	36,533
Adjustments to prior acquisitions [(1)]	1,894	—	—	—	1,894
Balance as of September 30, 2018	$161,718	$117,445	$28,484	$ 4,105	$311,752

[(1)] Includes amounts paid in fiscal 2018 associated with the net working capital settlement for the HSI acquisition in fiscal 2017.

As a result of segment and reporting unit changes that were effective as of October 1, 2016, the Company allocated goodwill between the new CSS and CFS reporting units based on the relative fair values, resulting in an allocation of $45.0 million. The Company estimated the fair value of the new reporting units using the income approach. The income approach is based on a discounted cash flow analysis and calculates the fair value of a reporting unit by estimating the after–tax cash flows attributable to a reporting unit and then discounting them to a present value using a risk-adjusted discount rate. In the discounted cash flow analysis, cash flows for the new reporting units were forecasted for each of the next ten years and a long term growth rate was applied to the final year of the forecasted cash flows to estimate terminal value. The cash flows were then discounted to a present value using a risk-adjusted discount rate. The discount rates, which are intended to reflect the risks inherent in future cash flow projections used in the discounted cash flow analysis, are based on estimates of the weighted average costs of capital of market participants relative to each respective reporting unit.

This change in the Company's CSS and CFS reporting units was considered a triggering event that indicated a test for goodwill impairment was necessary as of October 1, 2016. The Company completed impairment tests for these reporting units as of October 1, 2016 and it was determined that the carrying value of goodwill was not impaired as the fair value of the reporting units significantly exceeded the carrying value.

Annual Goodwill Impairment Testing

The Company completes the annual testing of impairment for goodwill on July 1st of each fiscal year. In addition to its annual test, the Company regularly evaluates whether events or circumstances have occurred that may indicate a potential impairment of these assets.

The Company utilizes the income approach, specifically the discounted cash flow method, to estimate the fair value of its reporting units when testing for impairment of goodwill. A number of significant assumptions and estimates are involved in the application of the income approach to forecast operating cash flows, including revenue growth, capital spending, discount rate and working capital changes. These inputs are not observable in the market and represent Level 3 inputs within the fair value hierarchy. Cash flow forecasts are based on business unit operating plans and historical experiences. The income approach is sensitive to changes in long-term terminal growth rates and the discount rate. The discount rate was selected based on the estimated rate of return as well as the time value of money.

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The Company conducted Step 1of the annual goodwill impairment test as of July 1, 2018, which indicated that the fair value of each reporting unit exceeded its carrying value.

For the annual goodwill impairment test as of July 1, 2017, Step 1 indicated that the fair value of the ADH reporting unit, that is included within Corporate and Other, was less than its carrying value. Based on the guidance in ASU 2017-04, the Company recognized an impairment charge for the amount by which the carrying amount exceeded the reporting unit’s fair value. The $28.0 million impairment charge is included in Goodwill and intangible asset impairment in the consolidated statement of income for the year ended September 30, 2017. The goodwill impairment was attributable to a reduction in the profit projections of the core ADH business and a decrease in the forecasted contributions from future new start programs as compared to the prior year's projections.

Prior to adoption of ASU 2017-04, our annual impairment analysis as of July 1, 2016 indicated that the Step 2 analysis was necessary for the ADH reporting unit, that is included within Corporate/Other, as the carrying value exceeded the fair value of the reporting unit. Step 2 of the goodwill test is performed to measure the impairment loss. Step 2 required that the implied fair value of the reporting unit goodwill be compared to the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess. After performing Step 2, it was determined that the implied value of goodwill was less than the carrying amount, resulting in an impairment charge of $10.3 million that is included in Goodwill and intangible asset impairment in the consolidated statement of income for the year ended September 30, 2016. The impairment was driven by higher than anticipated operating costs in recently acquired businesses that have negatively affected the reporting unit's projected operating margins.

The Company completed Step 1 for its other reporting units as of July 1, 2017 and 2016 and concluded that there was no goodwill impairment.

Intangible Assets

Intangible assets consist of the following as of September 30, 2018 (in thousands):

Description	Weighted Average Remaining Life	Gross Carrying Value	Accumulated Amortization	Intangible Assets, Net
Agency contracts	6 years	$581,222	$ 326,925	$254,297
Non-compete/non-solicit	1 year	7,453	5,974	$1,479
Trade names	1 year	8,161	6,771	$1,390
Trade names (indefinite life)	—	42,400	—	$42,400
Licenses and permits	3 years	62,279	44,673	$17,606
		$701,515	$ 384,343	$317,172

Intangible assets consist of the following as of September 30, 2017 (in thousands):

Description	Weighted Average Remaining Life	Gross Carrying Value	Accumulated Amortization	Intangible Assets, Net
Agency contracts	7 years	$540,826	$ 290,687	$250,139
Non-compete/non-solicit	1 year	7,196	5,228	1,968
Trade names	2 years	7,138	4,779	2,359
Trade names (indefinite life)	—	42,400	—	42,400
Licenses and permits	3 years	58,443	42,234	16,209
		$656,003	$ 342,928	$313,075

For fiscal years ended 2018, 2017 and 2016, the amortization expense for continuing operations was $50.7 million, $37.0 million and $38.1 million, respectively. Amortization expense for the year ended September 30, 2018 includes $6.1 million of accelerated amortization related to definite-lived intangible assets associated with the divestitures described in Note 6.

Indefinite Life Impairment Testing

The Company tests indefinite-lived intangible assets at least annually for possible impairment. Accordingly, the Company completes the annual testing of impairment for indefinite-lived intangible assets on July 1 of each fiscal year. In

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addition to its annual test, the Company regularly evaluates whether events or circumstances have occurred that may indicate a potential impairment of these assets.

The impairment test consists of a comparison of the fair value of the indefinite-lived intangible asset with its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss in an amount equal to that excess is recognized. The Company has consistently employed the relief from royalty model to estimate the current fair value when testing for impairment of indefinite-lived intangible assets. In addition, the Company evaluates the remaining useful life of its indefinite-lived intangible assets at least each reporting period to determine whether events or circumstances continue to support an indefinite useful life. If events or circumstances indicate that the useful lives of indefinite-lived intangible assets are no longer indefinite, the assets will be tested for impairment.

The Company performed its annual impairment testing as of July 1, 2018, 2017 and 2016 and concluded that there is no impairment to its indefinite lived trade names. During the fourth quarter of fiscal 2017, the Company concluded that the useful lives of the indefinite-lived ADH trade names are no longer indefinite as a result of the Company's decision to phase in one national brand name for this business. The Company performed an impairment test using the relief from royalty model over the remaining useful life of one year. The impairment test indicated that the $3.4 million carrying value of the indefinite-lived ADH trade names exceeded its fair value, resulting in an impairment charge of $3.0 million which is included in Goodwill and intangible asset impairment in the consolidated statement of income for the year ended September 30, 2017. The remaining net book value of $0.4 million was amortized over the remaining useful life of one year, and the ADH trade names are fully amortized as of September 30, 2018.

Long-Lived Asset Impairment Testing

The Company reviews long-lived tangible and intangible assets for impairment when events or circumstances have occurred that indicate the estimated useful life of these assets may warrant revision or that the carrying amount of these assets may be impaired.

During the fiscal year ended September 30, 2018, the Company concluded that there were no triggering events associated with long-lived assets, except for the divestitures described in Note 6. The Company performed a test of recoverability, which indicated that the carrying value of the associated assets was no longer recoverable. As a result, the Company recorded $6.1 million of accelerated amortization related to definite-lived intangible assets and a $1.2 million loss on the disposition of fixed assets associated with these programs.

During the fiscal years ended September 30, 2017 and 2016, the Company concluded it had a triggering event requiring assessment of impairment for certain long-lived assets held by ADH due to the impairment of goodwill. The Company estimated the future net undiscounted cash flows and compared them to the carrying amount of the assets. Based on this assessment the Company concluded that the assets are recoverable as the undiscounted cash flows exceeded the carrying amount, therefore; an impairment did not exist at September 30, 2017 and 2016.

The estimated remaining amortization expense related to intangible assets with finite lives for each of the five succeeding years and thereafter is as follows:

Year Ending September 30,	(In thousands)
2019	$ 44,022
2020	42,580
2021	39,165
2022	37,360
2023	33,019
Thereafter	78,626
	$ 274,772

8. Property and Equipment

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Property and equipment consists of the following as of September 30 (in thousands):

	2018	2017
Buildings, building improvements and land	$133,963	$126,497
Vehicles	85,958	76,677
Computer hardware and software	38,536	35,863
Leasehold improvements	108,203	97,476
Furniture and fixtures	22,500	19,530
Office and telecommunication equipment	8,281	7,613
Software for internal use	8,293	6,129
Construction in progress	3,144	3,181
	408,878	372,966
Less accumulated depreciation	(211,886)	(189,628)
Property and equipment, net	$196,992	$183,338

For fiscal years ended 2018, 2017 and 2016, depreciation expense for continuing operations was $44.8 million, $38.7 million and $34.9 million, respectively.

9. Certain Balance Sheet Accounts

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following as of September 30 (in thousands):

	2018	2017
Insurance recovery receivables	$6,127	$7,291
Prepaid business expense	3,807	3,827
Interest rate swap agreements	3,447	—
Prepaid income taxes	1,089	—
Prepaid insurance	1,049	279
Other	2,920	1,601
Prepaid expenses and other current assets	$18,439	$12,998

Other Accrued Liabilities

Other accrued liabilities consist of the following as of September 30 (in thousands):

	2018	2017
Accrued insurance	$16,910	$19,328
Due to third party payors	6,723	6,942
Accrued professional services	3,522	3,225
Deferred revenue	3,370	2,371
Real estate and property taxes	2,489	2,743
Other	10,850	7,675
Other accrued liabilities	$43,864	$42,284

Other Long-Term Liabilities

Other long-term liabilities consist of the following as of September 30 (in thousands):

	2018	2017
Accrued self-insurance reserves	$55,649	$55,096
Deferred compensation liabilities	14,603	13,578
Other	9,595	8,407
Other long-term liabilities	$79,847	$77,081

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10. Long-term Debt

The Company’s long-term debt consists of the following as of September 30 (in thousands):

	2018	2017
Term loan principal; principal and interest are due in quarterly installments through January 31, 2021	$700,145	$632,476
Original issue discount on term loan, net of accumulated amortization	(1,020)	(901)
Deferred financing costs, net of accumulated amortization	(3,597)	(5,122)
	695,528	626,453
Less current portion	7,331	6,554
Long-term debt	$688,197	$619,899

As of September 30, 2018 and 2017, the Company did not have any borrowings under the senior revolver.

Senior Secured Credit Facilities

As of September 30, 2018, NMHI's senior credit agreement (the “senior credit agreement”), as amended, governs a $730.0 million Tranche B term loan facility (the “term loan facility”), of which $50.0 million was deposited in a cash collateral account in support of the issuance of letters of credit under an institutional letter of credit facility (the “institutional letter of credit facility”), and a $160.0 million senior secured revolving credit facility (the “senior revolver”). The term loan facility matures on January 31, 2021 a portion of the commitments under the senior revolver matures on January 31, 2019 and a portion of the commitments under the senior revolver matures on January 31, 2021, as described below. All of the obligations under the senior secured credit facilities are guaranteed by NMHH and the subsidiary guarantors named therein. The senior credit agreement provides that NMHI may make one or more offers to the lenders, and consummate transactions with individual lenders that accept the terms contained in such offers, to extend the maturity date of the lender’s term loans and/or revolving commitments, subject to certain conditions, and any extended term loans or revolving commitments will constitute a separate class of term loans or revolving commitments.

On October 24, 2017, NMHI entered into Amendment No. 6 to its senior credit agreement which provided for an incremental $75.0 million term loan. The net proceeds of the incremental term loan were used by the Company for the acquisition of Mentis, with any excess proceeds used for general corporate purposes.

On November 21, 2017, NMHI entered into Amendment No. 7 to its senior credit agreement which increased the aggregate revolving commitments from $120.0 million to $160.0 million and extended the maturity date for $90.0 million of the revolving commitments (the “Extended Revolving Commitments") to January 31, 2021. The terms of the remaining $70.0 million of the revolving commitments (the "Initial Revolving Commitments"), which mature on January 31, 2019, remain unchanged. All of the other terms of the Extended Revolving Commitments are identical to the Initial Revolving Commitments, except that the applicable margin for the Extended Revolving Commitments will decrease by 0.25% per annum when the Initial Revolving Commitments are terminated or expire.

The senior revolver includes borrowing capacity available for letters of credit and for borrowings on same-day notice, referred to as the “swingline loans.” Any issuance of letters of credit or borrowing on a swingline loan will reduce the amount available under the senior revolver. As of September 30, 2018, NMHI had no borrowings under the senior revolver, $48.5 million of letters of credit issued under the institutional letter of credit facility and $2.9 million of standby letters of credit under the senior revolver.

On May 25, 2017, NMHI entered into Amendment No. 5 to its senior credit agreement (the "repricing amendment"). Under the terms of the repricing amendment, the applicable interest margin for the term loan facility under the senior credit agreement decreased by 25 basis points for both alternate base rate ("ABR") borrowings and Eurodollar borrowings, and reduced the Eurodollar floor by 25 basis points. The repricing amendment also reset the period during which a 1.0% prepayment premium may be required for a repricing transaction (as defined in the senior credit agreement) until May 25, 2018.

As a result of the repricing amendment, borrowings under the term loan facility bear interest, at our option, at: (i) an alternate base rate ("ABR") equal to the greater of (a) the prime rate of Barclays Bank PLC, (b) the federal funds rate plus 1/2 of 1.0%, and (c) the Eurodollar rate for an interest period of one-month plus 100 basis points (provided that the ABR applicable to the term loan facility will not be less than 2.00% per annum), plus 2.00%; or (ii) the Eurodollar rate (provided that the Eurodollar rate applicable to the term loan facility will not be less than 0.75% per annum), plus 3.00%. Borrowings under the revolving and swingline loans bear interest at our option at (i) an alternate base rate equal to the greater of (a) the prime rate of Barclays Bank PLC, (b) the federal funds rate plus 1/2 of 1.0%, and (c) the Eurodollar rate for an interest period of one-month plus 100 basis points (provided that the ABR applicable to the term loan facility will not be less than 2.00% per annum), plus 2.25%; or (ii) the Eurodollar rate (provided that the Eurodollar rate applicable to the term loan facility will not be less than 0.75% per annum), plus 3.25%. NMHI is also required to pay a commitment fee to the lenders under the senior revolver at an initial rate of 0.50% of the average daily unutilized commitments thereunder. NMHI must also pay customary letter of credit fees.

The senior credit agreement requires NMHI to make mandatory prepayments, subject to certain exceptions, on a percentage of NMHI's annual Excess Cash Flow, as defined in the senior credit agreement. NMHI determines whether or not a mandatory prepayment is required at the end of each fiscal year. NMHI was not required to make a prepayment for the fiscal year ended September 30, 2018.

Covenants

The senior credit agreement contains negative covenants, including, among other things, limitations on the Company’s ability to incur additional debt, create liens on assets, transfer or sell assets, pay dividends, redeem stock or make other distributions or investments, and engage in certain transactions with affiliates. The senior credit agreement contains a springing financial covenant. If, at the end of any fiscal quarter, the Company’s outstanding borrowings under the senior revolver exceeds 30% of the commitments thereunder, it is required to maintain at the end of each such fiscal quarter a consolidated first lien leverage ratio of not more than 5.00 to 1.00. The springing financial covenant was not in effect as of September 30, 2018 as our usage of the senior revolver did not exceed the threshold for that quarter.

Derivatives

On January 20, 2015, NMHI entered into two interest rate swap agreements in an aggregate notional amount of $375.0 million in order to reduce the variability of cash flows of our variable rate debt. NMHI entered into these interest rate swaps to hedge the risk of changes in the floating rate of interest on borrowings under the term loan. Under the terms of the swaps, NMHI will receive from the counterparty a quarterly payment based on a rate equal to the greater of 3-month LIBOR or 1.00% per annum, and NMHI will make payments to the counterparty based on a fixed rate of 1.795% per annum, in each case on the notional amount of $375.0 million, settled on a net payment basis. The swap agreements expire on March 31, 2020.

The fair value of the swap agreements, representing the price that would be received to transfer the liability in an orderly transaction between market participants, was an asset of $5.8 million at September 30, 2018 and a liability of $0.2 million at September 30, 2017. Based on the timing of the associated cash flows, the fair value was split between current and long-term classification on the Company’s consolidated balance sheet in Prepaid expenses and other current assets and Other assets as of September 30, 2018 and in Other accrued liabilities as of September 30, 2017. The fair value was determined based on pricing models and independent formulas using current assumptions. Hedge ineffectiveness, if any, associated with the swap is recorded as interest expense in the period incurred. During the year ended September 30, 2018, the ineffective portion of gains resulting from changes in fair value was $0.3 million which was recorded in Interest expense in the consolidated statement of income. The Company did not record any interest expense for ineffectiveness during the years ended September 30, 2017 and 2016. No amounts were excluded from ineffectiveness testing for the years ended September 30, 2018, 2017, and 2016.

Annual maturities

Annual maturities of the Company’s debt for the fiscal year ended September 30 are as follows:

	(In thousands)
2019	$ 7,331
2020	7,331
2021	685,483
Total	$ 700,145

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Amounts due at any year end may increase as a result of the provision in the senior credit agreement that requires a prepayment of a portion of the outstanding term loan amount if NMHI generates certain levels of cash flow.

11. Stockholders' Equity

Common Stock

The holders of the Company’s common stock are entitled to receive dividends when and as declared by the Company’s Board of Directors. In addition, the holders of common stock are entitled to one vote per share.

Preferred Stock

The Company has authorized 50,000,000 shares of $0.01 par value preferred stock. No shares of preferred stock are outstanding.

Stock Repurchase Program

On February 8, 2018, the Company announced that the Board of Directors approved a stock repurchase program under which the Company was authorized to repurchase up to $25.0 million of the Company’s outstanding common stock from time to time in the open market, through negotiated transactions or otherwise (including, without limitation, the use of Rule 10b5-1 plans). The Company conducted any open market stock repurchase activities in compliance with the safe harbor provisions of Rule 10b-18 of the Exchange Act. During the year ended September 30, 2018, the Company repurchased and retired 1,470,785 shares for $21.6 million under the program, which was implemented through a 10b5-1 plan. The stock repurchase program expired on August 12, 2018, and the Company does not have authorization to repurchase any additional common stock under the program.

12. Employee Savings and Retirement Plans

The Company has a multi-company plan (the “Plan”) which covers all of its wholly-owned subsidiaries. Under the Plan, employees may contribute a portion of their earnings, which are invested in mutual funds of their choice. After January 1, the Company makes a matching contribution for the previous calendar year on behalf of all participants employed on the last day of the year. This matching contribution vests immediately. In addition, there is a profit sharing feature of the Plan, whereby, at the discretion of management, an allocation may be made to all of the eligible employees in one or more of its business units. Profit sharing contributions vest ratably over three years with forfeitures available to cover plan costs and employer matches in future years. The Company made contributions of $5.5 million, $6.2 million and $6.4 million, for fiscal years 2018, 2017 and 2016, respectively.

The Company has the following two deferred compensation plans:

The National Mentor Holdings, LLC Executive Deferred Compensation Plan

The National Mentor Holdings, LLC Executive Deferred Compensation Plan is an unfunded, nonqualified deferred compensation arrangement for senior management, in which the Company contributes to the executive’s account a percentage of the executive’s base compensation. This contribution is made at the end of the year for service rendered during the year. The Company contributed $0.5 million, $0.4 million and $0.6 million for fiscal 2018, 2017 and 2016, respectively. The unfunded accrued liability was $3.1 million and $3.0 million as of September 30, 2018 and 2017, respectively, and was included in other long-term liabilities on the Company’s consolidated balance sheets.

The National Mentor Holdings, LLC Executive Deferral Plan

The National Mentor Holdings, LLC Executive Deferral Plan, available to highly compensated employees, is a plan in which participants contribute a percentage of salary and/or bonus earned during the year. Employees contributed $1.1 million, $1.1 million and $1.3 million for fiscal 2018, 2017 and 2016, respectively. The accrued liability related to this plan was $11.5 million and $10.4 million as of September 30, 2018 and 2017, respectively, and was included in other long-term liabilities on the Company’s consolidated balance sheets.

In connection with the National Mentor Holdings, LLC Executive Deferral Plan, the Company has purchased company owned life insurance (“COLI”) policies on certain plan participants. The cash surrender value of the COLI policies is designed to provide a source for funding the accrued liability. The cash surrender value of the COLI policies was $10.1 million

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and $9.0 million as of September 30, 2018 and 2017, respectively, and was included in other assets on the Company's consolidated balance sheets.

The expense related to the deferred compensation plans for the fiscal years ended September 30, 2018, 2017 and 2016 was $1.7 million, $1.9 million and $1.6 million, respectively.

13. Related Party Transactions

Lease Agreements

The Company leases several offices, homes and other facilities from its employees, or from relatives of employees, primarily in the states of Minnesota, Wisconsin and Michigan. These leases have various expiration dates extending out as far as September 2024. Related party lease expense was $0.9 million, $0.7 million and $0.7 million for the fiscal years ended September 30, 2018, 2017 and 2016, respectively.

14. Fair Value Measurements

The Company measures and reports its financial assets and liabilities on the basis of fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Valuation techniques for assets and liabilities measured using Level 3 inputs may include methodologies such as the market approach, the income approach or the cost approach, and may use unobservable inputs such as projections, estimates and management's interpretation of current market data. These unobservable inputs are only utilized to the extent that observable inputs are not available or cost-effective to obtain.

A description of the valuation methodologies used for instruments measured at fair value as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

The following table set forth the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2018.

(in thousands)	Total	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Interest rate swap agreements (current)	$3,447	$ —	$ 3,447	$ —
Interest rate swap agreements (long-term)	2,320	—	2,320	—
Total	$5,767	$ —	$ 5,767	$ —
Liabilities				
Contingent consideration	$1,805	$ —	$ —	$ 1,805

The following table set forth the Company's assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2017.

(in thousands)	Total	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities				
Interest rate swap agreements	$(153)	$ —	$ (153)	$ —

Interest rate-swap agreements. The Company's interest rate swap agreements are classified within level 2 of the fair value hierarchy. Based on the timing of the associated cash flows, the fair value of the swap agreements was recorded in Prepaid expenses and other current assets, Other assets, or Other accrued liabilities in the Company's consolidated balance

sheets. The fair value of these agreements was determined based on pricing models and independent formulas using current assumptions that included swap terms, interest rates and forward LIBOR curves and the Company's credit risk.
Contingent Consideration. In connection with the acquisitions of Powell, Jac-Lin, and CCI in fiscal 2018, the Company recorded contingent consideration pertaining to the amounts potentially payable to the former owners upon the businesses achieving certain performance targets. The fair values of the Company's contingent consideration obligations were based on a probability-weighted approach derived from the overall likelihood of achieving certain performance targets. The fair value measurement was based on significant inputs not observable in the market, which represent Level 3 inputs within the fair value hierarchy.
The following table presents a summary of changes in fair value of the Company's Level 3 liabilities measured on a recurring basis for fiscal years 2018 and 2017.

(in thousands)	Level 3 Inputs Liabilities
Balance at September 30, 2016	$ 5,915
Fair value adjustments	194
Payments [1]	(6,109)
Balance at September 30, 2017	—
Acquisition date fair value of contingent consideration obligations recorded	1,805
Balance at September 30, 2018	$ 1,805

[1] The Company settled the remaining Adult Day Health and Cassell contingent consideration obligations during the year ended September 30, 2017 for $6.1 million.
As of September 30, 2018, the Company had $1.8 million of contingent consideration liabilities, which was reflected in Other accrued liabilities or Other long-term liabilities. As of September 30, 2017, the Company had no contingent consideration liability.

Items Measured at Fair Value on a Nonrecurring Basis. The Company's intangible assets are measured at fair value on a nonrecurring basis using Level 3 inputs. During the year ended September 30, 2017, the Company recorded a $3.0 million impairment charge associated with the indefinite-lived ADH trade names due to the Company's decision to phase in one national brand name for its ADH business unit. See Note 7 for further information about the impairment charge which was recorded in Goodwill and intangible asset impairment in the consolidated statement of income. The impairment charge was determined by comparing the fair value based on the relief from royalty model over the remaining useful life of one year to the assets' carrying value of $3.4 million.

There were no other items measured at fair value on a nonrecurring basis during the years ended September 30, 2018, 2017 or 2016.
At September 30, 2018 and 2017, the carrying values of cash, accounts receivable, accounts payable and variable rate debt approximated fair value.

15. Leases

Operating leases

The Company leases office and residential facilities, vehicles and certain office equipment in several locations under operating lease arrangements, which expire at various dates through fiscal 2033. In addition to base rents presented below, the majority of the leases require payments for additional expenses such as taxes, maintenance and utilities. Certain of the leases contain renewal options at the Company's option and some have escalation clauses which are recognized as rent expense on a straight line basis. Total rent expense from continuing operations for fiscal 2018, 2017 and 2016 was $92.9 million, $73.5 million and $70.0 million, respectively. Rent expense for the year ended September 30, 2018 includes $10.0 million in lease termination costs associated with the divestitures described in Note 6.
Future minimum lease payments for non-cancellable operating leases for the fiscal years ending September 30 are as follows (in thousands):

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2019	$75,606
2020	63,896
2021	52,943
2022	43,118
2023	32,967
Thereafter	105,260
	$373,790

Capital leases

The Company leases certain facilities and office equipment under various non-cancellable capital leases that expire at various dates through fiscal 2033. Assets acquired under capital leases with an original cost of $14.9 million and $7.8 million and related accumulated amortization of $4.6 million and $4.0 million are included in property and equipment, net as of September 30, 2018 and 2017, respectively. Amortization expense for fiscal years 2018, 2017 and 2016 was $0.7 million, $0.6 million, and $0.6 million, respectively.

The following is a schedule of the future minimum lease payments under the capital leases for the fiscal years ending September 30 (in thousands):

2019	$1,882
2020	1,901
2021	1,922
2022	1,618
2023	1,531
Thereafter	10,877
Total minimum lease payments	19,731
Less: Interest payments	(8,123)
	$11,608

Interest expense on capital leases during fiscal years 2018, 2017 and 2016 was $0.7 million, $0.6 million, and $0.6 million, respectively.

16. Accruals for Self-Insurance

The Company maintains insurance for professional and general liability, workers' compensation liability, automobile liability and health insurance liabilities that includes self-insured retentions. The Company intends to maintain such coverage in the future and is of the opinion that its insurance coverage is adequate to cover potential losses on asserted claims. Employment practices liability is fully self-insured.

The Company records expenses related to claims on an incurred basis, which includes estimates of fully developed losses for both reported and unreported claims. The accruals for the health, workers' compensation, automobile, and professional and general liability programs are based on analyses performed by management and take into account reports by independent third parties. Accruals are periodically reevaluated and increased or decreased based on new information. The expense related to professional and general liability for the fiscal years ended September 30, 2018, 2017 and 2016 was $13.5 million, $7.2 million and $12.9 million, respectively. The expense related to employment practices liability for the fiscal years ended September 30, 2018, 2017 and 2016 was $2.2 million, $5.5 million, and $0.2 million, respectively.

For professional and general liability, the Company is self-insured for $3.0 million per claim and $28.0 million in the aggregate. For workers' compensation, the Company has a $350 thousand per claim retention with statutory limits. Automobile liability has a $100 thousand per claim retention, with additional insurance coverage above the retention. The Company purchases specific stop loss insurance as protection against extraordinary claims liability for health insurance claims. Stop loss insurance covers claims that exceed $300 thousand on a per member, per event basis.

The Company reports its self-insurance liabilities on a gross basis without giving effect to insurance recoveries. Anticipated insurance recoveries are presented in Prepaid expenses and other current assets and Other assets on the Company's

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consolidated balance sheets. Self-insured liabilities are presented in Accrued payroll and related costs, Other accrued liabilities and Other long-term liabilities on its consolidated balance sheets.

17. Other Commitments and Contingencies

The Company is in the health and human services business and, therefore, has been and continues to be subject to numerous claims alleging that the Company, its employees or its independently contracted host-home caregivers (“Mentors”) failed to provide proper care for an individual served by the Company. The Company is also subject to claims by these individuals, its employees, its Mentors or community members against the Company for negligence, intentional misconduct or violation of applicable laws. Included in the Company’s recent claims are claims alleging personal injury, assault, abuse, wrongful death, violations of wage and hour laws and other charges. Regulatory agencies may initiate administrative proceedings alleging that the Company’s programs, employees or agents violate statutes and regulations and seek to impose monetary penalties on the Company. The Company could be required to incur significant costs to respond to regulatory investigations or defend against civil lawsuits and, if the Company does not prevail, the Company could be required to pay substantial amounts of money in damages, settlement amounts or penalties arising from these legal proceedings.

The Company is also subject to potential lawsuits under the False Claims Act and other federal and state whistleblower statutes designed to combat fraud and abuse in the health care industry. These lawsuits can involve significant monetary awards that may incentivize private plaintiffs to bring these suits. If the Company is found to have violated the False Claims Act, it could be excluded from participation in Medicaid and other federal healthcare programs which would have a material adverse effect on our business. The Patient Protection and Affordable Care Act provides a mandate for more vigorous and widespread enforcement activity to combat fraud and abuse in the health care industry.

The Company is also subject to employee-related claims under state and federal law, including claims for wage and hour violations under the Fair Labor Standards Act or state wage and hour laws, and claims for discrimination, wrongful discharge or retaliation. The Company currently has two pending complaints in California state court that allege certain wage and hour violations of California labor laws and seek to be designated as class-actions. Two additional wage and hour complaints have been settled and approved by the court. The Company's policy is to accrue for all probable and estimable claims using information available at the time the financial statements are issued. Actual claims could settle in the future at materially different amounts due to the nature of litigation.

18. Income Taxes

The provision (benefit) for income taxes consists of the following as of September 30 (in thousands):

	2018	2017	2016
Current:			
Federal	$7,572	$18,701	$5,382
State	3,788	5,708	3,549
Total current tax provision	11,360	24,409	8,931
Deferred:			
Federal	(10,128)	(17,894)	4,701
State	(1,836)	(4,651)	(342)
Net deferred tax provision (benefit)	(11,964)	(22,545)	4,359
Income tax provision (benefit)	$(604)	$1,864	$13,290

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted into law in the United States. The Tax Act significantly revises corporate income tax law by, among other things, lowering the corporate income tax rates from 35% to 21%. Under GAAP, deferred taxes must be adjusted for enacted changes in tax laws or rates during the period in which new tax legislation is enacted. During the year ended September 30, 2018, a tax benefit of approximately $4.9 million was recorded, representing the revaluation of deferred tax assets and liabilities as a result of the lower corporate tax rate established by the Tax Act. As of September 30, 2018, the Company has completed the accounting for the tax effects of the enactment of the Tax Act.

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities consist of the following as of September 30 (in thousands):

	2018	2017
Gross deferred tax assets:		
Deferred compensation	$869	$1,300
Interest rate swap agreements	—	62
Accrued workers' compensation	7,414	11,147
Net operating loss carryforwards	10,188	6,215
Allowance for bad debts	6,317	6,398
Stock compensation	3,225	3,353
Other accrued liabilities	10,040	9,634
	38,053	38,109
Valuation allowance	(7,859)	(6,215)
Deferred tax assets	30,194	31,894
Deferred tax liabilities:		
Interest rate swap agreements	(1,501)	—
Depreciation	(4,610)	(1,596)
Amortization of goodwill and intangible assets	(32,205)	(52,647)
Net deferred tax liabilities	$(8,122)	$(22,349)

The Company is required to record a valuation allowance to reduce the deferred tax assets if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, management determined that valuation allowances at September 30, 2018 and 2017 of $7.9 million and $6.2 million, respectively, were necessary to reduce the deferred tax assets to the amount that will more likely than not be realized. The valuation allowances primarily related to certain state net operating loss carryforwards.

For federal purposes, the Company had $11.1 million net operating loss carryforwards as of September 30, 2018. For state purposes, the Company had $145.6 million of net operating loss carryforwards for fiscal 2018, which expire from 2018 through 2038.

The following is reconciliation between the statutory and effective income tax rates at September 30 (in thousands):

	2018	2017	2016
Federal income tax at statutory rate	24.5 %	35.0 %	35.0 %
State income taxes, net of federal tax benefit	10.3 %	8.5 %	9.3 %
Nondeductible compensation[1]	4.1 %	7.9 %	18.8 %
Other nondeductible expenses	1.4 %	(0.4)%	1.5 %
Credits	(16.9)%	(22.5)%	(6.6)%
Impacts of the Tax Act[2]	(34.4)%	0.0 %	0.0 %
Other	6.8 %	(5.8)%	0.4 %
Effective tax rate	(4.2)%	22.7 %	58.4 %

[1] The higher impact on the effective rate for fiscal 2016 was due to a stock compensation charge of $10.5 million recorded in the first quarter of fiscal 2016 related to certain awards under our former equity compensation plan that vested in October 2015. Refer to Note 21 - Stock-Based Compensation for further information.

[2] The revaluation of the Company's deferred tax assets and liabilities due to the lower corporate tax rate established by the Tax Act resulted in a $4.9 million tax benefit during the year ended September 30, 2018.

Companies may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

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There was no unrecognized tax benefit for the years ended September 30, 2018, 2017 and 2016. The Company does not expect any significant changes to unrecognized tax benefits within the next twelve months.
The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense which is consistent with the recognition of these items in prior reporting periods. No interest and penalties were accrued as of September 30, 2018, 2017 and 2016.
The Company files a federal consolidated return and files various state income tax returns and, generally, the Company is no longer subject to income tax examinations by the taxing authorities for years prior to September 30, 2015. The Company believes that it has appropriate support for the income tax positions taken and to be taken on the Company's income tax returns. In addition, the Company believes its accruals for income tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of the tax laws as applied to the facts of each matter.
19. Segment Information
The Company has three reportable business segments: the CSS segment, the SRS segment, and the CFS segment. Through the CSS segment, the Company provides home- and community-based human services to adults and children with intellectual and developmental disabilities. Through the SRS segment, the Company delivers services to individuals who have suffered acquired brain injury, spinal injuries and other catastrophic injuries and illnesses. The operations of the SRS segment were previously organized by management into two operating segments, NeuroRestorative and CareMeridian, based upon service type. The NeuroRestorative operating group provides behavioral therapies to individuals with brain injuries in post-acute community settings and the CareMeridian operating group provides a higher level of medical support to individuals with traumatic injuries. Effective as of October 1, 2017, NeuroRestorative and CareMeridian are operated under one management team and no longer represent individual components of the SRS segment. Through the CFS segment, the Company provides home- and community-based human services to youth with emotional, behavioral and/or medically complex challenges.
Each operating group is aligned with the Company's reporting structure and has a segment manager that is directly accountable for its operations and regularly reports results to the chief operating decision maker, which is the Company's Chief Operating Officer, for the purpose of evaluating these results and making decisions regarding resource allocations.

The Company evaluates performance based on EBITDA. EBITDA for each segment is defined as income (loss) from continuing operations for the segment before income taxes, before depreciation and amortization, and interest income (expense).

Activities classified as "Corporate and Other" in the table below relate to the results of the ADH operating segment and unallocated home office expenses and stock-based compensation expense. Total assets included in the Corporate and Other segment include assets associated with the ADH operating segment and assets maintained by the corporate entity including cash, restricted cash, and other current and non-current assets.

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The following table is a financial summary by reportable segments for the periods indicated (in thousands).

For the Year Ended September 30,	CSS	SRS	CFS	Corporate/Other	Consolidated
2018					
Net revenue	$1,025,612	$356,281	$147,676	$ 72,633	$ 1,602,202
EBITDA	137,299	54,512	21,772	(65,091)	148,492
Total assets	503,849	333,862	67,690	221,791	1,127,192
Depreciation and amortization	43,738	31,045	5,445	15,193	95,421
Purchases of property and equipment	26,491	14,822	1,901	7,827	51,041
2017					
Net revenue	$967,033	$309,543	$141,742	$ 56,192	$ 1,474,510
EBITDA (2)	138,976	51,799	21,590	(95,060)	117,305
Total assets	512,658	257,718	71,298	207,708	1,049,382
Depreciation and amortization	37,445	23,622	5,662	8,984	75,713
Purchases of property and equipment	25,234	12,625	1,258	7,532	46,649
2016					
Net revenue (1)	$935,941	$289,093	$147,279	$ 35,274	$ 1,407,587
EBITDA (2)	140,279	54,855	20,597	(86,112)	129,619
Total assets	475,206	253,612	82,617	256,710	1,068,145
Depreciation and amortization	37,850	23,412	5,722	6,077	73,061
Purchases of property and equipment	21,050	11,417	1,990	8,899	43,356

(1) In fiscal 2015 and 2016, we discontinued CFS services in the states of Illinois, Florida, Indiana, Louisiana, North Carolina and Texas. Included in the results for fiscal 2016 is net revenue of $7.1 million related to these businesses.
(2) Included in the results for fiscal years 2017 and 2016 are goodwill impairment charges of 28.0 million and $10.3 million, respectively, related to the ADH reporting unit which is included in Corporate and Other.

A reconciliation of EBITDA to income from continuing operations on a consolidated basis is as follows (in thousands):

	Year Ended September 30		
	2018	2017	2016
EBITDA	$148,492	$117,305	$129,619
Less:			
Depreciation and amortization	95,421	75,713	73,061
Interest expense, net (1)	38,789	33,397	33,811
Income from continuing operations before income taxes	$14,282	$8,195	$22,747

(1) Interest expense, net includes interest income and acquisition related contingent consideration liabilities which is included in Other income (expense) in the consolidated statement of income.

20. Net Income Per Share

Basic net income per common share is computed by dividing net income by the basic weighted average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the diluted weighted average number of common shares and common equivalent shares outstanding during the period. The weighted average number of common equivalent shares outstanding has been determined in accordance with the treasury-stock method. Common equivalent shares consist of common stock issuable on the exercise of outstanding options and vesting of restricted stock units when dilutive.

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The following table sets forth the computation of basic and diluted earnings per share (“EPS”):

	Year Ended September 30,		
	2018	2017	2016
Numerator			
Net income	$14,886	$ 6,331	$ 9,187
Denominator			
Weighted average shares outstanding, basic	36,811,208	37,302,941	37,112,794
Weighted average common equivalent shares	134,200	163,384	150,121
Weighted average shares outstanding, diluted	36,945,408	37,466,325	37,262,915
Net income per share, basic and diluted	$0.40	$ 0.17	$ 0.25
Equity instruments excluded from diluted net income per share calculation as the effect would have been anti-dilutive:			
Stock options	849,550	789,702	534,312
Performance and restricted stock units	282,744	92,435	83,793

21. Stock-Based Compensation

Summary of Stock-Based Compensation Plans

2014 Plan

Civitas maintains a 2014 Omnibus Incentive Plan (“2014 Plan”). As of September 30, 2018, the 2014 Plan authorized the issuance of up to 7,786,478 shares of common stock as stock-based awards, including incentive stock options (“ISOs”), non-qualified stock options (“NSOs”), restricted stock units (“RSUs”) and performance based restricted stock units ("PRSUs").

Stock Options

For the years ended September 30, 2018, 2017 and 2016, Civitas issued 155,041, 319,604 and 230,739 NSOs, respectively, which vest over three years (one-third each year). The fair value of each option granted was estimated on the grant date using the Black-Scholes valuation model with the following assumptions:

	2018	2017	2016
Risk-free interest rate	2.22% - 2.74%	1.83% - 2.08%	1.32% - 1.92%
Expected term	6 years	6 years	6 years
Expected volatility	33.56% - 35.81%	34.32% - 36.21%	34.65% - 36.20%
Expected dividend yield	— %	— %	— %

Risk-free interest rate - The risk-free interest rate is equal to the U.S. federal Treasury bond rate consistent with the expected term assumption.

Expected term - Expected term represents the period that Civitas’ option grants are expected to be outstanding. As Civitas had been operating as a private company, there is not sufficient historical data to calculate the expected term of the options. Therefore, management elected to utilize the “simplified method” to determine the expected term assumption. Under this approach, the weighted average expected life is presumed to be the average of the vesting term and the contractual term of the option.

Expected volatility - Management has estimated volatility for the units granted based on the daily historical volatility of the Company's common stock and the daily historical volatility for a representative peer group over the expected term. The representative peer group is a group of companies selected based on industry and market capitalization, due to lack of sufficient historical publicly traded prices of the Company's common stock.

Expected dividend yield - The expected dividend yield is zero as dividends are not expected to be paid in the foreseeable future.

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The fair value of the stock options on the date of grant is recognized as expense in the Company's consolidated financial statements on a straight-line basis over the requisite service periods (vesting term) of the awards. Forfeitures are recognized as they occur. The actual expense recognized over the vesting period will only be for those awards that vest.

The table below summarizes our stock option activity during fiscal year 2018:

	Number of Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Life (Years)	Aggregate Intrinsic Value
Outstanding at September 30, 2017	877,781	$ 18.65		
Granted	155,041	18.80		
Forfeited	41,514	18.68		
Exercised	17,608	17.00		
Expired	34,487	19.54		
Outstanding at September 30, 2018	939,213	$ 18.67	7.4	$ 2
Vested or expected to vest as of September 30, 2018	939,213	$ 18.67	7.4	$ 2
Exercisable at September 30, 2018	560,002	$ 18.54	6.6	$ —

The total intrinsic values of options exercised was less than $0.1 million for each of the years ended September 30, 2018, 2017 and 2016. As of September 30, 2018, there was $1.6 million of unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 1.7 years.

Restricted Stock Unit Awards (RSUs)

For the years ended September 30, 2018, 2017 and 2016, Civitas granted 450,893, 566,668 and 283,865 RSUs, respectively, to employees and members of the Board of Directors. The fair value of all RSUs is based on the closing market value of the Company's stock on the date of grant. The weighted average per share grant date fair value of the RSUs granted during the years ended September 30, 2018, 2017 and 2016 was $17.87, $17.79, and $23.99, respectively. These awards will vest over three years (one-third each year) for employee grants and one year (100% on the first anniversary of the grant date) for grants to members of the Board of Directors.

The fair value of the restricted stock unit awards on the date of grant will be recognized as expense in the Company's consolidated financial statements on a straight-line basis over the requisite service periods (vesting term) of the awards. Forfeitures are recognized as they occur. The actual expense recognized over the vesting period will only be for those awards that vest.

A summary of our issued restricted stock unit awards is as follows:

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value
Non-vested units at September 30, 2017	677,406	$ 19.20
Granted	450,893	17.87
Forfeited	86,140	18.77
Vested	206,260	19.88
Non-vested units at September 30, 2018	835,899	$ 18.35

The total fair values of RSUs that vested during the years ended September 30, 2018, 2017 and 2016, was $3.7 million, $4.5 million and $3.1 million, respectively. As of September 30, 2018, there was $9.4 million of unrecognized compensation expense related to unvested restricted stock unit awards. This cost is expected to be recognized over a weighted-average period of 1.8 years.

Performance Based Restricted Stock Units (PRSUs)

During the year ended September 30, 2017, the Company awarded 45,624 PRSUs under the 2014 Plan. The PRSUs vest based upon the achievement of established performance targets in the third year of the three year performance

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period, or fiscal 2019. The number of PRSUs that may vest varies between 0%-200% based on the achievement of such goals. The PRSUs were valued at $19.85 per share based on the closing price of the Company's common stock on the date of grant.

During the year ended September 30, 2018, the Company awarded 50,834 PRSUs under the 2014 Plan. The PRSUs vest based upon the achievement of established performance targets in the third year of the three year performance period, or fiscal 2020. The number of PRSUs that may vest varies between 0%-200% based on the achievement of such goals. The PRSUs were valued at a weighted average of $18.76 per share based on the closing price of the Company's common stock on the date of grant.

To calculate compensation expense, the Company forecasts the likelihood of achieving the predefined performance targets and calculates the number of PRSUs expected to be earned. As of September 30, 2018, the Company expects to recognize $0.7 million of stock-based compensation expense related to outstanding PRSUs based on the expected attainment levels. This cost is expected to be recognized over a weighted-average period of 2.0 years.

A summary of PRSU activity for the year ended September 30, 2018 is as follows:

	Number of Performance Based Restricted Stock Units	Weighted Average Grant-Date Fair Value
Non-vested units at September 30, 2017	84,505	$ 19.85
Granted	50,834	18.76
Forfeited	—	—
Vested	—	—
Non-vested units at September 30, 2018	135,339	$ 19.44
Units expected to vest as of September 30, 2018	50,834	$ 18.76

For NSOs, RSUs and PRSUs under the 2014 Plan, the Company recorded $7.6 million, $8.4 million and $17.1 million of stock-based compensation expense during fiscal years 2018, 2017 and 2016, respectively. Stock-based compensation expense is included in general and administrative expense in the consolidated statements of income.

Unit Plan

Prior to October 1, 2015, NMH Investment maintained the Amended and Restated 2006 Unit Plan (the “Unit Plan”). Under the Unit Plan, NMH Investment issued units of limited liability company interests pursuant to such plan, consisting of Class B Common Units, Class C Common Units, Class D Common Units, Class E Common Units, Class F Common Units, Class G Common Units and Class H Common Units. These units derived their value from the value of the Company.

On October 1, 2015, in connection with a secondary offering, NMH Investment distributed all of the 25,250,000 shares of our common stock it held to its existing members in accordance with their respective membership interests and pursuant to the terms of the NMH Investment's Limited Liability Company Agreement and the management unitholders agreements (the “Distribution”). The Distribution triggered the vesting condition for the Class H Common Units and the acceleration of unvested Class F Common Units. As a result, the Company recorded compensation expense of $10.5 million related to these awards during the quarter ended December 31, 2015. This expense is not deductible for tax purposes. The expense is included in general and administrative expense in the consolidated statements of income. As a result of the Distribution, the Unit Plan has concluded and there will be no future issuances under this plan.

22. Valuation and Qualifying Accounts

The following table summarizes information about the allowances for doubtful accounts for the years ended September 30, 2018, 2017 and 2016 (in thousands):

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	Balance at Beginning of Year	Provision	Write-Offs	Balance at end of Year
Fiscal year ended September 30, 2018	$ 15,997	$ 23,186	$ (18,954)	$ 20,229
Fiscal year ended September 30, 2017	$ 11,863	$ 20,674	$ (16,540)	$ 15,997
Fiscal year ended September 30, 2016	$ 11,207	$ 14,784	$ (14,128)	$ 11,863

The Company also had $3.7 million and $3.8 million of accounts receivable collateralized by liens, net of allowances for those liens of $1.3 million and $1.0 million, recorded as part of other assets within the accompanying consolidated balance sheets as of September 30, 2018 and 2017, respectively.

23. Quarterly Financial Data (unaudited)

The following table presents consolidated statement of income data for each of the eight quarters in the period which began October 1, 2016 and ended September 30, 2018. This information is derived from the Company's unaudited financial statements, which in the opinion of management contain all adjustments necessary for a fair presentation of such financial data. Operating results for these periods are not necessarily indicative of the operating results for a full year. Historical results are not necessarily indicative of the results to be expected in future periods.

	For The Quarters Ended (in thousands, except per share amounts)							
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
Net revenue	$409,485	$404,498	$392,801	$ 395,418	$ 380,372	$372,345	$362,399	$ 359,394
Gross margin	77,680	88,564	76,189	79,161	81,836	79,847	76,881	75,418
Net income (loss) [(1)]	$(1,605)	$9,585	$(2,488)	$ 9,394	$ (10,688)	$7,361	$5,479	$ 4,179
Income (loss) per common share, basic and diluted	$(0.04)	$0.26	$(0.07)	$ 0.25	$ (0.29)	$0.20	$0.15	$ 0.11
Weighted average number of common shares outstanding, basic	36,141	36,503	37,434	37,472	37,375	37,323	37,282	37,231
Weighted average number of common shares outstanding, diluted	36,141	36,593	37,434	37,676	37,375	37,495	37,417	37,329

[(1)] During the three month period ended September 30, 2017, the Company recorded a goodwill impairment charge of $28.0 million. See Note 7 to the consolidated financial statements for more information. During the three month period ended December 31, 2017, the Company recorded a tax benefit of $6.5 million as a result of the enactment of the Tax Act on December 22, 2017. See Note 18 to the consolidated financial statements for more information.

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Financial Statement Schedule
Schedule I—Condensed Parent Company Financial Information

Civitas Solutions, Inc. Parent-Only Condensed Balance Sheets

(in thousands)	September 30, 2018	2017
Assets		
Investment in subsidiaries	$166,734	$163,477
Total assets	$166,734	$163,477
Liabilities & Stockholders' Equity		
Other liabilities	$—	$560
Total liabilities	$—	$560
Stockholder's equity		
Common stock, $0.01 par value; 350,000,000 shares authorized; and 36,116,252 and 37,441,257 shares issued and outstanding at September 30, 2018 and 2017, respectively	360	374
Additional paid-in-capital	286,897	301,819
Accumulated other comprehensive income (loss)	3,936	(91)
Accumulated deficit	(124,459)	(139,185)
Total stockholders' equity	166,734	162,917
Total liabilities and stockholders' equity	$166,734	$163,477

Civitas Solutions, Inc. Parent-Only Condensed Statements of Income and Comprehensive Income

(in thousands)	For the Year Ended September 30, 2018	2017	2016
Equity in net income of subsidiary	$14,886	$6,331	$9,187
Income from operations	14,886	6,331	9,187
Income before income taxes	14,886	6,331	9,187
Benefit for income taxes	—	—	—
Net income	14,886	6,331	9,187
Other comprehensive income (loss)	4,027	3,470	(1,857)
Comprehensive income	$18,913	$9,801	$7,330

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Civitas Solutions, Inc. Parent-Only Condensed Statements of Cash Flows

(in thousands)	For the Year Ended September 30, 2018	2017	2016
Cash flows (used in) provided by operating activities:			
Net income	$14,886	$6,331	$9,187
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Equity in net income loss of subsidiary	(14,886)	(6,331)	(9,187)
Deferred income taxes	—	—	11,004
Other assets	—	4,215	1,021
Other accrued liabilities	(560)	(633)	—
Net cash (used in) provided by operating activities	(560)	3,582	12,025
Cash flows provided by (used in) investing activities:			
Investment in NMHI	—	(3,582)	(12,025)
Dividend from NMHI	560	—	—
Net cash provided by (used in) investing activities	560	(3,582)	(12,025)
Decrease in cash and cash equivalents	—	—	—
Cash and cash equivalents, beginning of period	—	—	—
Cash and cash equivalents, end of period	$—	$—	$—

Notes to Condensed Civitas Solutions, Inc. Parent-Only Financial Statements

Note 1 - Summary of Significant Accounting Policies and Nature of Operations

Civitas Solutions, Inc., formerly known as NMH Holdings, Inc. (“Civitas”), was incorporated in Delaware on June 15, 2007. Civitas has no other operations beyond its ownership of National Mentor Holdings, Inc. (“NMHI”).

The condensed Civitas financial information includes the activity of Civitas and its investment in NMHI using the equity method. The consolidated activity of Civitas and its subsidiaries are not included and are meant to be read in conjunction with the Civitas consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

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Note 2 - Dividend from Subsidiaries

Civitas' ability to pay dividends on its common stock is limited by restrictions on the ability of its subsidiaries to pay dividends or make distributions under the terms of NMHI’s agreements governing its indebtedness. Any future determination to pay dividends will be at the discretion of our Board of Directors, subject to compliance with covenants in NMHI’s current and any future agreements governing indebtedness, and will depend upon our results of operations, financial condition, capital requirements and other factors that our Board of Directors deems relevant. Civitas received no dividends for the fiscal years ended 2016, 2017, or 2018.