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CRC Health Corporation Reports Operating Results for the Quarter and Twelve Months Ended December 31, 2008

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CUPERTINO, Calif.--(Business Wire)--

CRC Health Corporation ("CRC" or the "Company"), a leading provider of substance abuse treatment and youth services through its wholly owned consolidated subsidiaries, announced its results for the fourth quarter and twelve months ended December 31, 2008.

The Company has three operating divisions: recovery division, youth division, and healthy living division. The recovery division provides substance abuse and behavioral disorder treatment services through residential treatment facilities and outpatient treatment clinics. The youth division provides educational programs for underachieving young people through residential schools and wilderness programs. The healthy living division provides adolescent and adult weight management programs and treatment services for eating disorders. For segment reporting purposes, the Company reports in two segments: recovery and youth. The healthy living division is combined with corporate/other as it does not meet the quantitative threshold for separate segment reporting.

For the year ended December 31, 2008, consolidated net revenue increased \$22.4 million, or 5.0%, to \$470.0 million in 2008 from \$447.6 million in 2007. Additionally, during the year ended 2008, consolidated operating expenses increased \$168.1 million or 43.9% to \$550.9 million from \$382.8 million. Operating expenses, excluding goodwill and intangible asset impairments of \$146.7 million, increased \$21.4 million, or 5.6%, to \$404.2 million in 2008 from \$382.8 million in 2007. Income (loss) from continuing operations, excluding goodwill and intangible asset impairments of \$146.7 million, increased \$1.1 million, or 1.7%, to \$66.0 million in 2008 from \$64.9 million in 2007. In 2008, the Company incurred non-recurring expenses of \$146.7 million related to goodwill and intangible asset impairments: \$4.5 million in its recovery division; and \$142.2 million in its youth division. Income (loss) from continuing operations decreased by \$145.7 million, or 224.7%, to a loss of \$80.9 million in 2008 from income of \$64.9 million in 2007. The decrease is primarily attributable to goodwill and intangible asset write-offs of \$146.7 million in 2008.

Consolidated net revenue for the fourth quarter ended December 31, 2008 decreased \$2.1 million or 1.8% to 109.9 million compared to the same period in 2007. For the fourth quarter of 2008, consolidated operating expenses increased \$1.3 million to \$102.5 million, or 1.3% compared to the same period in 2007. Excluding discontinued operations, for the quarter ended December 31, 2008, consolidated adjusted pro forma net revenue decreased \$3.5 million, or 3.1%, to \$109.9 million from \$113.4 million during the same period in 2007. Fourth quarter 2008 pro forma earnings before interest, taxes, depreciation and amortization ("EBITDA") increased by \$0.1 million, or 0.7%, to \$21.3 million compared to \$21.2 million during the same period in 2007. Fourth quarter 2008 pro forma operating expenses decreased \$3.7 million, or 4.0%, to \$88.6 million compared to \$92.3 million during the same period in 2007. For the twelve months ended December 31, 2008, consolidated pro forma net revenue was \$473.2 million which reflects a \$7.2 million or 1.5% increase from the same period in 2007. For

the twelve months ended December 31, 2008 pro forma EBITDA of \$99.2 million reflects a decrease of \$5.0 million, or 4.8%, from the same period of 2007.

In the fourth quarter of 2008, management initiated a restructuring plan (the "FY08 Plan") to further align the Company's resources with its strategic business plan through workforce reductions, facility consolidations, and facility exit actions. Actions under the FY08 Plan are focused on facilities which have been negatively impacted by the economic crisis and the depressed credit markets. Approximately 100 full-time positions, impacting all divisions, have been eliminated under the FY08 Plan. Facility exit actions include one therapeutic boarding school in the Company's youth division, one eating disorder start-up in its healthy living division, and eight outpatient treatment clinics in its recovery division. The closure, sale, or disposal of these facilities are expected to be substantially complete by the end of 2009.

At December 31, 2008, the Company had incurred approximately \$3.3 million in liabilities related to the FY08 Plan. Remaining restructuring actions may include further division consolidations and facility exit actions in future periods. Facilities which have been held for sale, or otherwise disposed of as of December 31, 2008 are reflected as discontinued operations in the Company's consolidated statements of operations and in its consolidated balance sheet.

Historical Financial Results

Fourth Quarter and Twelve Months Ended December 31, 2008 Consolidated Financial Results:

Recovery Division:

Three Months Ended December 31, 2008 Compared to Three Months Ended December 31, 2007

* Net revenue increased \$2.8 million, or 3.8%, to \$76.9 million for the quarter from \$74.1 million from the comparable prior-year quarter. Same-facility net revenue increased \$1.5 million, or 2.0%, to \$74.5 million for the quarter from \$73.0 million from the comparable prior-year quarter. The increase in same-facility net revenue was driven by a 4.3% increase in census and a 2.2% decrease in rates.

* Our recovery division incurred an increase of \$4.6 million in operating expenses primarily due to a \$4.5 million non-cash impairment charge of intangible assets. Recovery division, same-facility increase in operating expenses was \$5.2 million, or 10.8%. Excluding the \$4.5 million non-cash impairment charge, total operating expenses increased 0.2% and same-facility operating expenses increased 1.4%.

* Adjusted pro forma revenue increased \$1.4 million, or 1.9%, to \$76.9 million for the quarter from \$75.5 million from the comparable prior-year quarter. Adjusted pro forma EBITDA increased \$1.6 million, or 6.9%, to \$24.1 million for the quarter from \$22.5 million from the comparable prior-year quarter.

Twelve Months Ended December 31, 2008 Compared to Twelve Months Ended December 31, 2007

* Net revenue increased \$23.4 million, or 8.2%, to \$309.5 million for the twelve months ended December 31, 2008 from \$286.1 million from the comparable period. Same-facility net revenue increased \$16.4 million, or 5.8%, to \$298.7 million for the twelve months from \$282.3 million from the comparable prior-year period. The increase in same-facility net revenue was driven by a 3.4% increase in census and a 2.4% increase in rates.

* Our recovery division incurred an increase of \$18.5 million, or 9.0%, in operating expenses. Recovery division, same-facility increase in operating expenses was \$15.1 million, or 8.4%, Excluding the \$4.5 million non-cash

impairment charge, total operating expenses increased 6.8% and same-facility operating expenses increased 5.9%.

* Adjusted pro forma revenue increased \$16.1 million, or 5.4%, to \$312.7 million for the twelve months ended December 31, 2008 from \$296.6 million from the comparable period in the prior year. Adjusted pro forma EBITDA increased \$6.1 million, or 6.5%, to \$100.4 million for the twelve months from \$94.3 million from the comparable prior-year period.

Youth Division:

Three Months Ended December 31, 2008 Compared to Three Months Ended December 31, 2007

* Net revenue decreased \$4.4 million, or 13.6%, to \$28.1 million for the quarter from \$32.5 million from the comparable prior-year quarter. Same-facility net revenue decreased \$4.7 million, or 15.0%, to \$26.6 million for the quarter from \$31.3 million from the comparable prior-year quarter. The decrease in same-facility net revenue was driven by a 13.3% decrease in census and a 1.7% decrease in rates. The decrease in census during the quarter was significantly impacted by the economic downturn as well as by a decrease in the availability of credit to families.

* Our youth division incurred a decrease of \$2.7 million in operating expense, or 8.6%, primarily driven by a \$1.8 million decrease in salaries and benefits, a \$0.6 million decrease in supplies, facilities, and other costs, and the remaining decrease due to lower general and administrative expenses.

* Adjusted pro forma revenue decreased \$4.4 million, or 13.5%, to \$28.1 million for the quarter from \$32.5 million from the comparable prior-year quarter. Adjusted pro forma EBITDA decreased \$1.9 million, or 55.8%, to \$1.5 million for the quarter from \$3.4 million from the comparable prior-year quarter.

TwelveMonths Ended December 31, 2008 Compared to Twelve Months Ended December 31, 2007

* Net revenue decreased \$6.3 million, or 4.5%, to \$132.7 million for the twelve months ended December 31, 2008 from \$139.0 million from the comparable prior-year period. Same-facility net revenue decreased \$12.0 million, or 8.7%, to \$126.5 million for the twelve months from \$138.5 million from the comparable prior-year period. The decrease in same-facility net revenue was primarily driven by a \$1.6 million, or 1.8% decrease in same facility residential boarding schools and a \$10.4, million, or 20.5% decrease in outdoor camps. Overall, there has been a significant lessening of demand for youth division services as a result of declining economic conditions and the inability of families to access the credit markets to fund the cost of our programs.

* Our youth division incurred a net operating expense increase of \$139.4 million, or 107.1% due to non-cash impairment charges of \$142.2 million offset by reductions in general and administrative expenses. Excluding the impairment charges, youth division operating expenses decreased by \$2.8 million, or 2.2%, compared to the same period in 2007.

* Adjusted pro forma revenue decreased \$8.8 million, or 6.2%, to \$132.7 million for the twelve months from \$141.5 million from the comparable period in the prior year. Adjusted pro forma EBITDA decreased \$8.2 million, or 36.0%, to \$14.6 million for the twelve months from \$22.8 million from the comparable period in the prior year.

Corporate/Other:

Three Months Ended December 31, 2008 Compared to Three Months Ended December 31, 2007

* Net revenue decreased \$0.5 million, or 9.3%, to \$4.9 million for the quarter from \$5.4 million from the comparable prior-year quarter. Operating expenses

decreased \$0.5 million or 3.7% in corporate/other.

* Adjusted pro forma revenue decreased \$0.5 million, or 9.2%, to \$4.9 million for the quarter from \$5.4 million from the comparable prior-year quarter. Adjusted pro forma EBITDA increased \$0.5 million, or 10.2%, to a loss of \$4.4 million for the quarter from a loss of \$4.9 million from the comparable prior-year quarter. The decrease in the loss is attributable to decreases in salaries, benefits and other operating expenses.

TwelveMonths Ended December 31, 2008 Compared to Twelve Months Ended December 31, 2007

* Net revenue increased \$5.2 million, or 23.1%, to \$27.7 million for the twelve months ended December 31, 2008 from \$22.5 million from the comparable prior-year period. Operating expenses increased \$10.2 million or 22.0% in corporate/other.

* Adjusted pro forma revenue decreased \$0.1 million, or 0.4%, to \$27.7 million for the twelve months from \$27.8 million from the comparable period in the prior year. Adjusted pro forma EBITDA decreased \$3.0 million, or 23.3%, to a loss of \$15.9 million for the twelve months from a loss of \$12.9 million from the comparable period in the prior year. The increase in the loss is attributable to increases in operating expenses associated with the growth in our adolescent weight management summer camps, and increases in corporate administrative expenses.

The unaudited adjusted pro forma revenue and EBITDA for the periods presented give effect to all acquisitions as if they had occurred on January 1, 2007. The pro forma adjustments are based upon available information and certain assumptions that CRC believes are reasonable. The pro forma adjusted EBITDA is for informational purposes only and does not purport to represent what CRC's result of operations or financial position would have been if the acquisitions in 2007 occurred at any date, nor does such information purport to project the results of operations for any future period.

In order to supplement its condensed consolidated financial statements presented in accordance with GAAP, CRC is providing a summary to show the computation of EBITDA, as well as adjusted pro forma EBITDA. Adjusted pro forma EBITDA takes into account certain adjustments which are excluded from EBITDA for purposes of various covenants in the indenture governing CRC's 10 $\frac{3}{4}$ % senior subordinated notes due 2016 and its senior secured credit facility, as amended to date. CRC believes that the adjusted pro forma EBITDA information presented provides useful information to both management and investors concerning its ability to meet its future debt obligations and to comply with certain covenants in its borrowing arrangements that are tied to these measures. CRC also believes that including the effect of these items allows management and investors to better compare CRC's financial performance from period-to-period, and to better compare CRC's financial performance with that of its competitors. The presentation of this additional information is not meant to be considered in isolation of, or as a substitute for, results prepared in accordance with GAAP.

CRC HEALTH CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents

Accounts receivable, net of allowance for doubtful accounts of \$5,409 in 2008 and \$6,901

Prepaid expenses
 Other current assets
 Income taxes receivable
 Deferred income taxes
 Current assets of discontinued operations, facility exits

Total current assets
 PROPERTY AND EQUIPMENT-Net
 GOODWILL
 INTANGIBLE ASSETS-Net
 OTHER ASSETS

TOTAL ASSETS

LIABILITIES AND STOCKHOLDER`S EQUITY

CURRENT LIABILITIES:
 Accounts payable
 Accrued liabilities
 Income taxes payable
 Current portion of long-term debt
 Other current liabilities
 Current liabilities of discontinued operations, facility exits

Total current liabilities

LONG-TERM DEBT-Less current portion
 OTHER LONG-TERM LIABILITIES
 OTHER LONG-TERM LIABILITIES OF DISCONTINUED OPERATIONS, FACILITY EXITS
 DEFERRED INCOME TAXES

Total liabilities

COMMITMENTS AND CONTINGENCIES (Note 12)

MINORITY INTEREST

STOCKHOLDER`S EQUITY:

Common stock, \$0.001 par value-1,000 shares authorized; 1,000 shares issued and outstand
 Additional paid-in capital
 Accumulated (deficit) retained earnings
 Accumulated other comprehensive (loss)

Total stockholder`s equity

TOTAL LIABILITIES AND STOCKHOLDER`S EQUITY

CRC HEALTH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2008 and 2007

(In thousands)

Three Months Ended
 December 31,

2008
 2007
 2008
 2007

NET REVENUE:

Net client service revenue

(Successor)
 \$ 107,877

Other revenue		2,017
Net revenue		109,894
OPERATING EXPENSES:		
Salaries and benefits		56,548
Supplies, facilities and other operating costs		34,490
Provision for doubtful accounts		1,536
Depreciation and amortization		5,425
Asset impairment		4,525
Goodwill impairment		-
Total operating expenses		102,524
OPERATING INCOME (LOSS)		7,370
INTEREST EXPENSE, NET		(13,975)
GAIN ON DEBT REPURCHASE AND OTHER FINANCING COSTS		8,086
OTHER INCOME (EXPENSE)		37
(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		1,518
INCOME TAX (BENEFIT) EXPENSE		2,257
MINORITY INTEREST IN (LOSS) INCOME OF SUBSIDIARIES		(97)
(LOSS) INCOME FROM CONTINUING OPERATIONS		(642)
(LOSS) INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX		(3,562)
NET (LOSS) INCOME	\$	(4,204)

Reconciliation of GAAP "Cash Flows Provided By Operating Activities" to non-GAAP "EBITDA
(In thousands) (unaudited)

	Three Months Ended December 31, 2008 (Successor)	Thre Ende Dece 2007
Cash flows provided by (used in) operating activities	\$ 3,086	\$
Amortization of debt discount and other financing costs	(1,179)	
Stock-based compensation	(2,179)	
Deferred income taxes	(6,918)	
Net effect of changes in non-current net assets	350	
Goodwill impairment	(624)	
Asset impairment	(6,956)	
Net effect of working capital changes	15,683	
Interest expense, net	13,975	
Income tax (benefit) expense	568	
EBITDA from continuing operations	15,806	
Interest expense, net	(13,975)	
Income tax expense (benefit)	(568)	
Depreciation and amortization	(5,467)	
Net (loss) income	\$ (4,204)	\$

Reconciliation of non-GAAP "EBITDA from continuing operations" to non-GAAP "Adjusted pro
(In thousands) (unaudited)

Three Months
Ended
December 31,
2008

EBITDA from continuing operations	\$	15,80
Pre-acquisition Adjusted EBITDA from other acquisitions in 2007		--
Pre-acquisition Adjusted EBITDA from other acquisitions in 2008		--
Adjustments for discontinued operations		687
Expenses incurred related to the Transactions		--
Unrecognized profit on deferred revenue		--
Asset impairments		6,955
Impairment of goodwill		624
Non-impairment restructuring activities		1,584
Stock-based compensation expense		2,186
Foreign exchange translation		(7
(Gain), loss on debt repurchase		(8,08
(Gain) loss on interest rate swap		(35
Other financing costs		114
Loss (gain) on fixed asset disposal		89
Management fees to Sponsor		545
Transaction expense		853
Write-off of cancelled acquisitions		5
Minority interest in loss of subsidiaries		(97
Franchise taxes		44
Write-off of miscellaneous accounts (non-cash)		--
Non-cash charge for workers compensation actuarial analysis		--
Adjusted Pro forma EBITDA	\$	21,26

Twelve Months
Ended
December 31,
2008

CRC Health Corporation		
Selected Statistics		
Recovery Division:		
Number of inpatient facilities - end of period		30
Number of outpatient facilities - end of period		15
Number of comprehensive treatment clinics (CTC) - end of period		55
Available beds - end of period		1,910
Patient days - Inpatient		553,559
Occupancy rate		80.0 %
Net revenue per patient day - inpatient	\$	363.07
Patient days - CTC		9,030,235
Net revenue per patient day - CTC	\$	11.73
Youth Division:		
Number of facilities - end of period		28
Patient days		441,676
Net revenue per patient day	\$	300.51
Healthy Living Division:		
Number of facilities - end of period		16
Patient days		96.692
Net revenue per patient day	\$	283.55

Conference Call

CRC Health Corporation will host a conference call, open to all interested

parties, on Tuesday, March 31, 2009 beginning at 11:00 AM Eastern Time (8:00 AM Pacific Time). The number to call within the United States is (877) 704-5386. Participants outside the United States should call 913-905-1086. The conference ID is 8849590.

A replay of the conference call will be available starting at 3:00 PM Eastern Time on Tuesday March 31, 2009 until 11:59 PM Eastern Time Tuesday April 7, 2009. The replay number for callers within the United States is 888-203-1112 or 719-457-0820 from outside the United States and the conference ID for all callers is 8849590.

Forward-Looking Statements

This press release includes or may include "forward-looking statements." All statements included herein, other than statements of historical fact, may constitute forward-looking statements. Although CRC believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements include, among others, the following factors: changes in government reimbursement for CRC's services; CRC's substantial indebtedness; changes in applicable regulations or a government investigation or assertion that CRC has violated applicable regulations; attempts by local residents to force our closure or relocation; the potentially difficult, unsuccessful or costly integration of recently acquired operations and future acquisitions; the potentially difficult, unsuccessful or costly opening and operating of new treatment facilities; the possibility that commercial payors for CRC's services may undertake future cost containment initiatives; the limited number of national suppliers of methadone used in CRC's outpatient treatment clinics; the failure to maintain established relationships or cultivate new relationships with patient referral sources; shortages in qualified healthcare workers; natural disasters such as hurricanes, earthquakes and floods; competition that limits CRC's ability to grow; the potentially costly implementation of new information systems to comply with federal and state initiatives relating to patient privacy, security of medical information and electronic transactions; the potentially costly implementation of accounting and other management systems and resources in response to financial reporting and other requirements; the loss of key members of CRC's management; claims asserted against CRC or lack of adequate available insurance; and certain restrictive covenants in CRC's debt documents.

CRC Health Corporation
Kevin Hogge, 877-272-8668
Chief Financial Officer

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