

Civitas Solutions, Inc.  
Form 424B4  
September 17, 2014  
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Filed Pursuant to Rule 424(b)(4)  
Registration No. 333-196281

PROSPECTUS

11,700,000 Shares

Civitas Solutions, Inc.

Common Stock

This is the initial public offering of shares of common stock of Civitas Solutions, Inc. We are offering 11,700,000 shares of our common stock. Prior to this offering, there has been no public market for our stock.

Our common stock has been approved for listing on the New York Stock Exchange under the symbol CIVI. Upon completion of this offering, we will be a controlled company as defined in the corporate governance rules of the New York Stock Exchange.

*Investing in our common stock involves risks. See Risk Factors beginning on page 17.*

	Per Share	Total
Price to the public	\$ 17.000	\$ 198,900,000
Underwriting discounts and commissions	\$ 1.105	\$ 12,928,500
Proceeds, before expenses, to us (1)	\$ 15.895	\$ 185,971,500

(1) We refer you to Underwriting beginning on page 145 of this prospectus for additional information regarding underwriting compensation.

We have granted the underwriters a 30-day option to purchase up to 1,755,000 additional shares from us at the initial public offering price, less the underwriting discount.

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

The underwriters expect to deliver the shares on or about September 22, 2014.

**Barclays**

**BofA Merrill Lynch**

**UBS Investment Bank**

**Raymond James**

**SunTrust Robinson Humphrey**

**BMO Capital Markets**

**Avondale Partners**

Prospectus dated September 16, 2014

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We have not and the underwriters have not authorized anyone to provide you with any information other than that contained in this prospectus or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where such offers and sales are permitted. The information in this prospectus or any free writing prospectus is accurate only as of its date, regardless of its time of delivery or the time of any sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

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**MARKET, RANKING AND OTHER INDUSTRY DATA**

The data included in this prospectus regarding markets and ranking, including the size of certain markets and our position and the position of our competitors within these markets, are based on (1) published and unpublished industry sources and (2) our estimates based on our management's knowledge and experience in the markets in which we operate. Unless otherwise stated, all statistical information in this prospectus relating to I/DD has been obtained from reports prepared by Dr. David Braddock, including annual and/or biennial data collected for inclusion in *The State of the States in Developmental Disabilities*, a research report prepared by Dr. Braddock, and data that was publicly presented by Dr. Braddock in 2013. Dr. Braddock is Associate Vice President of the University of Colorado (CU) System and Executive Director of the Coleman Institute for Cognitive Disabilities. We have provided the most recent market data available to us, including the data that was publicly presented by Dr. Braddock in February 2013. Our estimates have been based on these sources as well as information obtained from our customers, the federal government, trade and business organizations and other contacts in the markets in which we operate. We are responsible for all of the disclosure in this prospectus.

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**PROSPECTUS SUMMARY**

*The following summary highlights information appearing elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus carefully. In particular, you should read the sections entitled Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the notes relating to those statements included elsewhere in this prospectus. Some of the statements in this prospectus constitute forward-looking statements. See Forward-Looking Statements.*

*In this prospectus, unless the context requires otherwise, references to Civitas refer to Civitas Solutions, Inc. (formerly known as NMH Holdings, Inc.), the issuer of the common stock offered hereby, and references to the Company, we, our or us refer to Civitas and its consolidated subsidiaries. Throughout this prospectus we use the term must serve to describe the people we serve. We consider must-serve individuals to be those that public policy has recognized a responsibility to care for because they are highly vulnerable by virtue of a condition acquired at birth or after birth or their status as minors or as elders and have special needs and/or disabilities such that they need to be supported or cared for in the daily activities of living.*

**Company Overview**

We are the leading national provider of home- and community-based health and human services to must-serve individuals with intellectual, developmental, physical or behavioral disabilities and other special needs. These populations are large, growing and increasingly being served in home- and community-based settings such as those we provide. Our clinicians and caregivers develop customized service plans, delivered in non-institutional settings, designed to address a broad range of often life-long conditions and to enable those we serve to thrive in less restrictive settings.

We believe we offer a powerful value proposition to government and non-public payors, referral sources, and individuals and families by providing a continuum of high quality, cost-effective residential, day and vocational programs, and periodic services. We currently offer our services through a variety of models, including (i) neighborhood group homes, most of which are residences for six or fewer individuals, (ii) host homes, or the Mentor model, in which a client lives in the private home of a licensed caregiver, (iii) in-home settings, within which we support clients independent living or provide therapeutic services, (iv) specialized community facilities to support individuals with more complex medical, physical and behavioral challenges, and (v) non-residential care, consisting primarily of day and vocational programs and periodic services that are provided outside the client's home.

During our nearly 35-year history, we have evolved from a single residential program serving at-risk youth to a diversified national network providing an array of high-quality services and care in large, growing and highly-fragmented markets. As of June 30, 2014, we operated in 36 states, serving more than 12,500 clients in residential settings and more than 15,700 clients in non-residential settings. We have a diverse group of hundreds of public payors that fund our services with a combination of federal, state and local funding, as well as an increasing number of non-public payors in our newest service lines. Our services are provided by over 20,000 full-time equivalent employees, as well as approximately 5,500 independently-contracted host home caregivers.

For fiscal 2013, we generated net revenue of \$1,199 million and a net loss of \$(18.3) million, and for the nine months ended June 30, 2014, we generated net revenue of \$938.9 million and a net loss of \$(16.9) million. Over the last three fiscal years ended September 30, 2013, we grew our annual revenue 19%, or \$195 million, 54% of which was from organic growth and 46% of which was attributable to businesses acquired during this period or in the preceding year. We believe that our new start investments and our substantial acquisition pipeline, coupled with new opportunities to expand our services in new and existing markets, position us for continued strong growth.

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**Our Industry**

While we have the capabilities to serve individuals with a wide variety of special needs and disabilities, the current principal focus of our business is on the provision of services to individuals with intellectual and/or developmental disabilities ( I/DD ), youth with emotional, behavioral and/or medically complex challenges, or at-risk youth ( ARY ), and individuals with catastrophic injuries and illnesses, particularly acquired brain injury ( ABI ).

**I/DD.** The largest portion of our client base consists of adults and children with I/DD. Public spending on I/DD services was estimated to be \$56.6 billion in 2011, of which approximately 80% was spent to provide services in community settings of six or fewer beds, our target market, and for other non-institutional services, including supported living, supported employment and family assistance. In 2012, there were approximately 4.9 million individuals with an intellectual or developmental disability across the nation.

**ARY.** We provide services to youth with emotional, behavioral and/or medically complex challenges, or at-risk youth. According to reports published by the organization Child Trends, an estimated \$29.4 billion was spent in 2010 on child welfare, including spending on the support services we offer. Approximately 3.3 million referrals for abuse or neglect were investigated or assessed in the United States in 2010. Of that, approximately 663,000 were served by the foster care system. According to the Federal Department of Health and Human Services AFCARS data, there were nearly 400,000 children and adolescents in foster care as of September 30, 2012. Of those individuals, approximately 200,000 are living in non-relative foster family homes, which includes the therapeutic foster care market, the primary market for our residential ARY services.

**ABI.** We provide services to individuals with ABI and other catastrophic injuries and illnesses through our post-acute Specialty Rehabilitation Services ( SRS ) segment. The market for post-acute care and rehabilitation for individuals with ABI, the largest of these populations, is approximately \$10 billion annually, according to the Centers for Disease Control and Prevention (the CDC ). According to the Brain Injury Association of America ( BIAA ), there are more than 2.6 million new brain injuries each year, many of which result in complex, life-long medical and/or behavioral issues that require specialized care. Approximately 5.3 million individuals in the United States are living with permanent disability as a result of an ABI.

**Industry Trends**

We believe we are well positioned to benefit from a number of favorable trends in our industry:

*There are large and growing must-serve populations for our services.*

The markets we serve are growing as a result of changing demographics, shifts in public policy, consumer awareness and increased focus on cost-effectiveness.

There is an expanding population of individuals with I/DD eligible for residential and other support services. This growth has been driven by a number of factors, including the following:

**Longer lifespan.** Increasingly, individuals with I/DD are living longer lives, with life expectancy climbing from 59 years in the 1970s to 66 years in 1993, the most recent year for which data is available. As these individuals increasingly live longer lives, they require additional care and in many cases outlive the ability to live independently or with family caregivers.

**Aging caregivers.** In 2011, approximately 72% of individuals with I/DD, or 3.5 million, lived with family caregivers, including more than 850,000 with family caregivers aged 60 years or older. As these family caregivers age and become less capable of providing continuous care, we expect they will

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increasingly seek out-of-home or supported living arrangements, such as those we provide, for their relatives with disabilities.

**Waiting lists.** There is a significant unmet need for residential services for individuals with I/DD. Many states maintain waiting lists for individuals seeking placements for these services. Nationwide, as of 2010, there were an estimated 115,000 individuals with I/DD waiting for residential services, including 88,000 on formal waiting lists in 35 states. There are legislative, advocacy and litigation efforts currently under way in many states to reduce waiting lists and provide additional access to residential services, which we believe will continue to drive additional demand for services such as those we provide.

**De-institutionalization.** As of 2011, there were approximately 84,000 individuals with I/DD residing in institutions with 16 or more beds, including nearly 30,000 in public institutions. At the federal and state levels, policy changes, legal decisions and cost containment efforts are driving a continuing trend of de-institutionalization for the treatment of individuals with disabilities and special needs. Several states are currently in the process of downsizing or closing I/DD institutions, including California, New Jersey and Georgia.

We believe the ARY population is growing, along with the demand for many of the services we offer. Specific trends impacting the ARY population include:

**Shifting demographics of children.** An increasing number of children are living in poverty in the United States. According to the Children's Defense Fund, the number of children living below the poverty line increased by more than 4.5 million from 2000 to 2012, and 2.75 million more children were categorized as poor in 2012 than before the economic downturn began in 2007. In addition, the number of children in single-parent families increased from 22.7 million in 2008 to 24.7 million in 2012, or an increase of approximately 9%. We believe these children are more likely to require the residential and periodic services offered through our ARY segment as their caregivers face greater demands.

**Stabilization of the foster care population.** The number of children in foster care reached a peak of 567,000 in 1999 and declined to nearly 400,000 as of September 30, 2012. The decline in the population was driven by several factors causing a shift in care delivery, but we believe the full impact of those factors has already been experienced. The population has stabilized, evidenced by the fact the number of children in foster care has been approximately 400,000 for each of 2010, 2011 and 2012.

**Growing demand for periodic services.** In an effort to prevent children and adolescents from requiring an out-of-home placement, public child welfare agencies have for several years been emphasizing periodic support services to strengthen families at-risk. Consistent with this trend, we have been expanding our ARY periodic services in existing and new markets to meet this demand and help more children and families in need of support.

The market for ABI services is growing due to several factors, including:

**Advances in medical care.** Advances in emergency care and medical technology are increasing the survival rate and extending the life span of those who suffer a catastrophic injury. This has served to both expand the overall population of these individuals and to place increased responsibility on payors and government agencies to seek cost-effective care.

**Increasing public awareness.** Increases in public awareness of the causes and potential complications of brain injury are driving an increased focus on the diagnosis and proper treatment of these injuries. In particular, the conflicts in Afghanistan and Iraq, where traumatic brain injury has been one of the signature wounds for our military, as well as significant research and media coverage related to the incidence of brain injury in contact sports, especially professional football, have contributed to this



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increased awareness. As a result, emergency room visits for traumatic brain injury increased by approximately 30% from 2006 to 2010, an eight times increase compared with the growth in emergency room visits generally.

**Increasing demand for specialized care.** Patients, families and payors are increasingly seeking specialized care provided in ABI-specific community-based settings such as those that we offer. There are tens of thousands of individuals with brain injuries currently in nursing facilities. We believe many of these patients, particularly younger individuals, would be better served in community-based rehabilitative programs, as evidenced and supported by growing advocacy, changes in public policy and legal precedents supporting their transition to specialized care settings.

**Increasing funding for community-based settings.** Both the public and private sectors finance post-acute services for individuals with ABI. We believe that payors are increasingly seeking to serve patients in more cost-effective and appropriate community-based settings. For example, in recent years the increase in state ABI waiver programs that provide easier access to Medicaid funds has expanded the number of individuals who can afford ABI services. According to the Kaiser Family Foundation, there were 17,193 individuals served through state waiver programs for brain injury in 2010, up from 11,214 in 2006, representing a compound annual growth rate of 11.3%.

*Clients, caregivers and payors are increasingly recognizing the value of home- and community-based services.*

We believe home- and community-based services are strongly preferred by clients and their caregivers. The less restrictive settings provide greater control over care delivery, support patient quality of life and independence, and facilitate stronger bonds between those we serve and their caregivers. Additionally, consumers are becoming increasingly aware of the full spectrum of services available in the market, and we believe they will continue to demand the type of tailored and cost-effective community-based care we offer.

Furthermore, we believe that in our target markets, both public and non-public payors will increasingly emphasize and fund community-based services that offer comprehensive care across the continuum at a better relative value. We believe tailored solutions and ongoing support, such as the services we provide, offer better overall outcomes for the populations we serve. For most of our patient populations, our customized service plans cost less than care plans in large-scale institutional settings. Home- and community-based services are also preferred as a clinically appropriate and less expensive step-down alternative for individuals who no longer require care in more expensive acute care settings.

*Funding for home- and community-based services is expanding.*

We believe funding for home- and community-based services is expanding for a variety of reasons, including the must-serve nature of our population, and legislation, legal precedents and advocacy efforts supporting the individuals we serve. Human services, including services for the I/DD and ARY populations, are generally funded by government programs, predominantly Medicaid, while ABI services are funded by a mix of government programs and private insurance. These programs are often administered on a state-wide level and, in selected states, decisions regarding funding for individual clients and programs occur at the county level, resulting in a large and diverse payor base. State governments are financially incentivized to continue funding services in our core markets because states receive matching federal funds for state expenditures. As a result of these factors, our rates have remained stable, with some rate contraction in 2009 through 2011 following the economic downturn and modest expansion starting in 2012. We believe improving state budgets resulting from a recovering economic environment will further drive growth in funding.

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*The health and human services markets we serve are highly fragmented, and we expect continued consolidation of the numerous local and regional providers who lack our scale and resources.*

The markets we serve are highly fragmented, with only a limited number of national providers of significant scale. We believe payors are demanding more sophisticated reporting, quality, billing and clinical outcomes data, which require complex and robust administrative and IT systems. Small providers often lack the resources to implement and the scale to leverage these systems. We also believe payors are seeking to contract with larger providers that can offer more comprehensive services across a continuum of care, deliver consistent quality and act quickly to establish new programs for populations in need of service.

### **Competitive Strengths**

We believe we are uniquely positioned to be the preferred provider of home- and community-based health and human services in the markets we serve. In particular, our strengths include:

***The Leading Provider of Home- and Community-Based Health and Human Services in the United States.*** As of June 30, 2014, we provided services to more than 12,500 clients in residential settings and more than 15,700 clients in non-residential settings across 36 states, which are home to approximately 85% of the U.S. population. Our national scale and breadth of service offerings provide us with significant competitive advantages:

**Responsiveness.** Our scale enables us to deliver a broad range of highly customized services across a continuum of care with a greater level of responsiveness than many of our regional or local service competitors. We have the knowledge, financial resources and relationships to anticipate and rapidly respond to customer needs and market opportunities, positioning us well to capture new business.

**Clinical expertise.** Given our extensive national network of clinicians and the wide variety of service models we use, we have developed a broad range of clinical expertise to address a range of disabilities and special needs. We leverage clinical best practices from across our network to expand into new markets and initiate new service lines and programs to address the needs of our payors, our clients and their caregivers. We believe our ability to serve individuals with the most complex physical and behavioral challenges distinguishes us from many of our competitors.

**Infrastructure.** Unlike smaller competitors that lack our scale and resources, we have developed a robust infrastructure, including functions such as quality assurance, compliance, risk management, information technology, human resources, billing and financial management, that we leverage across our care-delivery network. This infrastructure enables our operations to focus on efficiently delivering consistent, high-quality care and enables us to respond to the increasing compliance, regulatory and fiscal requirements of payors.

**Powerful Value Proposition.** We believe we offer a powerful value proposition to our payors, our clients and their caregivers through our ability to design customized service plans to meet the unique needs of our clients in cost-effective settings. We specialize in adapting our service offerings to a wide range of intensities of care and other client requirements.

**Proven Ability to Make Acquisitions at Attractive Valuations.** We believe our scale, in-depth industry knowledge, payor relationships, reputation for quality and operational expertise strategically position us as a preferred acquirer, with an ability to efficiently and opportunistically deploy capital. We are the only company with a national platform dedicated to serving each of the I/DD, ARY and ABI populations. This positions us as a prime exit option for small providers in these highly-fragmented markets. We have completed 36 acquisitions and deployed approximately \$127 million of capital for acquisitions from the beginning of fiscal 2009 through June 30, 2014.

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***Unique First Mover Advantage in SRS.*** Through our history of acquisitions and new starts, we now serve over 1,300 individuals in 26 states in our SRS segment. We are the only provider with a national platform dedicated to providing post-acute care for individuals with brain injuries or other catastrophic injuries and illnesses, and thus we believe we are the leader serving this market. Through our NeuroRestorative and CareMeridian business units, we offer solutions to SRS clients across the continuum of care, from post-acute care and neurorehabilitation to day treatment and supportive living services, that help individuals in their recovery and, in many cases, to regain independence. Our experience in SRS enables us to deliver high-quality specialized care and offer significant cost savings for payors, leading to an expanding pipeline of referrals. Our quality of care and outcomes, along with limited competition of scale in the underserved SRS market, position us to capitalize on this opportunity and benefit from its rapid growth.

***Stable Cash Flows Fund Growth Opportunities.*** Our highly-diverse group of payors and the must-serve populations we support have insulated our revenue streams from significant and widespread rate reductions. This, coupled with our historically consistent annual capital expenditures of only 2% to 3% of net revenue and low working capital needs, has helped us achieve stable cash flows through periods of economic recession and prosperity. We have been able to utilize our stable cash flows to invest in new growth opportunities and fuel the expansion of our services.

***Proven Management Team with a Track Record of Performance.*** Our management team, having served previously as policy makers, fiscal managers and service providers, has extensive public and private sector experience in health and human services. Our executive officers have been with us for an average of 13 years and average approximately 23 years in the human services industry. Our management team has demonstrated the ability and experience to ensure the delivery of high quality services to clients, pursue and integrate numerous acquisitions, manage critical human resources, develop and maintain robust IT and financial systems, mitigate risk in the business and oversee our significant growth and expansion.

### **Our Business Strategy**

We intend to continue leveraging our strengths to capitalize on the market opportunity for home- and community-based health and human services. The primary aspects of our strategy include:

***Leverage our Core Competencies to Drive Organic Growth.*** We expect to capture the embedded growth opportunities resulting from our recent initiatives and leverage our core competencies to further expand our presence in markets we already serve and to further expand our geographic footprint in our existing service lines. During our nearly 35-year history, we have developed and refined a core set of competencies through our experience developing customized service plans for complex cases and supporting our operations with expertise in areas such as risk management, compliance and quality assurance.

***Continue to Invest in our New Start Programs.*** A key driver of growth has been our new start programs that have historically generated attractive returns on our investments. Our investment of approximately \$8 million in new starts between fiscal 2007 and fiscal 2010 generated net revenues and new start operating income of approximately \$70 million and \$14 million, respectively, in fiscal 2013. We intend to continue to aggressively pursue new start opportunities with attractive rates of return on investment.

***Pursue Opportunistic Acquisitions.*** We intend to continue to pursue acquisitions that are consistent with our mission and can be readily integrated into our existing operations. We have invested in a team dedicated to mergers and acquisitions, as well as the infrastructure and formalized processes to enable us to pursue acquisition opportunities and to integrate them into our business. We monitor the market nationally for businesses that we can acquire at attractive prices and efficiently integrate with our existing operations. From the beginning of fiscal 2009 through June 30, 2014, we have successfully acquired 36 companies, at an aggregate purchase price of approximately \$127 million.

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***Expand our SRS Platform.*** We intend to leverage our unique scale and leadership position to continue to expand our SRS platform through continued organic growth in new and existing markets, as well as through opportunistic acquisitions. We are the only provider with a national platform dedicated to providing post-acute care for individuals with brain injuries or other catastrophic injuries and illnesses, and thus we believe we are the leader serving this market. We have more than doubled the size and contribution of our SRS segment since 2009, achieving a 21% compound annual growth rate in net revenue over that period. Furthermore, our SRS business is funded by a highly attractive payor mix, with 56% of net revenues in 2013 derived from commercial insurers and other private entities.

***Pursue Opportunities in Adjacent Markets and Complementary Service Lines that Diversify our Service Offerings.*** We have a proven track record of expanding into adjacent markets, as evidenced by the growth of our SRS segment, and we intend to leverage our core competencies and relationships with state agencies to pursue opportunities in adjacent markets, including potentially those serving elders, youth with autism and individuals with mental health issues. We believe our periodic, day and residential services can be leveraged to address a portion of the estimated \$75 billion spent in 2010 on residential and personal healthcare services and home healthcare services for individuals 64 years of age or older, based on data from the Centers for Medicare and Medicaid Services. More specifically, we initially intend to pursue the adult day services portion of this market, an estimated \$6 billion market based on IBISWorld estimates for spending on adult day care in 2010, and we have recently agreed to acquire a company in this market, subject to customary closing conditions. See [Recent Developments](#).

### **Recent Developments**

#### ***Acquisition of Massachusetts Adult Day Health Alliance***

On June 30, 2014, Adult Day Health, Inc., a newly formed subsidiary of the Company, agreed to acquire Massachusetts Adult Day Health Alliance for an aggregate purchase price of up to \$38.3 million in cash. The acquisition was completed on September 8, 2014. Massachusetts Adult Day Health Alliance operates adult day health facilities in the Boston area. Massachusetts Adult Day Health Alliance provides outpatient, center-based services that provide health, therapeutic and social support to adults in a group environment. The facilities are typically open 362 days a year between 8 a.m. and 4 p.m. The size of the centers range from 94 clients to 200 clients. Massachusetts Adult Day Health Alliance provides a structured six-hour day for clients, as well as round-trip transportation to and from the facility. In 2013, Massachusetts Adult Day Health Alliance generated approximately \$17 million in revenue, which was almost entirely funded through Medicaid. For additional information, see [Risk Factors](#) [Risk Related to the Acquisition of Massachusetts Adult Day Health Alliance](#).

The acquisition is our first entry into adult day services, but it is a natural extension of our core competencies especially in regard to our high-quality day programs for individuals with intellectual and developmental disabilities as well as those who have suffered brain injuries. We believe that there will be a growing demand for adult day services for several reasons, including that the population of adults 65 and older is a growing demographic. Moreover, states are increasingly looking for alternatives to more expensive models of home-based, residential and institutional care. The adult day services market, like other markets in which we operate, is highly fragmented with opportunities for consolidation.

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**Risk Factors**

An investment in our common stock involves a high degree of risk. Any of the factors set forth under **Risk Factors** may limit our ability to successfully execute our business strategy. You should carefully consider all of the information set forth in this prospectus and, in particular, should evaluate the specific factors set forth under **Risk Factors** in deciding whether to invest in our common stock. Among these important risks are the following:

we rely on Medicaid funding as we derive approximately 90% of our revenue from contracts with state and local governments and a substantial portion of this revenue is state funded with federal matching Medicaid dollars; accordingly, reductions or changes in Medicaid funding or changes in budgetary priorities by the federal, state and local governments that pay for our services could have a material adverse effect on our revenue and profitability;

the nature of our operations subjects us to substantial claims, litigation and governmental proceedings;

an increase in labor costs or labor-related liability;

reductions in reimbursement rates, a failure to obtain increases in reimbursement rates or subsequent negative audit adjustments could adversely affect our revenue, cash flows and profitability;

our level of indebtedness could adversely affect our liquidity and ability to raise additional capital to fund our operations, and it could limit our ability to invest in our growth initiatives or react to changes in the economy or our industry; and

we have a history of losses, and we might not be profitable in the future.

**Our Corporate Information**

Civitas Solutions, Inc. (formerly known as NMH Holdings, Inc.) is a Delaware corporation incorporated on June 15, 2007. Our business was originally formed in 1980. We were acquired in 2006 pursuant to the merger and contribution (the **Merger**) by affiliates of Vestar Capital Partners ( **Vestar** ). Our principal executive office is located at 313 Congress Street, Boston, Massachusetts 02210, and our telephone number is (617) 790-4800. The address of our main website is [www.civitas-solutions.com](http://www.civitas-solutions.com). You should not consider any information on, or that can be accessed through, our website as part of this prospectus.

Civitas' direct parent company, NMH Investment, LLC ( **NMH Investment** ) is controlled by investment funds managed by Vestar Capital Partners. The equity interests of NMH Investment are owned by Vestar and certain of our executive officers and directors and other members of management.

Civitas is the indirect parent of National Mentor Holdings, Inc. ( **NMHI** ), which is the issuer of 12.50% Senior Notes due 2018 (the **senior notes** ) and the borrower under the Company's senior secured credit facilities. NMHI is required by the terms of the indenture governing the senior notes to file reports with the Securities and Exchange Commission (the **SEC** ), and under SEC rules, is a voluntary filer. We intend to use the net proceeds from the sale of common stock by us in this offering to redeem \$162.0 million in aggregate principal amount of the outstanding senior notes.

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**Corporate Structure**

The chart below sets forth our current corporate structure and gives effect to the issuance of the shares in this offering. The ownership percentages are calculated as of the date of this prospectus (i) based on the initial public offering price of \$17.00 per share, (ii) assuming no exercise by the underwriters of their option to purchase up to 1,755,000 additional shares from us, (iii) assuming the Class H Common Units of NMH Investment issued to management vest and (iv) excluding the issuance of the options and restricted stock units that we intend to grant in connection with this offering. Because NMH Investment will not distribute its shares of our common stock in connection with this offering, management's ownership of up to 4% of the equity of NMH Investment represented by the Class H Common Units will remain unvested upon completion of this offering.

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**Equity Sponsor**

Founded in 1988, Vestar Capital Partners is a leading U.S. middle market private equity firm specializing in management buyouts and growth capital investments. Vestar invests and collaborates with incumbent management teams and private owners in a creative, flexible and entrepreneurial way to build long-term enterprise value. Since Vestar's founding, Vestar funds have completed more than 70 investments in companies with a total value of more than \$40 billion.

Vestar has extensive experience investing across a wide variety of industries, including healthcare, financial services, information services, consumer, digital media and diversified industries. Vestar Capital Partners has been making successful investments in the healthcare sector since the late 1990s, when the firm helped the physician managers of Sheridan Healthcare take the company private and build it from a local operation into a nationwide provider of outsourced medical services.

Since then, Vestar's healthcare investments have spanned the healthcare spectrum, including, in addition to the Company, Essent Healthcare, a hospital management company, and more recently, healthcare information and measurement technologies investments, which include HealthGrades, Press Ganey and MediMedia.

Vestar currently manages funds with approximately \$5 billion of assets and has offices in New York, Denver and Boston. Vestar's investment in NMH Investment was funded by Vestar Capital Partners V, L.P., a \$3.7 billion fund which closed in 2005, and affiliates.

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**The Offering**

Issuer	Civitas Solutions, Inc.
Common stock offered by us	11,700,000 shares
Underwriters' option to purchase additional shares	We have granted the underwriters a 30-day option to purchase up to an additional 1,755,000 shares at the public offering price less underwriting discounts and commissions.
Common stock to be outstanding immediately after completion of this offering	36,950,000 shares
Use of proceeds	We intend to use the net proceeds from the sale of common stock by us in this offering and cash on hand to (i) redeem \$162.0 million in aggregate principal amount of the outstanding senior notes issued by our subsidiary, NMHI, at a redemption price of 106.25% plus accrued and unpaid interest thereon to the date of redemption and (ii) pay a transaction advisory fee of \$8.0 million to Vestar under the management agreement with Vestar, which agreement will terminate upon completion of this offering. We intend to use any remaining net proceeds for general corporate purposes.
Dividend policy	We currently intend to retain all available funds and any future earnings to fund the development and growth of our business, and therefore we do not anticipate paying any cash dividends in the foreseeable future. Additionally, our ability to pay dividends on our common stock will be limited by restrictions on the ability of our subsidiaries and us to pay dividends or make distributions under the terms of current and any future agreements governing our indebtedness. Any future determination to pay dividends will be at the discretion of our Board of Directors, subject to compliance with covenants in our current and future agreements governing our indebtedness, and will depend upon our results of operations, financial condition, capital requirements and other factors that our Board of Directors deems relevant.
Symbol	Our common stock has been approved for listing on the New York Stock Exchange under the symbol CIVI.
Risk factors	For a discussion of risks relating to us, our business and an investment in our common stock, see Risk Factors and all other information set forth in this prospectus before investing in our common stock.



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Unless otherwise indicated, all information in this prospectus relating to the number of shares of common stock to be outstanding immediately after this offering:

assumes the effectiveness of our amended and restated certificate of incorporation and amended and restated bylaws, which we will adopt prior to the completion of this offering;

gives effect to a 2,525,000-for-one stock split, which we effected on September 2, 2014 in anticipation of this offering;

excludes an aggregate of 3,325,500 shares of our common stock reserved for issuance under our 2014 Incentive Plan (as defined herein) that we intend to adopt in connection with this offering, including an aggregate of 559,572 shares of common stock issuable under options to be issued in connection with this offering with an aggregate value of \$4.3 million, and an aggregate of 550,480 restricted stock units to be issued in connection with this offering with an aggregate value of \$9.4 million; and

assumes no exercise by the underwriters of their option to purchase up to 1,755,000 additional shares from us.

**Table of Contents****Summary Consolidated Financial Data**

The following tables set forth our summary consolidated financial data as of and for the dates indicated. The consolidated financial data as of September 30, 2012 and 2013 and for the years ended September 30, 2011, 2012 and 2013 are derived from our audited consolidated financial statements, included elsewhere in this prospectus. The consolidated financial data as of September 30, 2011 are derived from our audited consolidated financial statements not included in this prospectus. The consolidated financial data presented below as of and for the nine months ended June 30, 2013 and 2014 have been derived from our unaudited condensed consolidated financial statements, which are included elsewhere in this prospectus. Operating results for the nine months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2014.

Our results included below and elsewhere in this prospectus are not necessarily indicative of our future performance. The following summary consolidated financial data are qualified in their entirety by reference to, and should be read in conjunction with, our audited consolidated financial statements and the accompanying notes, included elsewhere in this prospectus, and the information under Selected Historical Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, our financial statements and notes thereto and other financial information included in this prospectus.

	Fiscal Year Ended September 30,			Nine Months Ended June 30,	
	2011	2012	2013	2013	2014
<i>(dollars in thousands, except per share data)</i>					
<b>Statements of Operations Data:</b>					
Net revenue	\$ 1,062,773	\$ 1,123,118	\$ 1,198,653	\$ 893,541	\$ 938,861
Cost of revenue (exclusive of depreciation expense shown separately below)	823,009	874,778	935,143	700,401	734,887
General and administrative expenses	144,011	140,221	146,040	110,879	108,811
Depreciation and amortization	61,330	60,534	64,146	47,970	50,987
Income from operations	34,423	47,585	53,324	34,291	44,176
Management fee of related party	(1,271)	(1,325)	(1,359)	(985)	(1,041)
Other income (expense), net	(142)	2	929	628	499
Extinguishment of debt	(23,684)				(14,699)
Interest income	22	332	137	109	163
Interest expense	(67,511)	(79,445)	(78,075)	(58,482)	(53,204)
Loss from continuing operations before income taxes	(58,163)	(32,851)	(25,044)	(24,439)	(24,106)
Benefit for income taxes	(19,287)	(19,283)	(9,472)	(8,437)	(7,212)
Loss from continuing operations	(38,876)	(13,568)	(15,572)	(16,002)	(16,894)
Loss from discontinued operations, net of tax (1)	(4,625)	(701)	(2,724)	(2,678)	19
Net loss	\$ (43,501)	\$ (14,269)	\$ (18,296)	\$ (18,680)	\$ (16,875)
<b>Per Share Data:</b>					
Net loss per common share:					
Basic	\$ (1.72)	\$ (0.57)	\$ (0.72)	\$ (0.74)	\$ (0.67)
Diluted	\$ (1.72)	\$ (0.57)	\$ (0.72)	\$ (0.74)	\$ (0.67)
Weighted-average common shares outstanding:					
Basic	25,250,000	25,250,000	25,250,000	25,250,000	25,250,000
Diluted	25,250,000	25,250,000	25,250,000	25,250,000	25,250,000
<b>Pro Forma Per Share Data: (2)</b>					
Pro forma net income (loss) per common share:					
Basic			\$ 0.11		\$ (0.02)
Diluted			\$ 0.11		\$ (0.02)
Pro forma weighted-average common shares outstanding:					
Basic			36,950,000		36,950,000
Diluted			36,950,000		36,950,000
<b>Balance Sheet Data (at end of period):</b>					
Cash and cash equivalents (3)	\$ 387	\$ 125	\$ 19,440	\$ 16,211	\$ 47,526
Working capital (4)	12,634	26,192	59,262	65,711	66,085

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Total assets	1,011,360	1,045,880	1,021,269	1,034,817	1,031,494
Total debt (5)	784,124	799,895	803,464	806,447	817,128
Shareholder s equity (deficit)	(16,917)	(29,931)	(46,515)	(47,361)	(62,047)

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	Year Ended September 30,			Nine Months Ended June 30,	
	2011	2012	2013	2013	2014
<i>(dollars in thousands)</i>					
<b>Other Financial Data:</b>					
Cash flows provided by (used in):					
Operating activities	\$ 30,790	\$ 29,251	\$ 55,738	\$ 32,654	\$ 66,667
Investing activities	(82,542)	(42,662)	(39,377)	(21,033)	(39,711)
Financing activities	25,505	13,148	2,954	4,465	1,130
Capital expenditures	20,878	29,995	31,901	22,334	24,271
Program rent expense (6)	31,856	32,779	38,994	28,541	31,377
EBITDA (7)	70,656	106,796	117,040	81,904	79,922
Adjusted EBITDA (7)	110,624	108,793	117,888	82,358	95,765
Operating losses from new starts (8)	1,812	7,460	8,802	7,852	4,491

- (1) During fiscal 2011 and 2013, we sold our home health business, closed certain Human Services operations in the States of Maryland, Colorado, Nebraska, New Hampshire, New York and Virginia, sold our Rhode Island ARY business and closed our Rhode Island I/DD business. All fiscal years presented reflect the classification of these businesses as discontinued operations.
- (2) Pro forma per share data gives effect to: (i) the refinancing of our senior secured credit facilities in January 2014; (ii) the redemption of \$162.0 million of the senior notes using the net proceeds from this offering, as described in Use of Proceeds ; (iii) the reduction of the interest rate payable under our senior secured credit facilities by 0.50% per annum as a result of the reduction in our consolidated leverage ratio following the completion of the redemption of the senior notes using the net proceeds from this offering; (iv) the elimination of the annual management fee to Vestar as a result of the termination of the management agreement with Vestar; and (v) the issuance of 11,700,000 shares of our common stock by us in this offering as if each of these events occurred at the beginning of the periods presented. Pro forma basic net income per share consists of pro forma net income divided by the pro forma basic weighted average common shares outstanding. Pro forma diluted net income per share consists of pro forma net income divided by the pro forma diluted weighted average common stock outstanding.

Pro forma per share data does not give effect to (i) the write-off of deferred financing costs of \$0.8 million in connection with the redemption of the senior notes using the net proceeds from this offering and (ii) the write-off of unamortized debt issuance costs of \$3.7 million related to the senior notes.

The following is a reconciliation of historical net loss to pro forma net income (loss) for the year ended September 30, 2013 and the nine months ended June 30, 2014:

<i>(dollars in thousands, except share and per share data)</i>	Fiscal Year Ended September 30, 2013	Nine Months Ended June 30, 2014
Net loss	\$ (18,296)	\$ (16,875)
Decrease in interest expense (a)	34,901	21,936
Management fees and expenses (b)	1,359	1,041
Decrease in benefit from income taxes (c)	(13,907)	(6,761)
Pro forma net income (loss)	\$ 4,057	\$ (659)
Pro forma net income (loss) per common share:		
Basic	\$ 0.11	\$ (0.02)
Diluted	\$ 0.11	\$ (0.02)
Pro forma weighted-average common shares outstanding: (d)		
Basic	36,950,000	36,950,000
Diluted	36,950,000	36,950,000

- (a) Reflects the net adjustment to interest expense resulting from (i) the reduction of the interest rate as a result of the refinancing of our senior secured credit facilities in January 2014, partially offset by the increase in the principal amount of our term loan in that refinancing, and the reduction of our interest expense as a result of the redemption of \$38 million in principal amount of our senior notes in February 2014, (ii) the redemption of \$162.0 million in principal amount of the senior notes using the net proceeds from this offering, as described in Use of Proceeds and (iii) the reduction of the interest rate payable under our senior secured credit facilities by 0.50% per annum as a result of the reduction in our consolidated leverage ratio following the redemption of the senior notes using the net proceeds from this offering.
- (b) Reflects the elimination of management fees to Vestar for the periods presented as a result of the termination of the management agreement. In connection with the Merger, NMHI entered into a management agreement with Vestar, pursuant to which NMHI agreed to pay Vestar an annual management fee equal to the greater of (i) \$850,000 and (ii) an amount per annum equal to 1.00% of NMHI's consolidated earnings before depreciation,

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amortization, interest and taxes for each fiscal year before deduction of Vestar's fee, determined as set forth in NMHI's senior credit agreement. In connection with the consummation of this offering, we intend to pay Vestar a one-time transaction advisory fee under the management agreement of \$8.0 million. The management agreement will terminate upon completion of this offering.

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- (c) Reflects adjustments to historical benefit from income taxes, assuming a pro forma effective tax rate of 40% for each period presented.
- (d) Reflects 11,700,000 shares of common stock to be issued by us in this offering.
- (3) Excludes restricted cash.
- (4) Calculated as current assets minus current liabilities.
- (5) Includes obligations under capital leases.
- (6) Program rent expense is defined as lease expenses related to buildings directly utilized in providing services to clients.
- (7) We define EBITDA as income before interest expense and interest income, income taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA further adjusted to add back (i) items that are expected to terminate in connection with the offering, (ii) non-cash charges, (iii) non-recurring items that are not indicative of the underlying operating performance of the business and (iv) items that are solely related to changes in our capital structure, and therefore by definition are not indicative of the underlying operating performance of the business. EBITDA and Adjusted EBITDA are presented because they are important measures used by management to assess financial performance, and management believes they provide a transparent view of our operating performance and operating trends. We also believe these non-GAAP measures are useful to investors in assessing financial performance because these measures are similar to the metrics used by investors and other interested parties when comparing companies in our industry that have different capital structures, debt levels and/or income tax rates.

EBITDA and Adjusted EBITDA are not determined in accordance with GAAP and should not be considered in isolation or as an alternative to net income, income from operations, net cash provided by operating, investing or financing activities or other financial statement data presented as indicators of financial performance or liquidity, each as presented in accordance with GAAP. Neither EBITDA nor Adjusted EBITDA should be considered as a measure of discretionary cash available to us to invest in the growth of our business. While EBITDA and Adjusted EBITDA are frequently used as measures of operating performance and the ability to meet debt service requirements, they are not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the method of calculation.

Our presentation of EBITDA and Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual items.

The following table provides a reconciliation from net loss to EBITDA and Adjusted EBITDA:

	Year Ended September 30,			Nine Months Ended June 30,	
	2011	2012	2013	2013	2014
<i>(dollars in thousands)</i>					
Net loss	\$ (43,501)	\$ (14,269)	\$ (18,296)	\$ (18,680)	\$ (16,875)
Loss (gain) from discontinued operations, net of tax	4,625	701	2,724	2,678	(19)
Benefit for income taxes	(19,287)	(19,283)	(9,472)	(8,437)	(7,212)
Interest expense, net	67,489	79,113	77,938	58,373	53,041
Depreciation and amortization	61,330	60,534	64,146	47,970	50,987
<b>EBITDA</b>	<b>\$ 70,656</b>	<b>\$ 106,796</b>	<b>\$ 117,040</b>	<b>\$ 81,904</b>	<b>\$ 79,922</b>
<b>Adjustments:</b>					
Management fee to related party (a)	\$ 1,271	\$ 1,325	\$ 1,359	\$ 985	\$ 1,041
Stock based compensation (b)	3,675	672	273	253	103
Predecessor provider tax reserve adjustment (c)			(2,118)	(2,118)	
Extinguishment of debt (d)	23,684				14,699
Discretionary recognition bonuses (e)	2,361				
Non-cash impairment charges (f)	5,993		1,334	1,334	
Restructuring (g)	2,984				
<b>Adjusted EBITDA (h)</b>	<b>\$ 110,624</b>	<b>\$ 108,793</b>	<b>\$ 117,888</b>	<b>\$ 82,358</b>	<b>\$ 95,765</b>

- (a) Represents management fees incurred under our management agreement with Vestar, which agreement will terminate in connection with this offering.
- (b) Represents non-cash stock based compensation.
- (c) Represents an adjustment to a reserve for a provider tax that is not required to be paid.
- (d) Represents the write-off of the remaining deferred financings costs on debt that we refinanced in fiscal 2011 and in the nine months ended June 30, 2014.

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- (e) Represents payment of one-time discretionary bonuses in recognition of extraordinary contributions of certain employees in connection with a refinancing transaction in February 2011.
- (f) Represents impairment charges associated with indefinite lived intangible assets and goodwill related to the closing of underperforming programs.

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- (g) Represents severance and other costs incurred as part of the restructuring of certain corporate and field functions.
- (h) Adjusted EBITDA does not include any adjustments for pro forma acquired EBITDA. Pro forma acquired EBITDA represents pre-closing EBITDA with respect to acquisitions made during the period based on actual EBITDA generated by the acquired entity or business from the most recent 12-month period that is available at the time of acquisition, after giving effect to identified adjustments as a result of the combination, pro-rated for the portion of that 12-month period that falls within the applicable reporting period. Pro forma acquired EBITDA was approximately \$2.3 million for fiscal 2011, approximately \$3.5 million for fiscal 2012, approximately \$2.2 million for fiscal 2013, approximately \$22 thousand for the nine months ended June 30, 2013 and approximately \$1.7 million for the nine months ended June 30, 2014.
- (8) Operating losses from new starts represents losses from any new start programs initiated within 18 months of the end of the period that had operating losses during the period. Net operating loss from a new start is defined as its revenue for the period less direct expenses but not including allocated overhead costs. For more information regarding operating income and losses related to new starts, see Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Affecting our Operating Results Expansion of Services Organic Growth.



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**RISK FACTORS**

*Investing in our common stock involves a number of risks. Before you purchase our common stock, you should carefully consider the risks described below and the other information contained in this prospectus, including our consolidated financial statements and accompanying notes. If any of the following risks actually occurs, our business, financial condition, results of operation or cash flows could be materially adversely affected. In any such case, the trading price of our common stock could decline, and you could lose all or part of your investment.*

**Risks Related to Our Business**

***Reductions or changes in Medicaid funding or changes in budgetary priorities by the federal, state and local governments that pay for our services could have a material adverse effect on our revenue and profitability.***

We currently derive approximately 90% of our revenue from contracts with state and local governments. These governmental payors fund a significant portion of their payments to us through Medicaid, a joint federal and state health insurance program through which state expenditures are matched by federal funds typically ranging from 50% to approximately 75% of total costs, a number based largely on a state's per capita income. Our revenue, therefore, is largely determined by the level of federal, state and local governmental spending for the services we provide.

Efforts at the federal level to reduce the federal budget deficit pose risk for reductions in federal Medicaid matching funds to state governments. Previously, the Joint Select Committee on Deficit Reduction's failure to meet the deadline imposed by the Budget Control Act of 2011 triggered automatic across-the-board cuts to discretionary funding, including a 2% reduction to Medicare, which went into effect April 1, 2013, but specifically exempted Medicaid payments to states. While this development did not reduce federal Medicaid funding, reductions in other federal payments to states will put additional stress on state budgets, with the potential to negatively impact the ability of states to provide the state Medicaid matching funds necessary to maintain or increase the federal financial contribution to the program. Although earlier this year the Congress and President reached an agreement on a two-year budget framework for federal fiscal years 2014 and 2015, negotiations in recent years regarding deficit reduction efforts have been contentious and, most recently, resulted in a 16-day government shutdown in October 2013. While Medicaid payments were not affected during this period, the potential of longer shutdowns in the future if new negotiations regarding the federal budget and/or the federal debt ceiling fail to produce a resolution could cause disruptions in Medicaid support and payments to states. In addition, the federal government may choose to adopt alternative proposals to reduce the federal budget deficit. These alternative reductions could have a negative impact on state Medicaid budgets, including proposals to provide states with more flexibility to determine Medicaid benefits, eligibility or provider payments through the use of block grants or streamlined waiver approvals, as well as those that would reduce the amount of federal Medicaid matching funding available to states by curtailing the use of provider taxes or by adjusting the Federal Medical Assistance Percentage (FMAP). Furthermore, any new Medicaid-funded benefits and requirements established by the Congress, particularly those included in the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, and the rules and regulations thereunder (together, the Patient Protection and Affordable Care Act), that mandate certain uses for Medicaid funds could have the effect of diverting those funds from the services we provide.

Budgetary pressures facing state governments, as well as other economic, industry and political factors, could cause state governments to limit spending, which could significantly reduce our revenue, referrals, margins and profitability, and adversely affect our growth strategy. Governmental agencies generally condition their contracts with us upon a sufficient budgetary appropriation. If a government agency does not receive an appropriation sufficient to cover its contractual obligations with us, it may terminate a contract or defer or reduce our reimbursement. In addition, there is risk that previously appropriated funds could be reduced through

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subsequent legislation. Many states in which we operate experienced unprecedented budgetary deficits during and in the wake of the recession that began in 2008, and, as a result, implemented service reductions, rate freezes and/or rate reductions, including states such as Minnesota, California, Florida, Indiana and Arizona. Similarly, programmatic changes such as conversions to managed care with related contract demands regarding billing and services, unbundling of services, governmental efforts to increase consumer autonomy and reduce provider oversight, coverage and other changes under state Medicaid plans, may cause unanticipated costs and risks to our service delivery. The loss or reduction of or changes to reimbursement under our contracts could have a material adverse effect on our business, financial condition and operating results.

***The nature of our operations subjects us to substantial claims, litigation and governmental proceedings.***

We are in the health and human services business and, therefore, we have been and continue to be subject to substantial claims alleging that we, our employees or our Mentors failed to provide proper care for a client. We are also subject to claims by our clients, our employees, our Mentors or community members against us for negligence and intentional misconduct, or violation of applicable laws. Included in our recent claims are claims alleging personal injury, assault, abuse, wrongful death and other charges. Several years ago, we experienced a spike in claims filed against the Company, and we could face an increase in claims in the future. As a result of the prior increase in claims, we received less favorable insurance terms and have expensed greater amounts to fund potential claims. For more information, see [Business Legal Proceedings](#).

Professional and general liability expense totaled 0.8% and 1.2% of our net revenue for the nine months ended June 30, 2014 and 2013, respectively, as compared to 1.0% for the fiscal years ended September 30, 2013, 2012 and 2011. We incurred professional and general liability expenses of \$8.0 million, \$11.0 million, \$12.2 million, \$10.9 million and \$10.2 million for the nine months ended June 30, 2014 and 2013 and the fiscal years ended September 30, 2013, 2012 and 2011, respectively. These expenses are incurred in connection with our claims reserve and insurance premiums. The expense for the nine months ended June 30, 2013 and fiscal year ended September 30, 2013 included expenses of \$2.4 million and \$3.4 million, respectively, related to an adjustment to our tail reserve for professional and general liability claims, which is required by accounting standards for companies with claims-made insurance. For more information, see [Our financial results could be adversely affected if claims against us are successful, to the extent we must make payments under our self-insured retentions, or if such claims are not covered by our applicable insurance or if the costs of our insurance coverage increase](#). Increased costs of insurance and claims have negatively impacted our results of operations and have resulted in a renewed emphasis on reducing the occurrence of claims. Although insurance premiums did not increase in fiscal 2013 and 2014, they have increased in prior years and may increase in the future.

We are subject to employee-related claims under state and federal law, including claims for discrimination, wrongful discharge or retaliation, as well as claims for violations under the Fair Labor Standards Act or state wage and hour laws.

Regulatory agencies may initiate administrative proceedings alleging that our programs, employees or agents violate statutes and regulations and seek to impose monetary penalties on us or ask for recoupment of amounts paid. We could be required to incur significant costs to respond to regulatory investigations or defend against lawsuits and, if we do not prevail, we could be required to pay substantial amounts of money in damages, settlement amounts or penalties arising from these legal proceedings.

A litigation award excluded by, or in excess of, our third-party insurance limits and self-insurance reserves could have a material adverse impact on our operations and cash flow and could adversely impact our ability to continue to purchase appropriate liability insurance. Even if we are successful in our defense, lawsuits or regulatory proceedings could also irreparably damage our reputation.

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***Reductions in reimbursement rates, a failure to obtain increases in reimbursement rates or subsequent negative audit adjustments could adversely affect our revenue, cash flows and profitability.***

Our revenue and operating profitability depend on our ability to maintain our existing reimbursement levels and to obtain periodic increases in reimbursement rates to meet higher costs and demand for more services. Approximately 13% of our revenue is derived from contracts based on a retrospective cost reimbursement model, whereby we are required to maintain a certain cost structure in order to realize the specified rate. For such programs, if our costs are less than the required amount, we are required to return a portion of the revenue to the payor. Some of our programs are also subject to prospective rate adjustments based on current spending levels. For such programs, we could experience reduced rates in the future if our current spending is not sufficient. If we are not entitled to, do not receive or cannot negotiate increases in reimbursement rates, or are forced to accept a reduction in our reimbursement rates at approximately the same time as our costs of providing services increase, including labor costs and rent, our margins and profitability could be adversely affected.

Changes in how federal and state government agencies operate reimbursement programs can also affect our operating results and financial condition. Some states have, from time to time, revised their rate-setting methodologies in a manner that has resulted in rate decreases. In some instances, changes in rate-setting methodologies have resulted in third-party payors disallowing, in whole or in part, our requests for reimbursement. Any reduction in or the failure to maintain or increase our reimbursement rates could have a material adverse effect on our business, financial condition and results of operations. Changes in the manner in which state agencies interpret program policies and procedures or review and audit billings and costs could also adversely affect our business, financial condition and operating results.

As a result of cost reporting, we have from time to time experienced negative audit adjustments which are based on subjective judgments of reasonableness, necessity or allocation of costs in our services provided to clients. These adjustments are generally required to be negotiated as part of the overall audit resolution and may result in paybacks to payors and adjustments of our rates. We cannot assure you that our rates will be maintained, or that we will be able to keep all payments made to us, until an audit of the relevant period is complete.

***Our variable cost structure is directly related to our labor costs, which may be adversely affected by labor shortages, a deterioration in labor relations or increased unionization activities.***

Our variable cost structure and operating profitability are directly related to our labor costs. Labor costs may be adversely affected by a variety of factors, including a limited supply of qualified personnel in any geographic area, local competitive forces, ineffective utilization of our labor force, increases in minimum wages or the need to increase wages to remain competitive, health care costs and other personnel costs, and adverse changes in client service models. We typically cannot recover our increased labor costs from payors and must absorb them ourselves. We have incurred higher labor costs in certain markets from time to time because of difficulty in hiring qualified direct care staff. These higher labor costs have resulted from increased wages and overtime and the costs associated with recruitment and retention, training programs and use of temporary staffing personnel. In part to help with the challenge of recruiting and retaining direct care staff, we offer these employees a benefits package that includes paid time off, health insurance, dental insurance, vision coverage, life insurance and a 401(k) plan, and these costs can be significant.

Although our employees are generally not unionized, we have one business in New Jersey with approximately 38 employees who are represented by a labor union and approximately 276 Connecticut direct care workers who are also represented by a labor union. We began negotiating a labor agreement with the Connecticut union in September 2012. Those negotiations, however, were recently suspended after our Connecticut-based business notified the State of Connecticut and the union of its intention to stop providing services under existing contracts due to rate cuts and a change in state policy. We are currently working with our public partners on a plan to effectively transition our programs to new providers, and we anticipate that this transition will be complete during the first quarter of fiscal 2015. From time to time, we experience attempts to unionize certain of our non-union employees. Future unionization activities could result in an increase of our

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labor and other costs. If employees covered by a collective bargaining agreement were to engage in a strike, work stoppage or other slowdown, we could experience a disruption of our operations and/or higher ongoing labor costs, which could adversely affect our business, financial condition and results of operations.

### ***Matters involving employees may expose us to potential liability.***

We are subject to United States federal, state and local employment laws that expose us to potential liability if we are determined to have violated such employment laws. Failure to comply with federal and state labor laws pertaining to minimum wage, overtime pay, meal and rest breaks, unemployment tax rates, workers' compensation rates, citizenship or residency requirements, and other employment-related matters may have a material adverse effect on our business or operations. In addition, employee claims based on, among other things, discrimination, harassment or wrongful termination may divert financial and management resources and adversely affect operations. We are further subject to the Fair Labor Standards Act (which governs such matters as minimum wages, overtime and other working conditions) as well as state and local wage and hour laws.

We expect increases in payroll expenses as a result of recent state and federal policy initiatives to increase the minimum wage as well as potential new federal regulations increasing the scope of overtime eligibility. Although such increases are not expected to be material, we cannot assure you that there will not be material increases in the future.

The potential losses that may be incurred as a result of any violation of employment laws are difficult to quantify.

### ***Our level of indebtedness could adversely affect our liquidity and ability to raise additional capital to fund our operations, and it could limit our ability to invest in our growth initiatives or react to changes in the economy or our industry.***

We have a significant amount of indebtedness and substantial leverage. As of June 30, 2014, we had total indebtedness of \$817.1 million. As of June 30, 2014, after giving effect to this offering and the application of the net proceeds as described under "Use of Proceeds," we would have had total indebtedness of \$655.1 million and an ability to borrow up to an additional \$100.0 million under our senior secured revolving credit facility, subject to limitation under NMHI's indenture governing the senior notes. A portion of our indebtedness, including borrowings under the senior secured credit facilities, bears interest at rates that fluctuate with changes in certain short-term prevailing interest rates. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same. We expect to continue to make new investments in our growth that may reduce liquidity, and we may need to increase our indebtedness in the future.

Our substantial degree of leverage could have important consequences, including the following:

it may significantly curtail our acquisitions program and may limit our ability to invest in our infrastructure and in growth opportunities;

it may diminish our ability to obtain additional debt or equity financing for working capital, capital expenditures, debt service requirements and general corporate or other purposes;

a substantial portion of our cash flows from operations will be dedicated to the payment of principal and interest on our indebtedness and will not be available for other purposes, including our operations, future business opportunities and acquisitions and capital expenditures;

the debt service requirements of our indebtedness could make it more difficult for us to satisfy our indebtedness and contractual and commercial commitments;

interest rates on any portion of our variable interest rate borrowings under the senior secured credit facilities that we have not hedged may increase;

it may limit our ability to adjust to changing market conditions and place us at a competitive disadvantage compared to our competitors that have less debt and a lower degree of leverage; and

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we may be vulnerable if the country falls into another recession, or if there is a downturn in our business, or we may be unable to carry out activities that are important to our growth.

Subject to restrictions in the senior credit agreement and the indenture governing the senior notes, NMHI may be able to incur more debt in the future, which may intensify the risks described in this risk factor. All of the borrowings under the senior secured credit facilities are secured by substantially all of the assets of NMHI and its subsidiaries.

In addition to our significant amount of indebtedness, we have significant rental obligations under our operating leases for our group homes, other service facilities and administrative offices. For the nine months ended June 30, 2014, our aggregate rental payments for these leases were \$42.9 million. We expect this number will increase during fiscal 2014 as a result of new leases entered into pursuant to acquisitions and new program starts. Our ongoing rental obligations could exacerbate the risks described above.

Our ability to generate sufficient cash flow to fund our debt service, rental payments and other obligations depends on many factors beyond our control. See Economic conditions could have a material adverse effect on our cash flows, liquidity and financial condition. In addition, possible acquisitions or investments in organic growth and other strategic initiatives could require additional debt financing. If our future cash flows do not meet our expectations and we are unable to service our debt, or if we are unable to obtain additional debt financing, we may be forced to take actions such as revising or delaying our strategic plans, reducing or delaying acquisitions, selling assets, restructuring or refinancing our debt, or seeking additional equity capital. We may be unable to effect any of these transactions on satisfactory terms, or at all. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to obtain additional financing on satisfactory terms, or at all, could have a material adverse effect on our business, financial condition and operating results.

***We have a history of losses, and we might not be profitable in the future.***

Due in large part to our high levels of indebtedness, we have had a history of losses. For the years ended September 30, 2011, 2012, 2013 and the nine months ended June 30, 2014, we generated net losses of \$43.5 million, \$14.3 million, \$18.3 million and \$16.9 million, respectively. Although we will reduce our outstanding indebtedness using the proceeds of this offering, which will decrease our interest payments, we could report losses in the future. Other factors may cause us to report losses in the future, including reductions in funding for our services, reductions in reimbursement rates, increases in our costs, increased competition and other factors described elsewhere under Risks Related to our Business.

***State and local government payors with which we have contracts have complicated billing and collection rules and regulations, and if we fail to meet such requirements, our business could be materially impacted.***

We derive approximately 90% of our revenue from contracts with state and local government agencies, and a substantial portion of this revenue is state-funded with federal Medicaid matching dollars. In billing for our services to third-party payors, we must follow complex documentation, coding and billing rules and there can be delays before we receive payment. These rules are based on federal and state laws, rules and regulations, various government pronouncements, and on industry practice. If we fail to comply with federal and state documentation, coding and billing rules, we could be subject to criminal and/or civil penalties, loss of licenses and exclusion from the Medicaid programs, which could materially harm us. Specifically, failure to follow these rules could result in potential criminal or civil liability under the False Claims Act and various federal and state criminal healthcare fraud statutes, under which extensive financial penalties and exclusion from participation in federal healthcare programs can be imposed.

Federal false claims laws prohibit any person from knowingly presenting or causing to be presented a false claim for payment to the federal government, or knowingly making or causing to be made a false statement to get a false claim paid. Penalties for a False Claims Act violation include three times the actual damages sustained by the government, plus mandatory civil penalties of between \$5,500 and \$11,000 for each separate false claim, the potential for exclusion from participation in federal healthcare programs and criminal liability. The majority of

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states also have statutes or regulations similar to the federal false claims laws, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor. See We are subject to extensive governmental regulations, which require significant compliance expenditures, and a failure to comply with these regulations could adversely affect our business.

We annually submit a large volume of claims for Medicaid and other payments, and there can be no assurance that there have not been errors. The rules are frequently vague and confusing, and we cannot assure that governmental investigators, private insurers, private whistleblowers or Medicaid auditors will not challenge our practices. Such a challenge could result in a material adverse effect on our business.

We are routinely subject to governmental reviews, audits and investigations to verify our compliance with applicable laws and regulations. As a result of these reviews, audits and investigations, these governmental payors may be entitled to, in their discretion:

require us to refund amounts we have previously been paid;

terminate or modify our existing contracts;

suspend or prevent us from receiving new contracts or extending existing contracts;

impose referral holds on us;

impose fines, penalties or other sanctions on us; and

reduce the amount we are paid under our existing contracts.

As a result of past reviews and audits of our operations, we have been and are subject to some of these actions from time to time. While we do not currently believe that our existing governmental reviews and audit proceedings will have a material adverse effect on our financial condition or significantly harm our reputation, we cannot assure you that similar actions in the future will not do so. In addition, such proceedings could have a material adverse impact on our results of operations in a future reporting period. Moreover, if we are required to restructure our billing and collection methods, these changes could be disruptive to our operations and costly to implement.

***Complicated billing and collection procedures can result in delays in collecting payment for our services, which may adversely affect our liquidity, cash flows and operating results.***

The reimbursement process is time consuming and complex, and there can be delays before we receive payment. Government reimbursement, facility credentialing, Medicaid recipient eligibility and service authorization procedures are often complicated and burdensome, and delays can result from, among other things, securing documentation and coordinating necessary eligibility paperwork between agencies. Similar issues arise in seeking payment from some of our private payors. These reimbursement and procedural issues occasionally cause us to have to resubmit claims several times and manage other administrative requests before payment is remitted. Missed filing deadlines can cause rejections of claims. If there is a billing error, the process to resolve the error may be time-consuming and costly. To the extent that complexity associated with billing for our services causes delays in our cash collections, we assume the financial risk of increased carrying costs associated with the aging of our accounts receivable as well as increased potential for write-offs. We can provide no assurance that we will be able to collect payment for claims at our current levels in future periods. The risks associated with third-party payors and the inability to monitor and manage accounts receivable successfully could have a material adverse effect on our liquidity, cash flows and operating results.

***Economic conditions could have a material adverse effect on our cash flows, liquidity and financial condition.***

Our government payors rely on tax revenue to pay for our services. In the wake of the last economic recession that began in 2008, most states faced unprecedented declines in tax revenues and, as a result, record





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budget gaps. Furthermore, even after four years of economic improvement, at the end of 2013, inflation-adjusted tax revenues remained below peak levels in many states. If the economy were to contract into recession again, our government payors or other counterparties that owe us money could be delayed in obtaining, or may not be able to obtain, necessary funding and/or financing to meet their cash flow needs. In 2011, Standard & Poor's downgraded the Federal government's credit rating and additional downgrades are possible in the future. In October 2013, Fitch Ratings placed the Federal government's credit rating on negative watch. If the credit rating of the federal government is downgraded again, it is possible there will be related downgrades of state credit ratings as well. If this or unrelated state downgrades occur, this could make it more expensive for states to finance their cash flow needs and put additional pressure on state budgets. Delays in payment could have a material adverse effect on our cash flows, liquidity and financial condition. In the event that our payors or other counterparties are financially unstable or delay payments to us, our financial condition could be further impaired if we are unable to borrow additional funds under our senior credit agreement to finance our operations.

***Our financial results could be adversely affected if claims against us are successful, to the extent we must make payments under our self-insured retentions, or if such claims are not covered by our applicable insurance or if the costs of our insurance coverage increase.***

We have been and continue to be subject to substantial claims against our professional and general liability and automobile liability insurance. Professional and general liability claims, if successful, could result in substantial damage awards which might require us to make significant payments under our self-insured retentions and increase future insurance costs. For claims made from October 1, 2010 to September 30, 2011, we were self-insured for \$2.0 million per claim and \$8.0 million in the aggregate, and for \$500,000 per claim in excess of the aggregate. From October 1, 2011 to September 30, 2013, we were self-insured for the first \$4.0 million of each and every claim with no aggregate limit. Beginning October 1, 2013, we are self-insured for \$4.0 million per claim and \$28.0 million in the aggregate. We may be subject to increased self-insurance retention limits in the future which could have a negative impact on our results. An award may exceed the limits of any applicable insurance coverage, and awards for punitive damages may be excluded from our insurance policies either contractually or by operation of state law. In addition, our insurance does not cover all potential liabilities including, for example, those arising from employment practice claims, wage and hour violations, and governmental fines and penalties. As a result, we may become responsible for substantial damage awards that are uninsured.

Insurance against professional and general liability and automobile liability can be expensive and our insurance premiums may increase in the future. Insurance rates vary from state to state, by type and by other factors. Rising costs of insurance premiums, as well as successful claims against us, could have a material adverse effect on our financial position and results of operations.

It is also possible that our liability and other insurance coverage will not continue to be available at acceptable costs or on favorable terms.

If payments for claims exceed actuarially determined estimates, if claims are not covered by insurance, or if our insurers fail to meet their obligations, our results of operations and financial position could be adversely affected.

***The nature of services that we provide could subject us to significant workers' compensation related liability, some of which may not be fully reserved for.***

We use a combination of insurance and self-insurance plans to provide for potential liability for workers' compensation claims. Because we have so many employees, and because of the inherent physical risk associated with the interaction of employees with our clients, many of whom have intensive care needs, the potential for incidents giving rise to workers' compensation liability is high.

We estimate liabilities associated with workers' compensation risk and establish reserves each quarter based on internal valuations, third-party actuarial advice, historical loss development factors and other assumptions

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believed to be reasonable under the circumstances. In prior years, our results of operations have been adversely impacted by higher than anticipated claims, and they may be adversely impacted in the future if actual occurrences and claims exceed our assumptions and historical trends.

***The Patient Protection and Affordable Care Act may materially increase our costs and/or make it harder for us to compete as an employer.***

The Patient Protection and Affordable Care Act imposed new mandates on employers and individuals. The mandate requiring all individuals to enroll in a health insurance plan deemed credible became effective on January 1, 2014, but the implementation of the requirement that all employers with 50 or more full-time employees provide to employees health insurance deemed credible or pay a penalty has been delayed until January 1, 2015. Despite the delayed implementation of the employer mandate, we have recently redesigned our health benefits for calendar year 2014 to offer employees health coverage that meets the requirements of the Patient Protection and Affordable Care Act. Depending upon claims experience or enrollment changes in our new plans, our cost for employee health insurance could materially increase. Moreover, if the coverage we are offering isn't competitive with the health insurance benefits our employees could receive at other employers, we may become less attractive as an employer and it may become more difficult for us to compete for qualified employees.

***We face substantial competition in attracting and retaining experienced personnel, and we may be unable to maintain or grow our business if we cannot attract and retain qualified employees.***

Our success depends to a significant degree on our ability to attract and retain qualified and experienced human service and other professionals, who possess the skills and experience necessary to deliver quality services to our clients and manage our operations. We face competition for certain categories of our employees, particularly direct service professionals and managers, based on wages, benefits and other working conditions. Contractual requirements and client needs determine the number, as well as the education and experience levels, of health and human service professionals we hire. We face substantial turnover among our direct service professionals. Also, due to the nature of the services we provide, our working conditions require additional sensitivities and skills relative to traditional medical care environments. Our ability to attract and retain employees with the requisite credentials, experience and skills depends on several factors, including, but not limited to, our ability to offer competitive wages, benefits and professional growth opportunities. The inability to attract and retain experienced personnel could have a material adverse effect on our business.

***If we fail to establish and maintain relationships with government agencies, we may not be able to successfully procure or retain government-sponsored contracts, which could negatively impact our revenue.***

To facilitate our ability to procure or retain government-sponsored contracts, we rely in part on establishing and maintaining relationships with officials of various government agencies, primarily at the state and local level but also including federal agencies. These relationships enable us to maintain and renew existing contracts and obtain new contracts and referrals. The effectiveness of our relationships may be reduced or eliminated with changes in the personnel holding various government offices or staff positions. We also may lose key personnel who have these relationships, and such personnel may not be subject to non-compete or non-solicitation covenants. Any failure to establish, maintain or manage relationships with government and agency personnel may hinder our ability to procure or retain government-sponsored contracts, and could negatively impact our revenue.

***Negative publicity or changes in public perception of our services may adversely affect our ability to obtain new contracts and renew existing ones or obtain third-party referrals.***

Our success in obtaining new contracts and renewals of our existing contracts depends upon maintaining our reputation as a quality service provider among governmental authorities, advocacy groups, families of our clients, our clients and the public. Negative publicity, changes in public perception, legal proceedings and

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government investigations with respect to our operations could damage our reputation and hinder our ability to retain contracts and obtain new contracts, and could reduce referrals, increase government scrutiny and compliance or litigation costs, or generally discourage clients from using our services. Any of these events could have a material adverse effect on our business, financial condition and operating results.

Our reputation and prior experience with agency staff, care workers and others in positions to make referrals to us are important for building and maintaining our operations. Any event that harms our reputation or creates negative experiences with such third parties could impact our ability to receive referrals and maintain or grow our client base.

***A loss of our status as a licensed service provider in any jurisdiction could result in the termination of existing services and our inability to market our services in that jurisdiction.***

We operate in numerous jurisdictions and are required to maintain licenses and certifications in order to conduct our operations in each of them. Each state and local government has its own regulations, which can be complicated. Additionally, each of our service lines can be regulated differently within a particular jurisdiction. As a result, maintaining the necessary licenses and certifications to conduct our operations is cumbersome. Our licenses and certifications could be suspended, revoked or terminated for a number of reasons, including:

the failure by our direct care staff or host-home providers to properly care for clients;

the failure to submit proper documentation to the applicable government agency, including documentation supporting reimbursements for costs;

the failure by our programs to abide by the applicable laws and regulations relating to the provision of health and human services; and

the failure of our facilities to comply with the applicable building, health and safety codes and ordinances.

From time to time, some of our licenses or certifications, or those of our employees, are temporarily placed on probationary status or suspended. If we lost our status as a licensed provider of health and human services in any jurisdiction or any other required certification, we would be unable to market our services in that jurisdiction, and the contracts under which we provide services in that jurisdiction would be subject to termination. Moreover, such an event could constitute a violation of provisions of contracts in other jurisdictions, resulting in other contract, license or certification terminations. Any of these events could have a material adverse effect on our operations.

***We have increased and will continue to make substantial expenditures to expand existing services, win new business and grow revenue, but we may not realize the anticipated benefits of such increased expenditures.***

In order to grow our business, we must capitalize on opportunities to expand existing services and win new business, some of which require spending in advance of revenue. For example, states such as California and New Jersey are in the process of closing state institutions and transitioning individuals with intellectual and developmental disabilities into community-based settings such as ours. Responding to opportunities such as these typically requires significant investment of our resources in advance of revenue. In North Carolina, where we have made significant investments in an effort to expand periodic services for at-risk youth, the system continues to experience significant change that has required us to reorganize and restructure our operations. In fiscal 2012, fiscal 2013 and the beginning of fiscal 2014, we increased significantly the amount spent on growth initiatives, especially new starts. This elevated level of growth investments has had a negative effect on our operating margin, and we may not realize the anticipated benefits of the spending as soon as we expect to or at any point in the future. If we target the wrong areas, or fail to identify the evolving needs of our payors by responding with service offerings that meet their fiscal and programmatic requirements, we may not realize the anticipated benefits of our investments and the results of our operations may suffer.

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*We may not realize the anticipated benefits of any future acquisitions, and we may experience difficulties in integrating these acquisitions.*

As part of our growth strategy, we intend to make acquisitions. Growing our business through acquisitions involves risks because with any acquisition there is the possibility that:

the business we acquire may not continue to generate income at the same historical levels on which we based our acquisition decision;

we may be unable to maintain and renew the contracts of the acquired business;

unforeseen difficulties may arise in integrating the acquired operations, including employment practices, information systems and accounting controls;

we may not achieve operating efficiencies, synergies, economies of scale and cost reductions as expected;

we may be required to pay higher purchase prices for acquisitions than we have paid historically;

management may be distracted from overseeing existing operations by the need to integrate the acquired business;

we may acquire or assume unexpected liabilities or there may be other unanticipated costs;

we may encounter unanticipated regulatory risk;

we may experience problems entering new markets or service lines in which we have limited or no experience;

we may fail to retain and assimilate key employees of the acquired business;

we may finance the acquisition by incurring additional debt and further increase our leverage ratios; and

the culture of the acquired business may not match well with our culture.

As a result of these risks, there can be no assurance that any future acquisition will be successful or that it will not have a material adverse effect on our financial condition and results of operations.

*If we are not successful in expanding into adjacent markets, our growth strategy could suffer.*

Our growth strategy depends on pursuing opportunities in adjacent markets, and we may not be successful in adapting our service models to markets or service lines in which we have little or no prior experience. Expanding into adjacent markets, such as services to elders and individuals with autism, mental health and substance abuse issues, will expose us to additional operational, regulatory and legal risks. Serving these populations may require compliance with additional federal and state laws and regulations, such as Medicare, which may differ from the laws and regulations that apply to the populations we currently serve. Compliance with new laws and regulations may result in unanticipated

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expenses or liabilities. Programs we open in adjacent markets may also take longer to reach expected revenue and profit levels on a consistent basis and may have higher occupancy or operating costs than programs in our existing markets, which may affect our overall profitability. Adjacent markets may have different payors, referral sources, staffing requirements, client preferences and competitive conditions. We may find it more difficult to hire, motivate and keep qualified direct care workers and other employees in these adjacent markets. We may need to augment our staffing to meet regulatory requirements, and the overall cost of labor may be higher. As a result, we may not be successful in diversifying the populations we serve, and we may fail to capture market share in adjacent markets. If any steps taken to expand our existing business into adjacent markets are unsuccessful, we may not be able to achieve our growth strategy and our business, financial condition or results of operations could be adversely affected.

***We are subject to extensive governmental regulations, which require significant compliance expenditures, and a failure to comply with these regulations could adversely affect our business.***

We are required to comply with comprehensive government regulation of our business, including statutes, regulations and policies governing the licensing of our facilities, the maintenance and management of our work place for

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our employees, the quality of our service, the revenue we receive for our services and reimbursement for the cost of our services. Compliance with these laws, regulations and policies is expensive, and if we fail to comply with these laws, regulations and policies, we could lose contracts and the related revenue, thereby harming our financial results. State and federal regulatory agencies have broad discretionary powers over the administration and enforcement of laws and regulations that govern our operations. A material violation of a law or regulation could subject us to fines and penalties and in some circumstances could disqualify some or all of the facilities and programs under our control from future participation in Medicaid or other government programs.

The Health Insurance Portability and Accountability Act of 1996 ( HIPAA ), as amended by the Health Information Technology for Economic and Clinical Health Act ( HITECH Act ) and other federal and state data privacy and security laws govern the collection, dissemination, security, use and confidentiality of patient-identifiable health information. HIPAA and the HITECH Act require us to comply with standards for the use and disclosure of health information within our company and with third parties, including, among other things, the adoption of administrative, physical and technical safeguards to protect such information. Additionally, certain states have adopted comparable privacy and security laws and regulations, some of which may be more stringent than HIPAA. While we have taken steps to comply with applicable health information privacy and security requirements to which we are aware that we are subject to, if we do not comply with existing or new federal or state laws and regulations related to patient health information, we could be subject to criminal or civil sanctions and any resulting liability could adversely affect our operations. The costs of complying with privacy and security related legal and regulatory requirements are burdensome and could have a material adverse effect on our operations.

Expenses incurred under governmental agency contracts for any of our services, as well as management contracts with providers of record for such agencies, are subject to review by agencies administering the contracts and services. Representatives of those agencies visit our group homes to verify compliance with state and local regulations governing our home operations. A negative outcome from any of these examinations could increase government scrutiny, increase compliance costs or hinder our ability to obtain or retain contracts. Any of these events could have a material adverse effect on our business, financial condition and operating results.

The federal Anti-Kickback Law and similar state statutes, prohibit the provision of kickbacks, rebates and any other form of remuneration in return for referrals. Any remuneration, direct or indirect, offered, paid, solicited or received, in return for referrals of patients or business for which payment may be made in whole or in part under Medicaid could be considered a violation of law. The Anti-Kickback Law also prohibits payments made to anyone to induce them to recommend purchasing, leasing or ordering any goods, facility, service or item for which payment may be made in whole or in part by Medicaid. Criminal penalties under the Anti-Kickback Law include fines up to \$25,000, imprisonment for up to five years, or both. In addition, acts constituting a violation of the Anti-Kickback Law may also lead to civil penalties, such as fines, assessments, exclusion from participation in the Medicaid programs and liability under the False Claims Act.

We are subject to many different and varied audit mechanisms for post-payment review of claims submitted under the Medicaid program. These include Recovery Audit Contractor ( RAC ) auditors, State Medicaid auditors, surveillance integrity review audits and Payment Error Rate Measurement ( PERM ) audits, among others. Any one of these audit activities may identify claims that the auditors deem problematic and, following such determination, auditors may require recoupment of claims by Medicaid to us.

On March 17, 2014, a newly promulgated federal regulation governing home- and community-based services became effective. The rule establishes eligibility requirements for Medicaid home and community-based services provided under the waiver program. The waiver program allows the states to furnish an array of home- and community-based services and avoid institutional care. Under the new rule, home- and community-based settings must be integrated in and support full access to the greater community, be selected by the individual from different setting options, ensure individual rights of privacy, and optimize autonomy and independence in making life choices. The rule includes additional requirements for provider-owned or controlled home and community-based residential settings, including that the individual has a lease or other legally enforceable

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agreement, and standards related to the individual's privacy, control over schedule and visitors, and physical accessibility of the setting. At this juncture it is unclear how individual states will seek to implement this newly adopted regulation. The rule presents some implementation challenges, as some of the broad requirements may conflict with the needs and/or precautions that we must take for some of the individuals that we serve. It is unclear how each state will seek to address this potential conflict, and the impact and costs of implementation and compliance with this regulation are currently unknown. States have the option to request a variation or delay of compliance with the federal standards for as long as five years from the effective date. Moreover, each state Medicaid agency may interpret and submit different requests and extension timelines.

Any change in interpretations or enforcement of existing or new laws and regulations could subject our current business practices to allegations of impropriety or illegality, or could require us to make changes in our homes, equipment, personnel, services, pricing or capital expenditure programs, which could increase our operating expenses and have a material adverse effect on our operations or reduce the demand for or profitability of our services.

Should we be found out of compliance with these statutes, regulations and policies, depending on the nature of the findings, our business, our financial position and our results of operations could be materially adversely impacted.

### ***The high level of competition in our industry could adversely affect our contract and revenue base.***

We compete in a highly fragmented industry with a wide variety of competitors, ranging from small, local agencies to a few large, national organizations. Competitive factors may favor other providers and reduce our ability to obtain contracts, which would hinder our growth. Not-for-profit organizations are active in all states and range from small agencies, serving a limited area with specific programs to multi-state organizations. Smaller local organizations may have a better understanding of the local conditions and may be better able to gain political and public acceptance. Not-for-profit providers may be affiliated with advocacy groups, health organizations or religious organizations that have substantial influence with legislators and government agencies. Increased competition may result in pricing pressures, loss of or failure to gain market share or loss of clients or payors, any of which could harm our business.

### ***Home and community-based human services may become less popular among our targeted client populations and/or state and local governments, which would adversely affect our results of operations.***

Our growth depends on the continuation of trends in our industry toward providing services to individuals in smaller, community-based settings and increasing the percentage of individuals served by non-governmental providers. For example, during the course of much of the last decade, state governments increasingly adopted policies that emphasized greater family preservation and family reunification for at-risk youth, which reduced the demand for foster care services and required that we adapt our service offerings. Shifts in public policy and, therefore, our future success, are subject to a variety of political, economic, social and legal pressures, all of which are beyond our control. A reversal in the downsizing and privatization trends could reduce the demand for our services, which could adversely affect our revenue and profitability.

### ***We conduct a significant percentage of our operations in Minnesota and, as a result, we are particularly susceptible to any reduction in budget appropriations for our services or any other adverse developments in that state.***

For the fiscal year ended September 30, 2013 and the nine months ended June 30, 2014, 14% of our net revenue was derived from contracts with government agencies in the State of Minnesota. Accordingly, any reduction in Minnesota's budgetary appropriations for our services, whether as a result of fiscal constraints due to recession, changes in policy or otherwise, could result in a reduction in our fees and possibly the loss of contracts. For example, our I/DD services in Minnesota were negatively impacted in 2009 and 2011 by rate cuts

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of 2.6% and 1.5%, respectively. We cannot assure you that we will not receive additional rate reductions this year or in the future. The concentration of our operations in Minnesota also makes us particularly susceptible to many of the other risks described above occurring in this state, including:

the failure to maintain and renew our licenses;

the failure to maintain important relationships with officials of government agencies; and

any negative publicity regarding our operations.

Any of these adverse developments occurring in Minnesota could result in a reduction in revenue or a loss of contracts, which could have a material adverse effect on our results of operations, financial position and cash flows.

***Covenants in NMHI's debt agreements impose several restrictions on our business.***

The senior credit agreement and the indenture governing the senior notes contain various covenants that limit NMHI's ability and/or its subsidiaries' ability to, among other things:

incur additional debt or issue certain preferred shares;

pay dividends on or make distributions in respect of capital stock or make other restricted payments;

make certain investments;

sell certain assets;

create liens on certain assets to secure debt;

enter into agreements that restrict dividends from subsidiaries;

consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and

enter into certain transactions with our affiliates.

The senior credit agreement governing the senior secured credit facilities also requires NMHI and its subsidiaries to maintain a specified financial ratio, starting with the quarter ended June 30, 2014, in the event that NMHI draws more than \$30.0 million under its senior revolver. NMHI's ability to meet this financial ratio may be affected by events beyond its control, and we cannot assure you that it will satisfy that test. The breach of any of these covenants or financial ratio could result in a default under the senior secured credit facilities and the lenders could elect to declare all amounts borrowed thereunder, together with accrued interest, to be due and payable and could proceed against the collateral securing that indebtedness.



*We depend upon the continued services of certain members of our senior management team, without whom our business operations could be significantly disrupted.*

Our success depends, in part, on the continued contributions of our senior officers and other key employees. Our management team has significant industry experience and a long history with us, and would be difficult to replace. If we lose or suffer an extended interruption in the service of one or more of our key employees, our financial condition and operating results could be adversely affected. The market for qualified individuals is highly competitive and we may not be able to attract and retain qualified personnel to replace or succeed members of our senior management or other key employees, should the need arise.

*Our success depends on our ability to manage and integrate key administrative functions.*

Our operations and administrative functions are largely decentralized and subject to disparate accounting and billing requirements established and often modified by our local payors and referral sources. Although in recent years we have undertaken an effort to consolidate accounting, billing, cash collections and other financial and administrative functions which may have mitigated this risk to some degree, there remains a substantial

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portion of the business that has not yet been centralized and some risk in the centralization process itself. If we encounter difficulties in integrating our operations further or fail to effectively manage these functions to ensure compliance with disparate and evolving requirements imposed by our payors and referral sources, it could have a material adverse effect on our results of operations, financial position and cash flows.

***Our information systems are critical to our business and a failure of those systems, or a failure to upgrade them when required, could materially harm us.***

We depend on our ability to store, retrieve, process and manage a significant amount of information, and to provide our operations with efficient and effective accounting, census, incident reporting and other quality assurance systems. Our information systems require maintenance and upgrading to meet our needs, which could significantly increase our administrative expenses.

Any system failure that causes an interruption in service or availability of our critical systems could adversely affect operations or delay the collection of revenues. Even though we have implemented network security measures, our servers are vulnerable to computer viruses, hacking and similar disruptions from unauthorized tampering. The occurrence of any of these events could result in interruptions, delays, the loss or corruption of data, or cessations in the availability of systems, all of which could have a material adverse effect on our financial position and results of operations and harm our business reputation. Furthermore, a loss of health care information could result in potential penalties in certain of our businesses if we fail to comply with privacy and security standards in violation of HIPAA, as amended by the HITECH Act.

The performance of our information technology and systems is critical to our business operations. Our information systems are essential to a number of critical areas of our operations, including:

accounting and financial reporting;

billing and collecting accounts;

coding and compliance;

clinical systems, including census and incident reporting;

records and document storage; and

monitoring quality of care and collecting data on quality and compliance measures.

In addition, as we continue to upgrade our systems, we run the risk of ongoing disruptions while we transition from legacy, and sometimes paper-based, systems. Disruptions in our systems could result in delays and difficulties in billing, which could negatively affect our results from operations and cash flows. We may choose systems that ultimately fail to meet our needs, or that cost more to implement and maintain than we had anticipated. Such systems may become obsolete sooner than expected, our payors may require us to invest in other systems, and state and/or federal regulations may impose electronic records standards that we cannot easily address from our existing platform. If we fail to upgrade successfully and cost-effectively, or if we are forced to invest in new or incompatible technology, our financial condition, cash flows and results of operations may suffer.

***Our financial results may suffer if we have to write off goodwill or other intangible assets.***

A large portion of our total assets consists of goodwill and other intangible assets. Goodwill and other intangible assets, net of accumulated amortization, accounted for 54.1% and 56.0% of the total assets on our consolidated balance sheets as of June 30, 2014 and September 30, 2013, respectively. We may not realize the value of our goodwill or other intangible assets and we expect to engage in additional transactions that will result in our recognition of additional goodwill or other intangible assets.

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We evaluate on a regular basis whether events and circumstances have occurred that indicate that all or a portion of the carrying amount of goodwill or other intangible assets may no longer be recoverable, and is

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therefore impaired. Under current accounting rules, any determination that impairment has occurred would require us to write-off the impaired portion of our goodwill or the unamortized portion of our intangible assets, resulting in a charge to our earnings.

*We may be more susceptible to the effects of a natural disaster or public health catastrophe, compared with other businesses due to the vulnerable nature of our client population.*

Our primary clients are individuals with developmental disabilities, brain injuries, or emotionally, behaviorally and/or medically complex challenges, many of whom would be more vulnerable than the general public in a natural disaster or public health catastrophe. In a natural disaster, we could be forced to relocate some of our clients on short notice under dangerous conditions and our new program starts could experience delays. Accordingly, natural disasters and certain public health catastrophes could have a material adverse effect on our financial condition and results of operations.

### **Risk Related to the Acquisition of Massachusetts Adult Day Health Alliance**

*We may fail to realize the anticipated benefits of the acquisition of Massachusetts Adult Day Health Alliance.*

The anticipated benefits of the Massachusetts Adult Day Health Alliance acquisition will depend on, among other things, our ability to operate it and realize revenue growth. In particular, the anticipated benefits are subject to the following risks:

our expansion into the adult day services market, in which we have no prior experience, may be significantly more difficult to accomplish or take longer to achieve than expected, or may not be achieved in its entirety or at all as a result of unexpected factors or events;

Massachusetts Adult Day Health Alliance's business prospects, financial condition or reputation may deteriorate prior to or after the completion of the acquisition;

employees of Massachusetts Adult Day Health Alliance whom we wish to retain may elect to terminate their employment as a result of the acquisition, which could delay or disrupt the transition of ownership and inhibit our ability to achieve revenue growth in this new market; and

the allocation of our existing resources to the operation of the adult day services business may reduce the resources available to, and divert the attention of management from, our existing businesses.

If any of these risks occur, we may not be able to realize the anticipated benefits of the acquisition, or they may take longer to realize than expected.

### **Risks Related to this Offering and Ownership of Our Common Stock**

*Following the offering, we will be classified as a controlled company and, as a result, we will qualify for, and intend to rely on, certain exemptions from certain corporate governance requirements. You will not have the same protections afforded to stockholders of companies that are subject to such requirements.*

Upon completion of this offering, Vestar, through its interest in NMH Investment, will continue to control a majority of the voting power of our outstanding common stock. Vestar owns a voting majority of the outstanding voting units of NMH Investment, and NMH Investment will own a majority of our shares of outstanding common stock upon completion of this offering. Through this ownership, Vestar will control a majority of the voting power of our outstanding common stock and, as a result, we will be a controlled company within the meaning of the New York Stock Exchange corporate governance standards. Under the rules of the New York Stock Exchange, a company of which more than 50% of the outstanding voting power is held by an individual, group or another



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company is a controlled company and may elect not to comply with certain stock exchange corporate governance requirements, including:

the requirement that a majority of the Board of Directors consists of independent directors;

the requirement that nominating and corporate governance matters be decided solely by independent directors; and

the requirement that employee and officer compensation matters be decided solely by independent directors.

Following this offering, we intend to utilize these exemptions. As a result, we may not have a majority of independent directors and our audit, nominating and corporate governance and compensation functions may not be decided solely by independent directors. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the stock exchange corporate governance requirements.

***An active trading market for our common stock may not develop.***

Prior to this offering, there has been no public market for our common stock or the common stock of our subsidiaries. The initial public offering price for our common stock will be determined through negotiations among us, Vestar and the underwriters, and market conditions, and may not be indicative of the market price of our common stock after this offering. If you purchase shares of our common stock, you may not be able to resell those shares at or above the initial public offering price. We cannot predict the extent to which investor interest in the Company will lead to the development of an active trading market on or how liquid that market might become. An active public market for our common stock may not develop or be sustained after the offering. If an active public market does not develop or is not sustained, it may be difficult for you to sell your shares of common stock at a price that is attractive to you, or at all.

***Our stock price may be volatile or may decline regardless of our operating performance, and you may not be able to resell your shares at or above the initial public offering price.***

After this offering, the market price for our common stock is likely to be volatile, in part because our shares have not been traded publicly. In addition, the market price of our common stock may fluctuate significantly in response to a number of factors, many of which we cannot control, including those described under **Risks Related to Our Business** and the following:

changes in financial estimates by any securities analysts who follow our common stock, our failure to meet these estimates or failure of those analysts to initiate or maintain coverage of our common stock;

downgrades by any securities analysts who follow our common stock;

future sales of our common stock by our officers, directors and significant stockholders;

market conditions or trends in our industry or the economy as a whole and, in particular, in the healthcare environment;

investors' perceptions of our prospects;

announcements by us of significant contracts, acquisitions, joint ventures or capital commitments; and

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changes in key personnel.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies, including companies in the healthcare industry. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were involved in securities litigation, we could incur substantial costs, and our resources and the attention of management could be diverted from our business.

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***Our equity sponsor will have the ability to control significant corporate activities after the completion of this offering and our majority stockholder's interests may not coincide with yours.***

After the consummation of this offering, NMH Investment will own approximately 68% of our common stock, assuming the underwriters do not exercise their option to purchase additional shares. If the underwriters exercise in full their option to purchase additional shares, NMH Investment will own approximately 65% of our common stock. Vestar controls the decisions of NMH Investment with respect to the voting and disposition of our shares held by NMH Investment. As a result, so long as NMH Investment holds a majority of our outstanding shares, Vestar will have the ability to control the outcome of matters submitted to a vote of stockholders and, through our Board of Directors, the ability to control decision-making with respect to our business direction and policies. In addition, under the new director nominating agreement that we intend to enter into with NMH Investment prior to the completion of this offering (the Nominating Agreement), NMH Investment will have the right to nominate directors for election to our Board of Directors, and we will agree to support those nominees. Under certain circumstances, those nominees could constitute a majority of our Board of Directors even though NMH Investment at the time owns less than a majority of our common stock, giving Vestar decision-making control over us. Matters over which Vestar will, directly or indirectly, exercise control following this offering include:

the election of our Board of Directors and the appointment and removal of our officers;

mergers and other business combination transactions, including proposed transactions that would result in our stockholders receiving a premium price for their shares;

other material acquisitions or dispositions of businesses or assets;

incurrence of indebtedness and the issuance of equity securities;

repurchase of stock and payment of dividends; and

the issuance of shares to management under our equity incentive plans.

Even if Vestar's ownership of our shares falls below a majority, Vestar may continue to be able to influence or effectively control our decisions. Under our amended and restated certificate of incorporation, Vestar and its affiliates will not have any obligation to present to us, and Vestar may separately pursue, corporate opportunities of which they become aware, even if those opportunities are ones that we would have pursued if granted the opportunity. See Description of Capital Stock Corporate Opportunity.

***Future sales of our common stock, or the perception in the public markets that these sales may occur, may depress our stock price.***

Sales of substantial amounts of our common stock in the public market after this offering, or the perception that these sales could occur, could adversely affect the price of our common stock and could impair our ability to raise capital through the sale of additional shares. Upon completion of this offering, we will have 36,950,000 shares of common stock outstanding. The shares of common stock offered in this offering will be freely tradable without restriction under the Securities Act, except for any shares of our common stock that may be held or acquired by our directors, executive officers and other affiliates, as that term is defined in the Securities Act, which will be restricted securities under the Securities Act. Restricted securities may not be sold in the public market unless the sale is registered under the Securities Act or an exemption from registration is available.

We, each of our officers and directors and our sole stockholder, NMH Investment, have agreed, subject to certain exceptions, with the underwriters not to dispose of or hedge any of the shares of common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date that is 180 days after the date of this prospectus (subject to extension in certain circumstances). Barclays Capital Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and UBS Securities LLC may, in their discretion, release any of these shares from these restrictions at any time without notice. See Underwriting.





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All of our shares of common stock outstanding as of the date of this prospectus may be sold in the public market by our sole stockholder 180 days after the date of this prospectus (subject to extension in certain circumstances), subject to applicable volume and other limitations imposed under federal securities laws. See **Shares Eligible for Future Sale** for a more detailed description of the restrictions on selling shares of our common stock after this offering.

NHM Investment, which will hold 25,250,000 shares, or approximately 68% of our common stock upon completion of this offering assuming the underwriters do not exercise their option to purchase additional shares, will have the right to require us to register such shares pursuant to the terms of a registration rights agreement to be entered into in connection with the consummation of this offering. See **Shares Eligible for Future Sale Registration Rights** for a more detailed description of these rights.

In the future, we may also issue our securities in connection with acquisitions or investments. The amount of shares of our common stock issued in connection with an acquisition or investment could constitute a material portion of our then-outstanding shares of our common stock.

***As a company with publicly traded equity, we will be subject to additional financial and other reporting and corporate governance requirements that may be difficult for us to satisfy and may divert management's attention from our business.***

We will be subject to other reporting and corporate governance requirements, including the New York Stock Exchange listing standards and certain additional provisions of the Sarbanes-Oxley Act and the regulations promulgated thereunder, which impose significant compliance obligations upon us. Specifically, we will be required to:

prepare and distribute periodic reports and other stockholder communications in compliance with our obligations under the federal securities laws and New York Stock Exchange rules;

create or expand the roles and duties of our Board of Directors and committees of the Board of Directors;

provide an attestation report of our independent registered public accounting firm on our internal control over financial reporting when we become an accelerated filer, in compliance with the requirements of Section 404 and the related rules and regulations of the SEC and the Public Company Accounting Oversight Board;

enhance our investor relations function; and

involve outside legal counsel and accountants in connection with the activities listed above.

As a company with publicly traded equity, we will be required to commit significant resources and management time and attention to the above-listed requirements, which will cause us to incur significant costs and which may place a strain on our systems and resources. As a result, our management's attention might be diverted from other business concerns. In addition, we might not be successful in implementing these requirements. Compliance with these requirements will place significant demands on our legal, accounting and finance staff and on our accounting, financial and information systems and will increase our legal and accounting compliance costs as well as our compensation expense as we may be required to hire additional accounting, tax, finance and legal staff to supplement our existing resources.

We expect to incur certain additional annual expenses related to, among other things, additional directors' and officers' liability insurance, director fees, reporting requirements, transfer agent fees, hiring additional accounting, legal and administrative personnel, increased auditing and legal fees and similar expenses.

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### ***Failure to comply with requirements to design, implement and maintain effective internal controls could have a material adverse effect on our business and stock price.***

As a company with public traded equity, we are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on the effectiveness of our internal control over financial reporting. Following the completion of this offering, we will be required, pursuant to Section 404, to furnish an attestation report of our independent registered public accounting firm on the effectiveness of our internal control over financial reporting when we become an accelerated filer.

No evaluation can provide complete assurance that our internal controls will operate as intended. Management's report is required to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. Testing and maintaining internal controls may divert our management's attention from other matters that are important to our business. We may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 or our independent registered public accounting firm may not issue an unqualified opinion. The generally decentralized nature of our operations and manual nature of many of our controls increases our risk of control deficiencies. In addition, future acquisitions may present challenges in implementing appropriate internal controls. Any future material weaknesses in internal control over financial reporting could result in material misstatements in our financial statements. Moreover, any future disclosures of additional material weaknesses, or errors as a result of those weaknesses, could result in a negative reaction in the financial markets if there is a loss of confidence in the reliability of our financial reporting. If either we are unable to conclude that we have effective internal control over financial reporting or our independent registered public accounting firm is unable to provide us with an unqualified report, investors could lose confidence in our reported financial information, which could have a material adverse effect on the trading price of our stock.

### ***Anti-takeover provisions in our charter documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable.***

Our amended and restated certificate of incorporation and amended and restated bylaws will contain provisions that may make the acquisition of the Company more difficult without the approval of our Board of Directors. These provisions:

authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend or other rights or preferences superior to the rights of the holders of common stock;

prohibit stockholder action by written consent, requiring all stockholder actions be taken at a meeting of our stockholders, if Vestar ceases to own more than 40% of our common stock;

provide that the Board of Directors is expressly authorized to make, alter or repeal our amended and restated bylaws;

establish advance notice requirements for nominations for elections to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;

establish a classified Board of Directors, as a result of which our Board of Directors will be divided into three classes, with each class serving for staggered three-year terms, which prevents stockholders from electing an entirely new Board of Directors at an annual meeting;

limit the ability of stockholders to remove directors if Vestar ceases to own more than 40% of our common stock;

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prohibit stockholders, other than Vestar for so long as it beneficially owns at least 40% of our common stock, from calling special meetings of stockholders; and

require the approval of holders of at least 75% of the outstanding shares of our voting common stock to amend our amended and restated certificate of incorporation and for shareholders to amend our amended and restated bylaws, in each case if Vestar ceases to own more than 40% of our common stock.

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These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of the Company, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and to cause us to take other corporate actions you desire. For a further discussion of these and other such anti-takeover provisions, see [Description of Capital Stock](#) [Anti-takeover Effects of our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws](#).

***Our amended and restated certificate of incorporation upon consummation of this offering will designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.***

Our amended and restated certificate of incorporation upon consummation of this offering will provide that, subject to limited exceptions, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim against us arising pursuant to any provision of the General Corporation Law of the State of Delaware (the "DGCL"), our certificate of incorporation or our by-laws or (iv) any other action asserting a claim against us that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and to have consented to the provisions of our certificate of incorporation described above. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find these provisions of our amended and restated certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business and financial condition.

***If you purchase shares of common stock sold in this offering, you will incur immediate and substantial dilution.***

If you purchase shares of common stock in this offering, you will incur immediate and substantial dilution in the amount of \$29.64 per share because the initial public offering price is substantially higher than the pro forma net tangible book value per share of our outstanding common stock. Dilution results from the fact that the initial public offering price per share of the common stock is substantially in excess of the book value per share of common stock attributable to our existing stockholder for the presently outstanding shares of common stock. In addition, you may also experience additional dilution upon future equity issuances or the exercise of stock options to purchase common stock granted to our employees and directors under our management incentive plan. See [Dilution](#).

***If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.***

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We may not obtain research coverage of our common stock by securities and industry analysts. If no securities or industry analysts commence coverage of our common stock, the trading price for our common stock would be negatively impacted. If we obtain securities or industry analyst coverage and if one or more of the analysts who covers us downgrades our common stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our common stock could decrease, which could cause our stock price and trading volume to decline.

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*Because we do not intend to pay cash dividends in the foreseeable future, you may not receive any return on investment unless you are able to sell your common stock for a price greater than your purchase price.*

The continued operation and expansion of our business will require substantial funding. Accordingly, we do not anticipate that we will pay any cash dividends on shares of our common stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon results of operations, financial condition, contractual restrictions, including those under our senior secured credit facilities and the indenture governing our senior notes, any potential indebtedness we may incur, restrictions imposed by applicable law and other factors our Board of Directors deems relevant. Accordingly, if you purchase shares in this offering, realization of a gain on your investment will depend on the appreciation of the price of our common stock, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

*We are a holding company and rely on dividends, distributions and other payments, advances and transfers of funds from our subsidiaries to meet our obligations.*

We are a holding company that does not conduct any business operations of our own. As a result, we are largely dependent upon cash dividends and distributions and other transfers from our subsidiaries to meet our obligations. The deterioration of income from, or other available assets of, our subsidiaries for any reason could limit or impair their ability to pay dividends or other distributions to us.

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**FORWARD-LOOKING STATEMENTS**

Some of the matters discussed in this prospectus may constitute forward-looking statements within the meaning of the federal securities laws. These statements relate to future events or our future financial performance, and include statements about our expectations for future periods with respect to demand for our services, the political climate and budgetary environment, our expansion efforts and the impact of our recent acquisitions, our plans for investments to further grow and develop our business, our margins and our liquidity. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, anticipate, believe, estimate, predict, potential, or the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

The information in this prospectus is not a complete description of our business or the risks associated with our business. There can be no assurance that other factors will not affect the accuracy of these forward-looking statements or that our actual results will not differ materially from the results anticipated in such forward-looking statements. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include, but are not limited to, those factors or conditions described under Risk Factors in this prospectus as well as the following:

reductions or changes in Medicaid or other funding or changes in budgetary priorities by federal, state and local governments;

substantial claims, litigation and governmental proceedings;

reductions in reimbursement rates, policies or payment practices by our payors;

an increase in labor costs or labor-related liability;

matters involving employees that expose us to potential liability;

our substantial amount of debt, our ability to meet our debt service obligations and our ability to incur additional debt;

our history of losses;

our ability to comply with complicated billing and collection rules and regulations;

failure to comply with reimbursement procedures and collect accounts receivable;

changes in economic conditions;

an increase in our self-insured retentions and changes in the insurance market for professional and general liability, workers compensation and automobile liability and our claims history and our ability to obtain coverage at reasonable rates;

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an increase in workers' compensation related liability;

our ability to control labor costs, including healthcare costs imposed by the Patient Protection and Affordable Care Act;

our ability to attract and retain experienced personnel;

our ability to establish and maintain relationships with government agencies and advocacy groups;

negative publicity or changes in public perception of our services;

our ability to maintain our status as a licensed service provider in certain jurisdictions;

our ability to maintain, expand and renew existing services contracts and to obtain additional contracts or acquire new licenses;

our ability to successfully integrate acquired businesses;



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our inability to successfully expand into adjacent markets;

government regulations, changes in government regulations and our ability to comply with such regulations;

increased competition;

decrease in popularity of home- and community-based human services among our targeted client populations and/or state and local governments;

our susceptibility to any reduction in budget appropriations for our services in Minnesota or any other adverse developments in that state;

our ability to operate our business due to constraints imposed by covenants in NMHI's senior credit agreement;

our ability to retain the continued services of certain members of our management team;

our ability to manage and integrate key administrative functions;

failure of our information systems or failure to upgrade our information systems when required;

write-offs of goodwill or other intangible assets;

natural disasters or public health catastrophes; and

our ability to realize the anticipated benefits of the Massachusetts Adult Day Health Alliance acquisition.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, we do not assume responsibility for the accuracy and completeness of the forward-looking statements. All written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Risk Factors and other cautionary statements included herein. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform such statements to actual results or to changes in our expectations.

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**USE OF PROCEEDS**

We estimate that the proceeds to us from this offering, after deducting estimated underwriting discounts and commissions and offering expenses payable by us, will be approximately \$182.2 million.

We intend to use the net proceeds from the sale of common stock by us in this offering and cash on hand to (i) redeem \$162.0 million in aggregate principal amount of the senior notes issued by NMHI at a redemption price of 106.25% plus accrued and unpaid interest thereon to the date of redemption and (ii) pay a transaction advisory fee of \$8.0 million to Vestar under the management agreement with Vestar, which agreement will terminate upon completion of this offering. The senior notes mature on February 15, 2018 and have an interest rate of 12.50% per annum. See Description of Certain Indebtedness. We intend to use any remaining net proceeds for general corporate purposes.

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**DIVIDEND POLICY**

During fiscal 2012 and 2013 and the nine months ended June 30, 2014, we paid dividends of \$75,000, \$39,000 and \$110,000, respectively, to NMH Investment to fund repurchases of equity units from employees upon or after their departures.

We currently intend to retain all available funds and any future earnings to fund the development and growth of our business, and therefore we do not anticipate paying any cash dividends in the foreseeable future. Additionally, our ability to pay dividends on our common stock will be limited by restrictions on the ability of our subsidiaries and us to pay dividends or make distributions under the terms of NMHI's current and any future agreements governing our 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 our indebtedness, and will depend upon our results of operations, financial condition, capital requirements and other factors that our Board of Directors deems relevant.

In addition, since we are a holding company, substantially all of the assets shown on our consolidated balance sheet are held by our subsidiaries. Accordingly, our earnings, cash flow and ability to pay dividends are largely dependent upon the earnings and cash flows of our subsidiaries and the distribution or other payment of such earnings to us in the form of dividends.

**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and cash equivalents and our capitalization as of June 30, 2014 on:

an actual basis; and

an as adjusted basis to give effect to the sale of 11,700,000 shares of our common stock in this offering by us after deducting underwriting discounts and commissions and estimated offering expenses payable by us and the application of the net proceeds therefrom as described under Use of Proceeds.

You should read the following table in conjunction with the sections entitled Use of Proceeds, Selected Historical Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

	<b>June 30, 2014</b>	
	<b>Actual</b>	<b>As Adjusted</b>
<b>(in thousands)</b>		
<b>Cash and cash equivalents:</b>		
Available cash (1)	\$ 47,526	\$ 42,346
Restricted cash (2)	50,000	50,000
<b>Total cash and cash equivalents</b>	<b>97,526</b>	<b>92,346</b>
<b>Debt:</b>		
Senior revolver (3)		
Term loan facility (4)	598,500	598,500
Senior notes (5)	212,000	50,000
<b>Total long-term debt (6)</b>	<b>810,500</b>	<b>648,500</b>
<b>Stockholders' equity:</b>		
Preferred stock, \$0.01 par value, no shares authorized or outstanding on an actual basis; 50,000,000 shares authorized and no shares outstanding on an as adjusted basis		
Common stock, \$0.01 par value, 350,000,000 authorized; 25,250,000 shares outstanding on an actual basis; 36,950,000 shares outstanding on an as adjusted basis	253	370
Additional paid-in-capital	90,065	264,151
Accumulated other comprehensive loss	(530)	(530)
Accumulated deficit	(151,835)	(163,061)
<b>Total stockholders' (deficit) equity (7)</b>	<b>(62,047)</b>	<b>100,930</b>
<b>Total capitalization</b>	<b>\$ 748,453</b>	<b>\$ 749,430</b>

- (1) As adjusted available cash assumes the payment of accrued and unpaid interest of \$7.6 million as of June 30, 2014 in connection with the redemption of a portion of the outstanding senior notes. Assuming a redemption date of October 17, 2014, the accrued and unpaid interest on the senior notes being redeemed would be \$3.5 million, which gives effect to the scheduled semi-annual interest payment of \$13.3 million, which was paid on August 15, 2014.
- (2) Represents cash deposited in a cash collateral account in support of the issuance of undrawn letters of credit.
- (3)

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As of June 30, 2014, on an actual and as adjusted basis, we had \$100.0 million of availability under our senior revolver. However, despite the contractual availability, the covenants in the indenture governing the senior notes effectively limit our ability to draw on the senior revolver.

- (4) Excludes the impact of original issue discount, net of accumulated amortization of \$1.3 million.
- (5) Excludes the impact of original issue discount and initial purchasers discount, net of accumulated amortization of \$4.9 million.
- (6) Includes current portion but excludes \$6.6 million in obligations under capital leases.

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- (7) Assumes that each of (i) the unamortized debt issuance costs of the senior notes of \$3.7 million, (ii) the unamortized deferred financing costs of \$0.8 million, (iii) the \$4.0 million cash payment to certain non-executive officer employees who participate in the CareMeridian, LLC Management Cash Incentive Plan that will be paid in two installments, the first occurring in January 2015 and the second in January 2016, and (iv) the call premium of \$10.1 million on the senior notes are expensed, net of related taxes, upon completion of this offering.

**Table of Contents****DILUTION**

If you invest in our common stock, your ownership interest will be immediately diluted to the extent of the difference between the initial public offering price per share of our common stock and the net tangible book value per share of our common stock after this offering. Dilution results from the fact that the initial public offering price per share of the common stock is substantially in excess of the book value per share of common stock attributable to our existing stockholder for the presently outstanding shares of common stock.

Our net tangible book value (deficit) as of June 30, 2014 was \$(631.0) million, or \$(24.99) per share of common stock (after giving effect to the 2,525,000-for-one stock split that occurred on September 2, 2014). Net tangible book value (deficit) per share represents the amount of our total tangible assets (which for the purpose of this calculation excludes \$10.8 million of deferred financing costs and \$0.3 million of capitalized offering costs that have been paid) less total liabilities, divided by the basic weighted average number of shares of common stock outstanding.

After giving effect to the sale of the 11,700,000 shares of common stock offered by us in this offering, and after deducting estimated underwriting discounts and commissions and estimated offering expenses, our pro forma net tangible book value (deficit) as of June 30, 2014 would have been approximately \$(466.9) million, or \$(12.64) per share of common stock (after giving effect to the 2,525,000-for-one stock split that occurred on September 2, 2014). This represents an immediate increase in net tangible book value (deficit) to our existing stockholders of \$12.35 per share and an immediate dilution to new investors in this offering of \$29.64 per share. The following table illustrates this pro forma per share dilution in net tangible book value (deficit) to new investors.

Initial public offering price per share	\$ 17.00
Historical net tangible book value (deficit) per share as of June 30, 2014	\$ (24.99)
Increase per share attributable to new investors	12.35
 Pro forma net tangible book value (deficit) per share after this offering	 (12.64)
 Dilution per share to new investors	 \$ 29.64

The following table summarizes as of June 30, 2014, on an as adjusted basis, after giving effect to the offering and the consummation of the 2,525,000-for-one stock split, the number of shares of common stock purchased, the total consideration paid and the average price per share paid by our existing stockholder and by new investors, before deducting estimated underwriting discounts and commissions and offering expenses:

	Shares Purchased		Total Consideration (in thousands)		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholder	25,250,000	68.3%	\$ 90,318	31.2%	\$ 3.58
New investors	11,700,000	31.7	198,900	68.8	17.00
<b>Total</b>	<b>36,950,000</b>	<b>100%</b>	<b>\$ 289,218</b>	<b>100%</b>	

Except as otherwise indicated, the discussion and tables above assume no exercise of the underwriters' option to purchase additional shares from us. If the underwriters' option to purchase additional shares is exercised in full, our existing stockholder would own approximately 65% and our new investors would own approximately 35% of the total number of shares of our common stock outstanding after this offering.

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The tables and calculations above are based on 36,950,000 shares of common stock outstanding as of June 30, 2014 and assume no exercise by the underwriters of their option to purchase up to an additional 1,755,000 shares from us. This number excludes an aggregate of 3,325,500 shares of common stock reserved for issuance under our equity incentive plan that we intend to adopt in connection with this offering, including an aggregate of 559,572 shares of common stock issuable under options to be issued in connection with this offering with an aggregate value of \$4.3 million, and an aggregate of 550,480 shares of common stock issuable under restricted stock units to be issued in connection with this offering with an aggregate value of \$9.4 million.



**Table of Contents****SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

The following table sets forth our selected historical consolidated financial data as of September 30, 2012 and 2013 and for the years ended September 30, 2011, 2012 and 2013 and are derived from the audited historical consolidated financial statements of the Company and the related notes included elsewhere in this prospectus. The selected consolidated financial data as of September 30, 2009, 2010 and 2011 and for the years ended September 30, 2009 and 2010 are derived from the Company's audited consolidated financial statements not included in this prospectus, as adjusted for discontinued operations. All adjustments necessary for a fair presentation have been included. All such adjustments are considered to be of a normal recurring nature.

The statement of operations for each of the nine-month periods ended June 30, 2013 and June 30, 2014 and the balance sheet as of June 30, 2014 set forth below are derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus and the balance sheet as of June 30, 2013 is derived from unaudited financial statements not included in this prospectus and contain all adjustments, consisting of normal recurring adjustments, that management considers necessary for a fair presentation of our financial position and results of operations for the periods presented. Operating results for the nine-month periods are not necessarily indicative of results for a full financial year, or any other periods.

You should read the following data in conjunction with Capitalization, Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited historical consolidated financial statements and the accompanying notes, included elsewhere in this prospectus, and other financial information included in this prospectus.

	Fiscal Year Ended September 30,				Nine Months Ended June 30,		
	2009	2010	2011	2012	2013	2013	2014
<b>(Dollars in thousands, except per share data)</b>							
<b>Statements of Operations Data:</b>							
Net revenue	\$ 949,582	\$ 1,004,192	\$ 1,062,773	\$ 1,123,118	\$ 1,198,653	\$ 893,541	\$ 938,861
Cost of revenue (exclusive of depreciation expense shown separately below)	725,275	771,066	823,009	874,778	935,143	700,401	734,887
General and administrative expenses	125,110	133,114	144,011	140,221	146,040	110,879	108,811
Depreciation and amortization	55,069	55,918	61,330	60,534	64,146	47,970	50,987
Income from operations	44,128	44,094	34,423	47,585	53,324	34,291	44,176
Management fee of related party	(1,146)	(1,208)	(1,271)	(1,325)	(1,359)	(985)	(1,041)
Other income (expense), net	(503)	(339)	(142)	2	929	628	499
Gain (loss) on extinguishment of debt	11,946		(23,684)				(14,699)
Interest income	193	42	22	332	137	109	163
Interest expense	(66,084)	(62,233)	(67,511)	(79,445)	(78,075)	(58,482)	(53,204)
Loss from continuing operations before income taxes	(11,466)	(19,644)	(58,163)	(32,851)	(25,044)	(24,439)	(24,106)
Benefit for income taxes	(3,467)	(7,517)	(19,287)	(19,283)	(9,472)	(8,437)	(7,212)
Loss from continuing operations	(7,999)	(12,127)	(38,876)	(13,568)	(15,572)	(16,002)	(16,894)
Loss from discontinued operations, net of tax (1)	(2,404)	(5,148)	(4,625)	(701)	(2,724)	(2,678)	19
Net loss	\$ (10,403)	\$ (17,275)	\$ (43,501)	\$ (14,269)	\$ (18,296)	\$ (18,680)	\$ (16,875)
<b>Net loss per common share:</b>							
Basic	\$ (0.41)	\$ (0.68)	\$ (1.72)	\$ (0.57)	\$ (0.72)	\$ (0.74)	\$ (0.67)
Diluted	\$ (0.41)	\$ (0.68)	\$ (1.72)	\$ (0.57)	\$ (0.72)	\$ (0.74)	\$ (0.67)
<b>Weighted-average common shares outstanding:</b>							
Basic	25,250,000	25,250,000	25,250,000	25,250,000	25,250,000	25,250,000	25,250,000
Diluted	25,250,000	25,250,000	25,250,000	25,250,000	25,250,000	25,250,000	25,250,000
<b>Balance Sheet Data (at end of period):</b>							

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Cash and cash equivalents	\$ 23,837	\$ 26,635	\$ 387	\$ 125	\$ 19,440	\$ 16,211	\$ 47,526
Working capital (2)	49,907	44,848	12,634	26,192	59,262	65,711	66,085
Total assets	989,387	1,006,998	1,011,360	1,045,880	1,021,269	1,034,817	1,031,494
Total debt (3)	702,087	713,242	784,124	799,895	803,464	806,447	817,128
Shareholder s equity (deficit)	37,661	28,377	(16,917)	(29,931)	(46,515)	(47,361)	(62,047)

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- (1) During fiscal 2010, 2011 and 2013, the Company sold its home health business, closed certain Human Services operations in the States of Maryland, Colorado, Nebraska, New Hampshire, New York and Virginia, sold its Rhode Island ARY business and closed its Rhode Island I/DD business. All fiscal years presented reflect the classification of these businesses as discontinued operations.
- (2) Calculated as current assets minus current liabilities.
- (3) Includes obligations under capital leases.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

*The following discussion of our financial condition and results of operations should be read in conjunction with the historical consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion may contain forward-looking statements about our markets, the demand for our services and our future results. We based these statements on assumptions that we consider reasonable. Actual results may differ materially from those suggested by our forward-looking statements for various reasons, including those discussed in the Risk Factors and Forward-Looking Statements sections of this prospectus.*

**Overview**

We are the leading national provider of home- and community-based health and human services to must-serve individuals with intellectual, developmental, physical or behavioral disabilities and other special needs. Since our founding in 1980, we have been a pioneer in the movement to provide home- and community-based services for people who would otherwise be institutionalized. During our nearly 35-year history, we have evolved from a single residential program serving at-risk youth to a diversified national network providing an array of high-quality services and care in large, growing and highly-fragmented markets. While we have the capabilities to serve individuals with a wide variety of special needs and disabilities, we currently provide our services to individuals with intellectual and/or developmental disabilities (I/DD), youth with emotional, behavioral and/or medically complex challenges, or at-risk youth (ARY), and individuals with catastrophic injuries and illnesses, particularly acquired brain injury (ABI). As of June 30, 2014, we operated in 36 states, serving more than 12,500 clients in residential settings and more than 15,700 clients in non-residential settings. We have a diverse group of hundreds of public payors which fund our services with a combination of federal, state and local funding, as well as an increasing number of non-public payors related to our services for ABI and other catastrophic injuries and illnesses.

We have two reportable segments, Human Services and Post-Acute Specialty Rehabilitation Services (SRS). The Human Services segment provides home and community-based human services to adults and children with intellectual and/or developmental disabilities and to youth with emotional, behavioral and/or medically complex challenges. The SRS segment provides a mix of health care and community-based health and human services to individuals who have suffered ABI, spinal injuries and other catastrophic injuries and illnesses.

Delivery of services to adults and children with I/DD is the largest portion of our Human Services segment. Our I/DD programs include residential support, day habilitation, vocational services, case management, crisis intervention and hourly support care. Our Human Services segment also includes the delivery of ARY services. Our ARY programs include therapeutic foster care, family preservation, adoption services, early intervention, school-based services and juvenile offender programs. Within our SRS segment, our CareMeridian business unit is focused on the more medically-intensive post-acute care services, and our NeuroRestorative business unit is focused on rehabilitation and transitional living services. Our SRS services range from sub-acute healthcare for individuals with intensive medical needs to day treatment programs, and include: neurorehabilitation; neurobehavioral rehabilitation; specialized nursing; physical, occupational and speech therapies; supported living; outpatient treatment; and pre-vocational services.

**Factors Affecting our Operating Results**

***Demand for Home and Community-Based Health and Human Services***

Our growth in revenue has historically been related to increases in the number of individuals served as well as increases in the rates we receive for our services. This growth has depended largely upon development-driven activities, including the maintenance and expansion of existing contracts and the award of new contracts, our new start program and acquisitions. We also attribute the long-term growth in our client base to certain trends that are increasing demand in our industry, including demographic, health-care and political developments.

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Demographic trends have a particular impact on our I/DD business. Increases in the life expectancy of individuals with I/DD, we believe, have resulted in steady increases in the demand for I/DD services. In addition, caregivers currently caring for their relatives at home are aging and many may soon be unable to continue with these responsibilities. Many states continue to downsize or close large, publicly-run facilities for individuals with I/DD and refer those individuals to private providers of community-based services. Each of these factors affects the size of the I/DD population in need of services. And while our residential ARY services were negatively impacted by a substantial decline in the number of children and adolescents in foster care placements during the last decade, this trend has contributed to significant increased demand for periodic, non-residential services to support at-risk youth and their families. It is also noteworthy that in recent years the general foster care population across the country has stabilized. Demand for our SRS services has also grown as emergency response and improved medical techniques have resulted in more people surviving a catastrophic injury. SRS services are increasingly sought out as a clinically-appropriate and less-expensive alternative to institutional care and as a step-down for individuals who no longer require care in acute settings.

Political and economic trends can also affect our operations. Budgetary pressures facing state governments, especially within Medicaid programs, as well as other economic, industry and political factors could cause state governments to limit spending, which could significantly reduce our revenue, referrals, margins and profitability, and adversely affect our growth strategy. Government agencies generally condition their contracts with us upon a sufficient budgetary appropriation. If the government agency does not receive an appropriation sufficient to cover its obligations with us, it may terminate a contract or defer or reduce our reimbursements. For example, during the economic downturn that began in 2008, our government payors in several states responded to deteriorating revenue collections by implementing service reductions, rate freezes and/or rate reductions. Beginning in fiscal 2012, the rate environment improved and, as a result, for fiscal years 2012, 2013 and 2014, pricing increases contributed to revenue growth. With new state fiscal 2015 budgets effective on July 1, 2014 in most jurisdictions, this positive trend is continuing as we plan for our fiscal year 2015.

Historically, our business has benefited from the efforts of groups that advocate for the populations we serve. These groups lobby governments to fund residential services that use our small group home or host home models, rather than large, institutional models. In addition, our ARY services have historically been positively affected by the trend toward privatization of these services. Furthermore, we believe that successful lobbying by these groups has preserved I/DD and ARY services and, therefore, our revenue base, from significant reductions as compared with certain other human services, although we did suffer rate reductions during and after the recession that began in 2008. In addition, a number of states have developed community-based waiver programs to support long-term care services for survivors of a traumatic brain injury. However, the majority of our specialty rehabilitation services revenue is derived from non-public payors, such as commercial insurers, managed care and other private payors.

### ***Expansion of Services***

We have grown our business through expansion of existing markets and programs, entry into new geographical markets as well as through acquisitions.

### ***Organic Growth***

Various economic, fiscal, public policy and legal factors are contributing to an environment with an increased number of organic growth opportunities, particularly within the Human Services segment, and, as a result, we have a renewed emphasis on growing our business organically and making investments to support the effort. Our future growth will depend heavily on our ability to expand our current programs and identify and execute upon new opportunities. Our organic expansion activities consist of both new program starts in existing markets and expansion into new geographical markets. Our new programs in new and existing geographic markets typically require us to incur and fund operating losses for a period of approximately 18 to 24 months (we refer to these new programs as new starts). Net operating loss or income of a new start is defined as its revenue for the period less direct expenses but not including allocated overhead costs. The aggregation of all programs

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with net operating losses that are less than 18 months old comprises the new start operating loss for such period. During fiscal 2013, new starts generated operating losses of \$8.8 million and operating income of \$3.3 million. During the nine months ended June 30, 2013, new starts generated operating losses of \$7.9 million and operating income of \$2.2 million. During the nine months ended June 30, 2014, new starts generated operating losses of \$4.5 million and operating income of \$1.5 million. As indicated above, during fiscal 2012 and 2013 demand for new programs increased. These new start investment opportunities increased our organic growth but also had the effect of reducing our operating margin. In fiscal 2014, our investment level is expected to be slightly lower than recent years, but still at a rate higher than fiscal 2011 and earlier periods.

### *Acquisitions*

From the beginning of fiscal 2009 through June 30, 2014, we have completed 36 acquisitions, including several acquisitions of rights to government contracts or fixed assets from small providers, which we have integrated with our existing operations. We have pursued larger strategic acquisitions in the past and may opportunistically continue to do so in the future. Acquisitions could have a material impact on our consolidated financial statements.

During the nine months ended June 30, 2014, we acquired five companies complementary to our business in the Human Services segment and two companies in the SRS segment for total cash consideration of \$16.6 million, of which \$1.5 million was paid in July 2014.

During the nine months ended June 30, 2013, we acquired one company complementary to our business in the Human Services segment for total cash consideration of \$0.5 million.

During the fiscal year ended September 30, 2013, we acquired two companies complementary to our business in the Human Services segment and one company in the SRS segment, for a total cash consideration of \$9.3 million.

During the fiscal year ended September 30, 2012, we acquired seven companies complementary to ours for total fair value consideration of \$16.5 million.

### *Divestitures*

We regularly review and consider the divestiture of underperforming or non-strategic businesses to improve our operating results and better utilize our capital. We have made divestitures from time to time and expect that we may make additional divestitures in the future.

In August 2014, our Connecticut-based business notified the State of Connecticut of its intention to stop providing services under existing contracts due to rate cuts and a change in state policy. We are currently working with our public partners on a plan to effectively transition our programs to new providers, and we anticipate that this transition will be complete during the first quarter of fiscal 2015.

### *Revenue*

Revenue is reported net of allowances for unauthorized sales and estimated sales adjustments, and net of any state provider taxes or gross receipts taxes levied on services we provide. We derive revenue from contracts with state, local and other government payors and non-public payors. During the fiscal year ended September 30, 2013, we derived 87% of our net revenue from contracts with state, local and other government payors and 13% of our net revenue from non-public payors. During the nine months ended June 30, 2014, we derived 90% of our net revenue from contracts with state, local and other government payors and 10% of our net revenue from non-public payors. Substantially all of our non-public revenue is generated by our SRS business through contracts with commercial insurers, workers compensation carriers and other private payors. The payment terms and rates of our contracts vary widely by jurisdiction and service type. We have four types of contractual arrangements with payors which include negotiated contracts, fixed fee contracts, retrospective reimbursement contracts and prospective payments contracts. See [Critical Accounting Policies Revenue Recognition](#) for further information. Our revenue may be affected by adjustments to our billed rates as well as adjustments to previously billed amounts. Revenue in the future may be affected by changes in rates, rate-setting structures, methodologies or interpretations that may be proposed in states where we operate or by the federal government which provides matching funds. We cannot

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determine the impact of such changes or the effect of any possible governmental actions. In general, we take prices set by our payors and do not compete based on pricing.

We bill the majority of our residential services on a per person per-diem basis. We believe the key factors affecting our revenues in residential service business include gross revenue, average residential census and average daily rates. We bill the majority of our non-residential service on a per service unit basis. These service units, which vary in length, are converted to billable units which are the hourly equivalent for the service provided. We believe the key factors affecting our revenues in our non-residential service business include gross revenue, non-residential billable units and average billable unit rates. We define these factors as follows:

*Gross Revenue:* Revenues before adjusting for sales adjustments and state provider and gross receipts taxes.

*Average Residential Census:* The average daily residential census over the respective period.

*Average Daily Rate:* A mathematical calculation derived by dividing the gross residential revenue by the residential census and the resulting quotient by the number of days during the respective period.

*Non-Residential Billable Units:* The hourly equivalent of non-residential services provided.

*Average Billable Unit Rate:* Gross non-residential revenue divided by the billable units provided during the period.

A comparative summary of gross revenues by service line and our key metrics is as follows (dollars in thousands, except for daily and billable unit rates):

	Nine Months Ended June 30,		Year Ended September 30,		
	2014	2013	2013	2012	2011
<b><u>I/DD Services</u></b>					
Gross Revenues	\$ 628,118	\$ 578,257	\$ 783,018	\$ 731,309	\$ 693,703
Average Residential Census	7,419	6,934	6,983	6,562	6,326
Average Daily Rate	\$ 231	\$ 224	\$ 226	\$ 220	\$ 221
Non-Residential Billable Units	8,547,105	8,374,228	8,457,522	8,914,988	8,603,223
Average Non-Residential Billable Unit Rate	\$ 19	\$ 18	\$ 25	\$ 23	\$ 21
Gross Revenue Growth %	8.6%		7.1%	5.4%	
<i>Gross Revenue growth due to:</i>					
Volume Growth	5.8%		3.2%	3.8%	
Average Rate Growth	2.8%		3.9%	1.6%	
<b><u>At-Risk Youth Services</u></b>					
Gross Revenues	\$ 154,408	\$ 170,459	\$ 224,717	\$ 218,040	\$ 206,136
Average Residential Census	3,889	4,114	4,125	3,888	4,024
Average Daily Rate	\$ 101	\$ 97	\$ 97	\$ 98	\$ 97
Non-residential Billable Units	549,223	725,339	931,646	949,982	827,188
Average Non-Residential Billable Unit Rate	\$ 86	\$ 84	\$ 84	\$ 82	\$ 77
Gross Revenue Growth %	(9.4)%		3.1%	5.8%	
<i>Gross Revenue growth due to:</i>					
Volume Growth	(13.2)%		3.0%	2.8%	
Average Rate Growth	3.8%		0.1%	2.9%	
<b><u>Special Rehabilitation Services</u></b>					
Gross Revenues	\$ 172,256	\$ 158,547	\$ 213,465	\$ 189,561	\$ 177,122

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Average Residential Census	1,053	993	996	916	900
Average Daily Rate	599	585	\$ 587	\$ 565	\$ 539
Gross Revenue Growth %	8.6%		12.6%	7.0%	
<i>Gross Revenue growth due to:</i>					
Volume Growth	6.2%		8.8%	1.9%	
Average Rate Growth	2.4%		3.8%	5.1%	



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***Expenses***

Expenses directly related to providing services are classified as cost of revenue. These expenses consist of direct labor costs which principally include salaries and benefits for service provider employees and per diem payments to our Mentors; client program costs such as food, medicine and professional and general liability and employment practices liability expenses; residential occupancy expenses which are primarily comprised of rent and utilities related to facilities providing direct care; travel and transportation costs for clients requiring services; and other ancillary direct costs associated with the provision of services to clients including workers' compensation expense.

General and administrative expenses primarily include salaries and benefits for administrative employees, or employees that are not directly providing services, administrative occupancy costs as well as professional expenses such as accounting, consulting and legal services. Depreciation and amortization includes depreciation for fixed assets utilized in both facilities providing direct care and administrative offices, and amortization related to intangible assets.

Wages and benefits to our employees and per diem payments to our Mentors constitute the most significant operating cost in each of our operations. Most of our employee caregivers are paid on an hourly basis, with hours of work generally tied to client need. Our Mentors are paid on a per diem basis, but only if the Mentor is currently caring for a client. Our labor costs are generally influenced by levels of service, and these costs can vary in material respects across regions.

Occupancy costs represent a significant portion of our operating costs. As of June 30, 2014, we owned 378 facilities and three offices, and we leased 1,318 facilities and 263 offices. We expect occupancy costs to increase during fiscal 2014 as a result of new leases entered into pursuant to acquisitions and new starts. We incur no facility costs for services provided in the home of a Mentor.

Professional and general liability expense totaled 0.8% of our net revenue for the nine months ended June 30, 2014, as compared to 1.0% for the fiscal years ended September 30, 2013, 2012 and 2011. We incurred professional and general liability expenses of \$0.8 million, \$11.0 million, \$12.2 million, \$10.9 million and \$10.2 million for the nine months ended June 30, 2014 and 2013, and the fiscal years ended September 30, 2013, 2012 and 2011, respectively. These expenses are incurred in connection with our claims reserve and insurance premiums. The expense for the nine months ended June 30, 2013 and fiscal year ended September 30, 2013 included expenses of \$0.8 million and \$3.4 million, respectively, related to adjustments to professional liability claims to our tail reserve for professional and general liability claims, which is required by accounting standards for companies with claims-made insurance (the "PL/GL Tail Reserve"). For claims made between October 1, 2010 and September 30, 2011, we were self-insured for \$2.0 million per claim and \$8.0 million in the aggregate, and for \$500 thousand per claim in excess of the aggregate. From October 1, 2011 to September 30, 2013, we were self-insured for the first \$4.0 million of each and every claim without an aggregate limit. Beginning October 1, 2013, we are self-insured for \$4.0 million per claim and \$28.0 million in the aggregate. Increased costs of insurance and claims have negatively impacted our results of operations and have resulted in a renewed emphasis on reducing the occurrence of claims. Although insurance premiums did not increase in fiscal 2013 and 2014, they have increased in prior years and may increase in the future.

Stock based compensation expense is recorded for equity awards based on the estimated fair value on the grant date. Historically, we issued equity awards under the equity-based compensation plan of NMH Investment, our parent company, and we recognize stock-based compensation expense for those awards. Following the completion of this offering, we intend to make equity awards based on shares of our common stock under the Civitas Solutions, Inc. 2014 Omnibus Incentive Plan (the "2014 Incentive Plan"), for which we will recognize stock based compensation expense. In connection with this offering, we intend to grant equity awards under the 2014 Incentive Plan to our employees and our non-management directors who are not affiliated with Vestar. The awards to our employees, including our executive officers, are expected to be in the form of stock options and restricted stock.

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units that vest in equal annual increments over a three-year period. We expect to award stock options to purchase an aggregate of 559,572 shares of common stock with an aggregate value of \$4.3 million and an aggregate of 523,422 restricted stock units with an aggregate value of \$8.9 million to our employees. The awards to our non-management directors who are not affiliated with Vestar are expected to be in the form of restricted stock units that vest in one year. We expect to award an aggregate of 27,058 restricted stock units with an aggregate value of \$0.5 million to these four directors. We expect to recognize approximately \$12.5 million of stock based compensation expense in connection with these awards.

As a result of this offering, we intend to make a \$4.0 million cash payment to certain of our non-executive officer employees who participate in CareMeridian, LLC Management Cash Incentive Plan (the CareMeridian Plan), in two installments, the first occurring in January 2015 and the second in January 2016, in satisfaction of their existing awards under the plan. The payments to these non-executive officer employees is contingent upon such individual's continued employment with the Company or any of its subsidiaries through the applicable payment dates. We expect to recognize cash compensation expense of approximately \$4.0 million as a result of these payments.

**Results of Operations**

The following table sets forth our Consolidated Statements of Operations as a percentage of total net revenues for the periods indicated.

	Nine months ended June 30,		Year ended September 30,		
	2014	2013	2013	2012	2011
<b>Revenues:</b>					
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Revenue	78.3%	78.4%	78.0%	77.9%	77.4%
<b>Operating Expenses:</b>					
General and Administrative	11.6%	12.4%	12.2%	12.5%	13.6%
Depreciation and Amortization	5.4%	5.4%	5.4%	5.4%	5.8%
<b>Total operating expense</b>	<b>17.0%</b>	<b>17.8%</b>	<b>17.5%</b>	<b>17.9%</b>	<b>19.3%</b>
Income from operations	4.7%	3.8%	4.4%	4.2%	3.2%
<b>Other income (expense):</b>					
Management fee of related party	(0.1)%	(0.1)%	(0.1)%	(0.1)%	(0.1)%
Other income (expense), net	0.1%	0.1%	0.1%	0.0%	0.0%
Extinguishment of debt	(1.6)%	0.0%	0.0%	0.0%	(2.2)%
Interest Income	0.0%	0.0%	0.0%	0.0%	0.0%
Interest Expense	(5.7)%	(6.5)%	(6.5)%	(7.1)%	(6.4)%
<b>Loss from continuing operations before income taxes</b>	<b>(2.6)%</b>	<b>(2.7)%</b>	<b>(2.1)%</b>	<b>(2.9)%</b>	<b>(5.5)%</b>
Benefit for income taxes	(0.8)%	(0.9)%	(0.8)%	(1.7)%	(1.8)%
<b>Loss from continuing operations</b>	<b>(1.8)%</b>	<b>(1.8)%</b>	<b>(1.3)%</b>	<b>(1.2)%</b>	<b>(3.7)%</b>
Gain (loss) from discontinued operations, net of tax	0.0%	(0.3)%	(0.2)%	(0.1)%	(0.4)%
<b>Net Loss</b>	<b>(1.8)%</b>	<b>(2.1)%</b>	<b>(1.5)%</b>	<b>(1.3)%</b>	<b>(4.1)%</b>

**Table of Contents****Nine Months Ended June 30, 2014 compared to Nine Months Ended June 30, 2013***Consolidated overview*

	Nine months ended June 30,		
	2014	2013	Increase (Decrease)
Gross revenue	\$ 954,782	\$ 907,263	\$ 47,519
Sales adjustments	(15,921)	(13,722)	(2,199)
<b>Net revenue</b>	<b>\$ 938,861</b>	<b>\$ 893,541</b>	<b>\$ 45,320</b>
Income from operations	\$ 44,176	\$ 34,291	\$ 9,885
Operating margin	4.7%	3.8%	0.9%

Consolidated gross revenue for the nine months ended June 30, 2014 increased by \$47.5 million, or 5.2%, compared to gross revenue for the nine months ended June 30, 2013. Sales adjustments as a percentage of gross revenue increased from 1.5% to 1.7% during the nine months ended June 30, 2014. Gross revenue increased \$28.4 million from organic growth, including growth related to new programs, and \$19.1 million from acquisitions that closed during and after the nine months ended June 30, 2013. Our Human Services segment contributed 67.9% of the organic revenue growth with the remaining 32.1% contributed by our SRS segment.

Consolidated income from operations increased from \$34.3 million, or 3.8% of net revenue, for the nine months ended June 30, 2013 to \$44.2 million, or 4.7% of net revenue, for the nine months ended June 30, 2014. The increase in our operating margin was primarily due to the increase in revenue, expense leveraging and cost containment efforts in our direct labor costs and general administrative expenses. The improvement in operating margin was partially offset by the increase in client occupancy costs due to new programs with higher levels of open occupancy and increases in rent, utilities and repair and maintenance costs related to our business. The improvement was also partially offset by a \$2.1 million favorable revenue adjustment to our state provider tax reserve relating to pre-Merger periods during the nine months ended June 30, 2013.

*Revenues by segment*

The following table sets forth net revenue for the Human Services segment for the periods indicated (in thousands):

	Nine months ended June 30,			Percentage
	2014	2013	Increase (Decrease)	Increase (Decrease)
I/DD gross revenue	\$ 628,118	\$ 578,257	\$ 49,861	8.6%
ARY gross revenue	154,408	170,459	(16,051)	(9.4)%
<b>Total Human Services gross revenue</b>	<b>\$ 782,526</b>	<b>\$ 748,716</b>	<b>\$ 33,810</b>	<b>4.5%</b>
Sales adjustments	(13,340)	(10,833)	(2,507)	
Sales adjustments as a percentage of gross revenue	(1.7)%	(1.4)%	(0.3)%	
<b>Total Human Services net revenue</b>	<b>\$ 769,186</b>	<b>\$ 737,883</b>	<b>\$ 31,303</b>	<b>4.2%</b>

Human Services gross revenue for the nine months ended June 30, 2014 increased by \$33.8 million, or 4.5%, compared to the nine months ended June 30, 2013. The \$33.8 million increase in gross revenue was driven by a \$49.9 million increase in I/DD gross revenue while ARY gross revenue decreased by \$16.1 million.

The increase in I/DD gross revenue included \$35.3 million from organic growth and \$14.6 million from acquisitions that closed during and after the nine months ended June 30, 2013. The organic growth was the result of a 3.9% increase in volume coupled with a 2.3% increase in average billing rates for the nine months ended June 30, 2014 compared to the nine months ended June 30, 2013.



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The \$16.1 million decrease in ARY gross revenue was due to a 13.2% decrease in volume partially offset by a 3.7% increase in the average billing rate during the nine months ended June 30, 2014 compared to the nine months ended June 30, 2013. The majority of the decrease in volume was caused by a reduction in services in North Carolina due to a state wide redesign of these programs and the voluntary termination of our contracts to provide services with a managed care organization. The impact of this reduction accounted for approximately \$14 million of the decrease in net revenue.

Sales adjustments for the nine months ended June 30, 2014 increased by \$2.5 million compared to the nine months ended June 30, 2013. The increase is primarily due to a one-time \$2.1 million favorable revenue adjustment to our state provider tax reserve during the nine months ended June 30, 2013 relating to pre-Merger periods.

The following table sets forth net revenue for the SRS segment for the periods indicated (in thousands):

	Nine months ended June 30,			Percentage Increase (Decrease)
	2014	2013	Increase (Decrease)	
SRS gross revenue	\$ 172,256	\$ 158,547	\$ 13,709	8.6%
Sales adjustments	(2,581)	(2,889)	308	
Sales adjustments as a percentage of gross revenue	(1.5)%	(1.8)%	0.3%	
 SRS net revenue	 \$ 169,675	 \$ 155,658	 \$ 14,017	 9.0%

SRS gross revenue for the nine months ended June 30, 2014 increased by \$13.7 million, or 8.6%, compared to the nine months ended June 30, 2013. The increase included \$9.2 million from organic growth and \$4.5 million from acquisitions that closed during and after the nine months ended June 30, 2013. The organic growth was driven by an increase in the average billing rate of 4.1% and a slight increase in volume of 1.7%.

**Cost of revenues by segment**

The following table sets forth cost of revenues for the Human Services segment for the periods indicated (in thousands):

	Nine months ended June 30,		2013	% of net revenue	Increase (Decrease)	Change in % of net revenue
	2014	% of net revenue				
Direct labor costs	\$ 499,173	64.9%	\$ 479,849	65.0%	\$ 19,324	(0.1)%
Client program costs	30,873	4.0%	31,842	4.3%	(969)	(0.3)%
Client occupancy costs	41,244	5.4%	37,838	5.1%	3,406	0.2%
Travel & transportation costs	20,779	2.7%	19,939	2.7%	840	(0.0)%
Other direct costs	16,874	2.2%	16,587	2.2%	287	(0.1)%
 Total cost of revenues	 \$ 608,943	 79.2%	 \$ 586,055	 79.4%	 \$ 22,888	 (0.3)%

Human Services cost of revenue for the nine months ended June 30, 2014 increased by \$22.9 million, or 3.9%, as compared to the nine months ended June 30, 2013 primarily due to an increase in direct labor costs of \$19.3 million and an increase in client occupancy costs of \$3.4 million. The increases in direct labor costs and client occupancy costs were primarily attributable to additional costs associated with new programs and acquisitions that closed during and after the nine months ended June 30, 2013, as well as a new compensation program for our direct care workers.

The decrease of direct labor costs as a percentage of net revenue was primarily due to expense leveraging. The increase in client occupancy costs as a percentage of net revenue was the result of new programs with higher levels of open occupancy and an increase in rent, utilities and repairs and maintenance expense related to our business.



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The following table sets forth cost of revenues for the SRS segment for the periods indicated (in thousands):

	Nine months ended June 30,		2013		Increase (Decrease)	Change in % of net revenue
	2014	% of net revenue	Amount	% of net revenue		
Direct labor costs	\$ 88,754	52.3%	\$ 82,207	52.8%	\$ 6,547	(0.5)%
Client program costs	12,575	7.4%	10,975	7.1%	1,600	0.4%
Client occupancy costs	19,151	11.3%	16,388	10.5%	2,763	0.8%
Travel & transportation costs	2,271	1.3%	1,937	1.2%	334	0.1%
Other direct costs	3,065	1.8%	2,853	1.8%	212	(0.0)%
Total cost of revenues	\$ 125,816	74.2%	\$ 114,360	73.5%	\$ 11,456	0.7%

SRS cost of revenue for the nine months ended June 30, 2014 increased by \$11.5 million, or 10.0%, as compared to the nine months ended June 30, 2013 due to an increase in direct labor costs of \$6.5 million, an increase in client program costs of \$1.6 million and an increase in client occupancy costs of \$2.8 million. These increases were primarily attributable to additional costs associated with new programs and acquisitions that closed during and after the nine months ended June 30, 2013.

The decrease of direct labor costs as a percentage of revenue was primarily due to expense leveraging. The increase in client program costs as a percentage of net revenue during the nine months ended June 30, 2014 was due to an increase in medical expense relating to the client mix. The increase in client occupancy costs as a percentage of net revenue during the nine months ended June 30, 2014 was due to new programs with higher levels of open occupancy and an increase in rent, utilities and repairs and maintenance expense related to our business.

**Consolidated operating expenses**

General and administrative and depreciation and amortization expense were as follows (in thousands):

	Nine months ended June 30,		2013		Increase (Decrease)	Change in % of net revenue
	2014	% of net revenue	Amount	% of net revenue		
General and administrative	\$ 108,811	11.6%	\$ 110,879	12.4%	\$ (2,068)	(0.8)%
Depreciation and amortization	50,987	5.4%	47,970	5.4%	3,017	0.0%
Total operating expense	\$ 159,798	17.0%	\$ 158,849	17.8%	\$ 949	(0.8)%

General and administrative expenses for the nine months ended June 30, 2014 decreased by \$2.1 million, or 1.9%, as compared to the nine months ended June 30, 2013. As a percentage of net revenue, general and administrative expenses decreased by 0.8% as compared to the nine months ended June 30, 2013. This decrease was attributable to cost containment efforts in administrative staffing, business and office related costs.

Depreciation and amortization expense increased \$3.0 million during the nine months ended June 30, 2014 from the prior year period primarily due to an increase in leasehold improvements to our properties and the acquisition of amortizable assets. Depreciation and amortization expense as a percentage of net revenue remained consistent.

**Table of Contents****Other (income) expense**

*Management fee of related party:* Management fee remained consistent during the nine months ended June 30, 2014 compared to the nine months ended June 30, 2013.

*Other income, net:* Other income, net, which primarily consists of mark to market adjustments of the cash surrender value of Company owned life insurance policies, decreased slightly from \$0.6 million to \$0.4 million in the nine months ended June 30, 2013 and 2014, respectively

*Loss on extinguishment of debt:* Extinguishment of debt was \$14.7 million in the nine months ended June 30, 2014. The prior senior secured credit facilities were repaid and replaced with the senior secured credit facilities on January 31, 2014, and \$38 million of the senior notes were redeemed on February 26, 2014, resulting in the write-off of deferred financing fees, original issue discount, redemption premium and initial purchase discount related to the prior senior secured credit facilities and the partial redemption of the senior notes totaling \$14.7 million.

*Interest Expense:* Interest expense decreased by \$5.3 million during the nine months ended June 30, 2014 compared to the nine months ended June 30, 2013 due to lower interest expense on the senior secured credit facilities as a result of the refinancing on January 31, 2014 and the redemption of \$38 million of the senior notes on February 26, 2014.

**Benefit for income taxes**

For the nine months ended June 30, 2014, our effective income tax rate was 29.9% compared to an effective tax rate of 34.5% for the nine months ended June 30, 2013. These rates differ from the federal statutory income tax rate primarily due to nondeductible permanent differences such as meals and nondeductible compensation, and net operating losses not benefited.

**Fiscal Year Ended September 30, 2013 compared to Fiscal Year Ended September 30, 2012****Consolidated overview**

	Year ended September 30,		Increase (Decrease)
	2013	2012	
Gross revenue	\$ 1,221,200	\$ 1,138,910	\$ 82,290
Sales adjustments	(22,547)	(15,792)	(6,755)
Net revenue	\$ 1,198,653	\$ 1,123,118	\$ 75,535
Income from operations	\$ 53,324	\$ 47,585	\$ 5,739
Operating margin	4.4%	4.2%	0.2%

Consolidated gross revenue for the fiscal year ended September 30, 2013 ( fiscal 2013 ) increased by \$82.3 million, or 7.2%, compared to gross revenue for the fiscal year ended September 30, 2012 ( fiscal 2012 ). Sales adjustments as a percentage of gross revenue increased by 0.46% to 1.85% from 1.39% for the same period. The increase in sales adjustments was partially offset by a \$2.1 million adjustment to our state provider tax reserve relating to pre-merger periods. The increase in sales adjustments was primarily in our Human Services segment. Gross revenue increased \$57.8 million from organic growth, including growth related to new programs and \$24.5 million from acquisitions that closed during and after fiscal 2012. The organic growth was partially offset by a reduction in revenue of \$3.6 million from businesses we divested during the same period.

Consolidated income from operations increased from \$47.6 million, or 4.2%, of net revenue in fiscal 2012 to \$53.3 million, or 4.4% of net revenue, in fiscal 2013. The increase in our operating margin was primarily due



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to the increase in revenue noted above as well as expense leveraging and cost containment efforts in our direct labor costs and general and administrative expenses. The improvement in operating margin was partially offset by the increase in cost of other revenues. The increase in cost of other revenues was primarily due to the increase in client occupancy expense of \$10.2 million attributable to new programs and acquisitions that have closed during and after fiscal 2012. Additionally, our health insurance expense and professional and general liability expense increased in fiscal 2013 as compared to fiscal 2012 primarily as a result of a change in reserves. Health insurance expense increased approximately \$3.0 million, \$2.4 million of which was included in consolidated cost of revenue and \$0.6 million was included in General and administrative expenses. Professional and general liability expense increased by approximately \$1.4 million as compared to fiscal 2012. In fiscal 2013, we increased the PL/GL Tail Reserve by \$3.4 million which was partially offset by a decrease in our professional and general liability claims expense as compared to fiscal 2012. The expense relating to the professional and general liability claims expense and the PL/GL Tail Reserve is included in consolidated cost of revenue in the accompanying consolidated statements of operations.

**Revenues by segment**

The following table sets forth net revenue for the Human Services segment for the periods indicated (in thousands):

	Year ended September 30,		Increase (Decrease)	Percentage Increase (Decrease)
	2013	2012		
I/DD gross revenue	\$ 783,018	\$ 731,309	\$ 51,709	7.1%
ARY gross revenue	224,717	218,040	6,677	3.1%
Total Human Services gross revenue	\$ 1,007,735	\$ 949,349	\$ 58,386	6.2%
Sales adjustments	(17,503)	(11,697)	(5,806)	
Sales adjustments as a percentage of revenue	1.7%	1.2%	0.5%	
Total Human Services net revenue	\$ 990,232	\$ 937,652	\$ 52,580	5.6%

Human Services gross revenue for fiscal 2013 increased by \$58.4 million, or 6.2%, compared to fiscal 2012. The increase was driven by a 7.1% increase in I/DD gross revenue and 3.1% increase in ARY gross revenue.

The increase in I/DD gross revenue included \$39.8 million from organic growth and \$11.9 million from acquisitions that closed during and after fiscal 2012. The increase from organic growth was driven by an increase in volume of 2.2% and an increase in average billing rate of 3.3% during fiscal 2013 compared to fiscal 2012. The organic growth was partially offset by a reduction in revenue of \$3.6 million from businesses we divested during the same period.

The increase of \$6.7 million in ARY gross revenue was derived from organic growth which was driven by a 3.0% increase in volume and a slight increase of 0.1% in the average billing rate during fiscal 2013 compared to fiscal 2012.

Sales adjustments increased by \$5.8 million in fiscal 2013 compared to fiscal 2012. Sales adjustments as a percentage of gross revenue increased by 0.5% from 1.2% for fiscal 2012 to 1.7% for fiscal 2013. In fiscal 2013, we made a significant increase to the sales adjustments allowance in our Florida, North Carolina and Pennsylvania business units for the potential write-off of outstanding aged receivables that are in dispute with payors.

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The following table sets forth net revenue for the SRS segment for the periods indicated (in thousands):

	Year ended September 30,		Increase (Decrease)	Percentage Increase (Decrease)
	2013	2012		
SRS gross revenues	\$ 213,465	\$ 189,561	\$ 23,904	12.6%
Sales adjustments	(5,044)	(4,095)	(949)	23.2%
Sales adjustments as a percentage of revenue	2.4%	2.2%	0.2%	
Total SRS net revenues	\$ 208,421	\$ 185,466	\$ 22,955	12.4%

SRS gross revenue for fiscal 2013 increased by \$23.9 million, or 12.6%, compared to fiscal 2012. The increase in gross revenue included \$11.0 million from organic growth and \$12.9 million from acquisitions that closed during and after fiscal 2012. The organic growth was driven by an increase in volume of 2.3% and an increase in average billing rate of 3.5% during fiscal 2013 compared to fiscal 2012.

**Cost of revenues by segment**

The following table sets forth cost of revenues for the Human Services segment for the periods indicated (in thousands):

	2013		Year ended September 30, 2012		Increase (Decrease)	Change in % of net revenue
	Amount	% of net revenue	Amount	% of net revenue		
	Direct labor costs	\$ 643,478	65.0%	\$ 612,260		
Client program costs	40,220	4.1%	39,222	4.2%	998	(0.1)%
Client occupancy costs	51,324	5.2%	45,285	4.8%	6,039	0.4 %
Travel & transportation costs	26,996	2.7%	26,531	2.8%	465	(0.1)%
Other direct costs	18,737	1.9%	20,911	2.2%	(2,174)	(0.3)%
Total cost of revenues	\$ 780,755	78.8%	\$ 744,209	79.4%	\$ 36,546	(0.5)%

Human Services cost of revenue for fiscal 2013 increased by \$36.6 million, or 4.9%, compared to fiscal 2012. This increase was driven by \$31.2 million increase in direct labor costs and a \$6.0 million increase in client occupancy costs and was offset by a \$2.2 million decrease in other direct costs.

The increase in direct labor costs was primarily due to increased staffing in connection with new programs and acquisitions that closed during and after fiscal 2012.

The increase in client occupancy costs period to period and as a percentage of revenue was attributable to acquisitions and new programs with higher levels of open occupancy and increases in rent, utilities and repairs and maintenance expense related to our businesses.

The decrease in other direct costs was primarily due to a reduction of \$1.5 million in the cash bonus provided to our direct care workers in fiscal 2013 compared to fiscal 2012.

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The following table sets forth cost of revenues for the SRS segment for the periods indicated (in thousands):

	Year ended September 30,		2012		Increase (Decrease)	Change in % of net revenue
	2013	% of net revenue	Amount	% of net revenue		
Direct labor cost	\$ 110,508	53.0%	\$ 93,412	50.4%	\$ 17,096	2.7%
Client program costs	14,486	7.0%	13,634	7.4%	852	(0.4)%
Client occupancy costs	22,662	10.9%	18,291	9.9%	4,371	1.0%
Travel & transportation costs	2,635	1.3%	2,383	1.3%	252	0.0%
Other direct costs	3,144	1.5%	2,935	1.6%	209	(0.1)%
Total cost of revenues	\$ 153,435	73.6%	\$ 130,655	70.4%	\$ 22,780	3.2%

SRS cost of revenue for fiscal 2013 increased by \$22.8 million, or 17.4%, compared to fiscal 2012. This increase was driven by \$17.1 million increase in direct labor costs, a \$4.4 million increase in client occupancy costs and a \$0.9 million increase in client program costs.

The increase in direct labor costs period to period and as a percentage of revenue was primarily due to increased staffing in connection with new programs and acquisitions and due to additional staff to facilitate higher quality and service.

The increase in client occupancy expense was primarily attributable to acquisitions that have closed during and after fiscal 2012, new programs and new starts. Client occupancy costs have also been affected by the increase in rent, utilities and repairs and maintenance expense related to our existing businesses.

**Consolidated operating expenses**

General and administrative and depreciation and amortization expense were as follows (in thousands):

	Year ended September 30,		2012		Increase (Decrease)	Change in % of net revenue
	2013	% of net revenue	Amount	% of net revenue		
General and administrative	\$ 146,040	12.2%	\$ 140,221	12.5%	\$ 5,819	(0.3)%
Depreciation and amortization	64,146	5.4%	60,534	5.4%	3,612	0.0%
Total operating expense	\$ 210,186	17.5%	\$ 200,755	17.9%	\$ 9,431	(0.3)%

General and administrative expenses for fiscal 2013 increased by \$5.8 million, or 4.1%, as compared to fiscal 2012 due to increases in professional service fees and administrative staffing costs. Additionally, we wrote off goodwill and intangible assets related to underperforming programs within the Human Services segment which were closed during fiscal 2013. The total impairment charge was \$2.3 million and included a \$1.3 million write off of goodwill that was recorded in general and administrative expense.

Depreciation and amortization expense increased \$3.6 million, or 6.0%, during fiscal 2013 from fiscal 2012 but remained relatively flat as a percent of net revenue at 5.4% for both periods. The increase in depreciation and amortization expense was primarily due to an increase in leasehold improvements to our properties and the acquisition of amortizable assets. Partially offsetting this increase was a decrease in depreciation and amortization expense as certain assets became fully depreciated. Additionally, as noted above, we wrote off goodwill and intangible assets related to underperforming programs within the Human Services segment which were closed during fiscal 2013. The total impairment charge was \$2.3 million and included the write-off of \$1.0 million of intangible assets recorded in depreciation and amortization expense.



**Table of Contents****Non-operating (income) expense**

*Management fee of related party:* Management fee has remained consistent during fiscal 2013 compared to fiscal 2012.

*Other income, net:* Other income, net which primarily consists of mark to market adjustments of the cash surrender value of Company owned life insurance policies, increased from zero in fiscal 2012 to \$0.9 million in fiscal 2013.

*Interest Income:* Interest income decreased to \$0.1 million in fiscal 2013 from \$0.3 million in fiscal 2012. Interest income is derived from interest earned on interest bearing bank accounts.

*Interest Expense:* Interest expense for fiscal 2013 decreased \$1.4 million to \$78.1 million as compared to fiscal 2012. The decrease is due to the lower interest rate we pay on our borrowings under the prior senior secured credit facilities as a result of the amendment to our prior senior credit agreement during fiscal 2013.

**Benefit for income taxes**

For fiscal 2013, our effective income tax rate was 37.8% compared to an effective tax rate of 58.7% for fiscal 2012. These rates differ from the federal statutory income tax rate primarily due to nondeductible permanent differences such as meals and nondeductible compensation, and net operating losses not benefited. In addition, our effective tax rate for fiscal 2012 was impacted by a \$5.6 million reduction in our reserve for uncertain income tax positions, including interest and penalties, as a result of favorable settlement of an audit.

**Loss from discontinued operations**

Loss from discontinued operations net of taxes for fiscal 2013 was \$2.7 million as compared to \$0.7 million for fiscal 2012. During the second quarter of fiscal 2013, we adopted a plan to sell certain Human Services operations in the State of Rhode Island and completed the sale in the third quarter of fiscal 2013. Additionally, we closed certain Human Services operations in the Commonwealth of Virginia during the second quarter of fiscal 2013. We recorded a total impairment charge of \$4.1 million to write off the related intangible assets. The impairment charge and operations of these businesses including the expenses to close these operations are included in discontinued operations.

**Fiscal Year Ended September 30, 2012 compared to Fiscal Year Ended September 30, 2011****Consolidated overview**

	Year ended September 30,		Increase (Decrease)
	2012	2011	
Gross revenue	\$ 1,138,910	\$ 1,076,961	\$ 61,949
Sales adjustments	(15,792)	(14,188)	(1,604)
Net revenue	\$ 1,123,118	\$ 1,062,773	\$ 60,345
Income from operations	\$ 47,585	\$ 34,423	\$ 13,162
Operating margin	4.2%	3.2%	1.0%

Consolidated gross revenue for the fiscal 2012 increased by \$61.9 million, or 5.8%, compared to gross revenue for the fiscal year ended September 30, 2011 ( fiscal 2011 ). Sales adjustments as a percentage of gross revenue increased by 0.1% to 1.4% from 1.3% for the same period. Gross revenue increased \$36.6 million from organic growth, including growth related to new programs, and \$25.3 million from acquisitions that closed during and after fiscal 2011. The organic growth was partially offset by a reduction in revenue of \$3.4 million from businesses we divested during the same period.

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Consolidated income from operations increased from \$34.4 million, or 3.2% of revenue, in fiscal 2011 to \$47.6 million, or 4.2% of revenue, in fiscal 2012. Operating margin was positively impacted by a \$4.8 million decrease in workers compensation insurance costs and employment practices liability expense during fiscal 2012 as compared to fiscal 2011. The increase in our operating margin was also primarily due to the non-recurrence of certain general and administrative expenses incurred during fiscal 2011, namely accelerated stock-based compensation expense, discretionary bonuses, cost structure optimization efforts and an impairment charge to long-lived assets. The improvement in operating margin was partially offset by the increase in direct labor costs in fiscal 2012 as we increased staffing to strengthen quality and service, and an increase in travel and transportation expense primarily from cost for mileage reimbursement, auto insurance and gasoline.

**Revenues by segment**

The following table sets forth net revenue for the Human Services segment for the periods indicated (in thousands):

	Year ended September 30,		Increase (Decrease)	Percentage Increase (Decrease)
	2012	2011		
I/DD gross revenue	\$ 731,309	\$ 693,703	\$ 37,606	5.4%
ARY gross revenue	218,040	206,136	11,904	5.8%
Total Human Services gross revenue	\$ 949,349	\$ 899,839	\$ 49,510	5.5%
Sales adjustments	(11,697)	(12,542)	845	
Sales adjustments as a percentage of gross revenue	1.2%	1.4%	(0.2)%	
Total human services net revenue	\$ 937,652	\$ 887,297	\$ 50,355	5.7%

Human Services gross revenue for fiscal 2012 increased by \$49.5 million, or 5.5%, as compared to fiscal 2011. The increase was driven by a 5.4% increase in I/DD gross revenue and a 5.8% increase in ARY gross revenue.

The increase in I/DD gross revenue included \$28.0 million from organic growth and \$9.6 million from acquisitions that closed during and after fiscal 2011. The organic growth was driven by an increase in volume of 2.5% and an increase in average billing rate of 1.5% during fiscal 2012 compared to fiscal 2011. The increase in the average billing rate was partially offset by rate reductions in some states, including Arizona, Florida and Minnesota. The organic growth was also partially offset by a reduction in revenue of \$0.6 million from businesses we divested during the same period.

The increase of \$11.9 million in ARY gross revenue included \$4.7 million of organic growth and \$7.2 million from acquisitions that closed during and after fiscal 2011. The organic growth was driven by an increase in the average billing rate of 4.3% offset by a decrease in volume of 2.0% during fiscal 2012 compared to fiscal 2011.

The following table sets forth net revenue for the SRS segment for the periods indicated (in thousands):

	Year ended September 30,		Increase (Decrease)	Percentage Increase (Decrease)
	2012	2011		
SRS gross revenue	\$ 189,561	\$ 177,122	\$ 12,439	7.0%
Sales adjustments	(4,095)	(1,646)	(2,449)	
Sales adjustments as a percentage of gross revenue	2.2%	0.9%	1.3%	
Total SRS net revenue	\$ 185,466	\$ 175,476	\$ 9,990	5.7%

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SRS gross revenue for fiscal 2012 increased by \$12.4 million, or 7.0%, as compared to fiscal 2011. Gross revenue increased \$3.9 million from organic growth, including growth related to new programs, and \$8.5 million related to acquisitions that closed during and after fiscal 2011. The organic growth was primarily due to an increase in average daily rate of 3.5% offset by a decrease in volume of 1.1% during fiscal 2012 compared to fiscal 2011. The organic growth was also partially offset by a reduction in revenue of \$2.8 million from businesses we divested during the same period.

Sales adjustments as a percentage of gross revenue increased by 1.3% from 0.9% for fiscal 2011 to 2.2% for fiscal 2012. In fiscal 2012, we made a significant increase to our sales adjustments allowance for the amounts that were in dispute with payors.

**Cost of revenues by segment**

The following table sets forth cost of revenues for the Human Services segment for the periods indicated (in thousands):

	Year ended September 30, 2012		2011		Increase (Decrease)	Change in % of net revenue
	Amount	% of net revenue	Amount	% of net revenue		
Direct labor costs	\$ 612,260	65.3%	\$ 569,522	64.2%	\$ 42,738	1.1 %
Client program costs	39,222	4.2%	38,891	4.4%	331	(0.2)%
Client occupancy costs	45,285	4.8%	43,390	4.9%	1,895	(0.1)%
Travel & transportation costs	26,531	2.8%	22,746	2.6%	3,785	0.3 %
Other direct costs	20,911	2.2%	24,185	2.7%	(3,274)	(0.5)%
Total cost of revenues	\$ 744,209	79.4%	\$ 698,734	78.7%	\$ 45,475	0.6 %

Human Services cost of revenues increased by \$45.5 million, or 6.5%, for fiscal 2012 compared to fiscal 2011. The increase was driven by a \$42.7 million increase in direct labor costs, a \$0.4 million increase in client program costs, a \$1.9 million increase in client occupancy costs, and a \$3.8 million increase in travel and transportation costs offset by a \$3.3 million decrease in other direct costs.

The increase in direct labor costs is primarily due to increased staffing in connection with new programs and acquisitions. Additionally, we increased staffing to strengthen the quality and service during fiscal 2012 which had a negative impact on operating margin compared to fiscal 2011.

The increase in program related costs was primarily due to new programs and acquisitions. This increase was offset by a decrease of \$1.1 million in employment practices liability claims expense in fiscal 2012 as a result of favorable settlements of prior period claims.

The increase in client occupancy costs was primarily attributable to acquisitions that have closed during and after fiscal 2012, new programs primarily and new starts as we continued to spend on growth initiatives.

During fiscal 2012, we also recorded an additional \$3.8 million in travel and transportation costs, primarily from increased cost for mileage reimbursement, auto insurance and gasoline.

The decrease in other direct costs was primarily due to a decrease of \$2.9 million in workers' compensation insurance costs in fiscal 2012 compared to fiscal 2011 as a result of a change in our reserves due to favorable settlements of prior period claims and a \$1.3 million decrease in discretionary bonus to direct care workers in fiscal 2012 compared to fiscal 2011 partially offset by increases in other direct costs due to new programs and acquisitions.

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The following table sets forth cost of revenues for the SRS segment for the periods indicated (in thousands):

	Year ended September 30,		2011		Increase (Decrease)	Change in % of net revenue
	2012	% of net revenue	2011	% of net revenue		
Direct labor costs	\$ 93,412	50.4%	\$ 88,503	50.4%	\$ 4,909	(0.1)%
Client program costs	13,634	7.4%	12,892	7.3%	742	0.0 %
Client occupancy costs	18,291	9.9%	17,235	9.8%	1,056	0.1 %
Travel & transportation costs	2,383	1.3%	2,185	1.2%	198	0.0 %
Other direct costs	2,935	1.6%	3,466	2.0%	(531)	(0.4)%
Total cost of revenues	\$ 130,655	70.4%	\$ 124,281	70.8%	\$ 6,374	(0.4)%

SRS costs of revenues increased by \$6.3 million, or 5.1%, for fiscal 2012 compared to fiscal 2011. The increase was driven by a \$4.9 million increase in direct labor expense, a \$0.7 million increase in client program costs, and a \$1.1 million increase in client occupancy costs offset by a \$0.5 million decrease in other direct costs.

The increase in direct labor costs was primarily due to increased staffing in connection with new programs and acquisitions. Additionally, we increased staffing to strengthen the quality of service which negatively impacted operating margin.

The increase in client program related costs was primarily due to new programs and acquisitions. This increase was offset by a decrease of \$0.2 million in employment practices liability claims expense in fiscal 2012 as a result of favorable settlements of prior period claims.

The increase in client occupancy costs was primarily attributable to acquisitions that have closed during and after fiscal 2012, new programs and new starts. Client occupancy costs were also affected by the increase in rent, utilities and repairs and maintenance expense related to our businesses.

The decrease in other direct costs was primarily due to a decrease of \$0.6 million in workers' compensation insurance costs in fiscal 2012 compared to fiscal 2011 as a result of a change in our reserves due to favorable settlements of prior period claims.

**Consolidated operating expenses**

General and administrative and depreciation and amortization expense were as follows (in thousands):

	Year ended September 30,		2011		Increase (Decrease)	Change in % of net revenue
	2012	% of net revenue	2011	% of net revenue		
General and administrative	\$ 140,221	12.5%	\$ 144,011	13.6%	\$ (3,790)	(1.1)%
Depreciation and amortization	60,534	5.4%	61,330	5.8%	(796)	(0.4)%
Total operating expense	\$ 200,755	17.9%	\$ 205,341	19.3%	\$ (4,586)	(1.4)%

General and administrative expense decreased by \$3.8 million, or 2.6%, for fiscal 2012 compared to fiscal 2011. The decrease in general and administrative expense was the result of a \$5.3 million impairment that was recorded in 2011 for certain trade names while there was no impairment in fiscal 2012, \$2.4 million of discretionary recognition bonuses recorded during fiscal 2011 which were not recorded in 2012, a decrease of approximately \$3.0 million in stock compensation expense due to the majority of the unvested Class B Common Units, Class C Common Units and Class D Common Units becoming fully vested in fiscal 2011, and a





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\$2.2 million decrease in restructuring costs during fiscal 2012 compared to fiscal 2011. The impact of these items was partially offset by the increase in staffing and other general and administrative employee-related costs in fiscal 2012 compared to fiscal 2011.

Depreciation and amortization expense decreased by \$0.8 million, or 1.3%, during fiscal 2012 compared to fiscal 2011 and decreased slightly as a percent of revenue from 5.7% in fiscal 2011 to 5.3% in fiscal 2012. The decrease was due to certain assets became fully depreciated during fiscal 2012.

### ***Other (income) expense***

*Management fee of related party:* Management fee has remained consistent during fiscal 2012 compared to fiscal 2011.

*Other income, net:* Other income, net, which primarily consists of mark to market adjustments for the cash surrender value of Company owned life insurance policies, remained consistent during fiscal 2012 compared to fiscal 2011.

*Extinguishment of debt:* During fiscal 2011, we incurred \$23.7 million of net expenses related to refinancing transactions, including (i) \$10.8 million related to the tender premium and consent fees paid in connection with the repurchase of the senior subordinated notes, (ii) \$2.0 million related to the consent fees and repurchase discount in connection with the repurchase of the senior floating rate toggle notes, (iii) \$9.8 million related to the acceleration of financing costs and original issue discount related to the prior indebtedness and (iv) \$1.1 million related to other transaction costs. These expenses were recorded on our consolidated statements of operations as extinguishment of debt.

*Interest Income:* Interest income increased to \$0.3 million in fiscal 2012 from \$0.0 million in fiscal 2011. Interest income is derived from interest earned on interest bearing bank accounts.

*Interest Expense:* Interest expense increased by \$11.9 million from fiscal 2011 as compared to fiscal 2012, as a result of the 2011 refinancing transactions. Our weighted average debt balance increased by \$33.0 million in fiscal 2012 and our weighted average interest rate increased from 8.1% during fiscal 2011 to 9.2% for fiscal 2012.

### ***Benefit for income taxes***

For fiscal 2012, our effective income tax rate was 58.7% compared to an effective tax rate of 33.1% for fiscal 2011. These rates differ from the federal statutory income tax rate primarily due to nondeductible permanent differences and net operating losses not benefited. In addition, our effective tax rate for fiscal 2012 was impacted by a \$5.6 million reduction in our reserve for uncertain income tax positions, including interest and penalties, as a result of favorable settlement of an audit.

## **Liquidity and Capital Resources**

Our principal uses of cash are to meet working capital requirements, fund debt obligations and finance capital expenditures and acquisitions. Cash flows from operations have historically been sufficient to meet these cash requirements. Our principal sources of funds are cash flows from operating activities, cash on hand and available borrowings under our senior revolver (as defined below).

### ***Operating activities***

Cash flows provided by operating activities were \$66.7 million for the nine months ended June 30, 2014 compared to cash flows provided by operating activities of \$32.7 million for the nine months ended June 30, 2013. The increase in cash provided by operating activities is primarily attributable to the management of working capital items for the nine months ended June 30, 2014 as compared to the nine months ended June 30, 2013.

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Cash flows provided by operating activities were \$55.7 million, \$29.3 million and \$30.8 million for fiscal 2013, 2012 and 2011, respectively. The increase in cash provided by operating activities in 2013 is primarily attributable to the decrease in our days sales outstanding. Our days sales outstanding decreased from 52 days to 47 days at September 30, 2013 as compared to September 30, 2012 primarily due to some efficiencies resulting from the centralization of certain billing and accounts receivable functions as well as the process improvement of our billing and collections process and review of aged receivables.

The decrease in cash flows provided by operating activities from fiscal 2011 to fiscal 2012 was primarily due to the increase in our days sales outstanding which increased to 52 days at September 30, 2012 from 48 days at September 30, 2011, as we were still continuing to centralize certain billing and accounts receivable functions and utilize a new billing and accounts receivable system in certain locations. The decrease in cash flows was offset by the timing of other working capital items which positively impacted our cash flows in the same comparative period.

### ***Investing activities***

Net cash used in investing activities was \$39.7 million and \$21.0 million for the nine months ended June 30, 2014 and 2013, respectively. Cash paid for property and equipment for the nine months ended June 30, 2014 was \$24.3 million, or 2.6% of net revenue, compared to \$22.3 million, or 2.5% of net revenue, for the nine months ended June 30, 2013. During the nine months ended June 30, 2014 we paid \$15.2 million for six acquisitions. During the nine months ended June 30, 2013, we paid \$0.5 million for one acquisition in our Human Services segment.

Net cash used in investing activities was \$39.4 million, \$42.7 million and \$82.5 million for fiscal 2013, 2012 and 2011, respectively.

Cash paid for acquisitions was \$9.3 million, \$16.5 million and \$12.7 million for fiscal 2013, 2012 and 2011, respectively. We acquired three companies in fiscal 2013 and seven companies in each of 2012 and 2011, respectively.

Cash paid for property and equipment for fiscal 2013 was \$31.9 million, or 2.7% of net revenue, compared to \$30.0 million, or 2.7% of net revenue for fiscal 2012, and \$20.9 million or 2.0% of net revenue for fiscal 2011. We plan to continue allocating approximately 2.7% of net revenue to spending on property and equipment during fiscal 2014. During fiscal 2012, we sold certain real estate assets for total cash proceeds of \$2.8 million, which we subsequently leased back.

In addition, during fiscal 2011, our restricted cash balance increased by \$49.9 million primarily due to \$50.0 million which was deposited in a cash collateral account in support of issuance of letters of credit under the institutional letter of credit facility (the institutional letter of credit facility).

### ***Financing activities***

On January 31, 2014, NMHI replaced its prior senior secured credit facilities with the senior secured credit facilities consisting of a term loan facility and a senior revolver. The term loan facility has a seven-year maturity and the senior revolver has a five-year maturity: provided that if the senior notes are not refinanced in full on or prior to the date that is three months prior to February 15, 2018, such maturity will spring forward to November 15, 2017. NMHI redeemed \$38 million in aggregate principal amount of its senior notes on February 26, 2014.

Net cash provided by financing activities was \$1.1 million for the nine months ended June 30, 2014 as compared to \$4.5 million of cash provided by financing activities for the nine months ended June 30, 2013. The decrease in cash provided by financing activities is primarily due to the \$30.0 million additional term loan we obtained in February 2013, which had the effect of minimizing the need to draw on our senior revolver.

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Net cash provided by financing activities was \$3.0 million, \$13.1 million and \$25.5 million for fiscal years 2013, 2012 and 2011, respectively. The decrease in net cash provided by financing activities in fiscal 2013 as compared to fiscal 2012 and fiscal 2011 is primarily due to the repayment of any outstanding borrowings under our senior revolver.

Net cash provided by financing activities for fiscal 2011 was primarily due to the 2011 Refinancing. In addition, net cash used in financing activities for fiscal 2011 included an earn-out payment of \$3.4 million to the former owners of a company that we acquired in fiscal 2009.

Our principal sources of funds are cash flows from operating activities, cash on hand and available borrowings under our senior revolver. During fiscal 2013, we borrowed an aggregate of \$469.4 million under our senior revolver and repaid \$488.4 million during the same period. During the nine months ended June 30, 2014, we borrowed an aggregate of \$9.3 million under our senior revolver and repaid \$9.3 million during the same period. At June 30, 2014, we had no outstanding borrowings and \$100.0 million of availability under the senior revolver. However, despite the contractual availability, the covenants in NMHI's indenture governing the senior notes effectively limit our ability to draw on the senior revolver. Letters of credit can be issued under our institutional letter of credit facility up to the \$50.0 million limit and letters of credit in excess of that amount reduce availability under our senior revolver. Subject to the debt incurrence limitations imposed by the indenture governing the senior notes, we may draw on the revolver during fiscal 2014 and we believe that available funds will provide sufficient liquidity and capital resources to meet our financial obligations for the next twelve months, including scheduled principal and interest payments, as well as to provide funds for working capital, acquisitions, capital expenditures and other needs. No assurance can be given, however, that this will be the case.

Also during the nine months ended June 30, 2014 and fiscal 2013, 2012 and 2011, NMH Investment repurchased equity units from employees upon or after their departures from the Company for \$110 thousand, \$39 thousand, \$75 thousand and \$1.5 million, respectively. We accounted for these repurchases as dividends of \$110 thousand, \$39 thousand, \$75 thousand and \$1.5 million, respectively, up to NMH Investment which used the proceeds to fund the repurchases.

On January 31, 2014, NMHI replaced the prior senior secured credit facilities with new senior secured credit facilities. The new term loan facility has a seven-year maturity and the new senior revolver has a five-year maturity: provided that if the senior notes are not refinanced in full on or prior to the date that is three months prior to February 15, 2018, such maturity will spring forward to November 15, 2017. NMHI redeemed \$38 million aggregate principal amount of the senior notes on February 26, 2014. If these refinancing transactions had occurred at the beginning of fiscal 2013, they would have reduced our interest expense by approximately \$11.6 million, based on (i) a reduction in the applicable margin and LIBOR floor used to calculate interest rates under the senior secured credit facilities, partially offset by the increase in the principal amount outstanding under the term loan, and (ii) the elimination of interest expense on the \$38 million principal amount of our senior notes that were redeemed. Assuming an effective tax rate of 40%, this reduction in interest expense would have reduced our fiscal 2013 net loss by approximately \$7.0 million. See Note 9 to our consolidated financial statements included elsewhere herein for further information about our senior secured credit facilities.

We intend to use the net proceeds from the sale of common stock by us in this offering to redeem \$162.0 million in aggregate principal amount of the senior notes at a redemption price of 106.25% plus accrued and unpaid interest thereon to the date of redemption. This redemption is expected to result in annual interest expense savings of approximately \$23.3 million, assuming our debt levels stay the same, consisting of (i) \$20.3 million of annual interest expense savings from the redemption of the senior notes, and (ii) \$3 million of annual interest expense savings from the reduction of the interest rate payable under our senior secured credit facilities by 0.50% per annum as a result of the reduction in our consolidated leverage ratio following the redemption of the senior notes using the net proceeds from this offering. See Debt and Financing Arrangements Senior Secured Credit Facilities. Assuming an effective tax rate of 40% and that our consolidated leverage ratio remains consistent, this annual savings could have a positive net income impact of approximately \$14.0 million annually.

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### **Debt and Financing Arrangements**

#### ***Senior Secured Credit Facilities***

On January 31, 2014, NMHI and NMH Holdings, LLC entered into a new senior credit agreement (the *senior credit agreement*) with Barclays Bank PLC, as administrative agent, and the other agents and lenders named therein, for the new senior secured credit facilities (the *senior secured credit facilities*), consisting of a \$600.0 million 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 \$100.0 million senior secured revolving credit facility (the *senior revolver*). The term loan facility has a seven-year maturity and the senior revolver has a five-year maturity; provided, that if the senior notes are not refinanced in full on or prior to the date that is three months prior to February 15, 2018, such maturity dates shall spring forward to November 15, 2017. 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.

All of the obligations under the senior secured credit facilities are guaranteed by NMH Holdings, LLC and the subsidiary guarantors named therein (the *Subsidiary Guarantors*). Pursuant to the Guarantee and Security Agreement, dated as of January 31, 2014 (the *guarantee and security agreement*), among NMH Holdings, LLC, as parent guarantor, NMHI, certain of NMHI's subsidiaries, as subsidiary guarantors and Barclays Bank, PLC, as administrative agent, subject to certain exceptions, the obligations under the senior secured credit facilities are secured by a pledge of 100% of NMHI's capital stock and the capital stock of domestic subsidiaries owned by NMHI and any other domestic Subsidiary Guarantor and 65% of the capital stock of any first tier foreign subsidiaries and a security interest in substantially all of NMHI's tangible and intangible assets and the tangible and intangible assets of NMH Holdings, LLC and each Subsidiary Guarantor.

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 making of a swingline loan will reduce the amount available under the senior revolver. As of June 30, 2014, NMHI had no borrowings under the senior revolver and \$44.7 million of letters of credit issued under the institutional letter of credit facility.

At its option, NMHI may add one or more new term loan facilities or increase the commitments under the senior revolver (collectively, the *incremental borrowings*) in an aggregate amount of up to \$125.0 million plus any additional amounts so long as certain conditions, including a consolidated first lien leverage ratio (as defined in the senior credit agreement) of not more than 4.50 to 1.00 on a pro forma basis, are satisfied. In addition, the covenants in NMHI's indenture governing the senior notes effectively limit the amount of incremental borrowings that NMHI may incur based on a consolidated leverage ratio (as defined in the indenture) of not more than 6.00 to 1.00 on a pro forma basis.

Borrowings under the senior secured credit facilities bear interest, at NMHI's option, at: (i) an ABR 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 beginning on such day plus 100 basis points, plus 2.75% (provided that the ABR rate applicable to the term loan facility will not be less than 2.00% per annum); or (ii) the Eurodollar rate (provided that the Eurodollar rate applicable to the term loan facility will not be less than 1.00% per annum), plus 3.75%. Following the completion of this offering, the applicable margin will be decreased by 0.50% per annum if our consolidated leverage ratio is less than or equal to 5.00 to 1.00. This decrease will become effective as of the first business day immediately following the first date on which NMHI delivers a quarterly compliance certificate setting forth such calculation. 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.

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The senior credit agreement requires us to make mandatory prepayments, subject to certain exceptions, with: (i) beginning in fiscal year 2015, 50% (which percentage will be reduced upon its achievement of certain first lien leverage ratios) of our annual excess cash flow; (ii) 100% of net cash proceeds of all non-ordinary course assets sales or other dispositions of property, subject to certain exceptions and thresholds; and (iii) 100% of the net cash proceeds of any debt incurrence, other than debt permitted under the senior credit agreement. Excess cash flow is defined in our senior credit agreement as (A) the sum of (i) consolidated net income (as defined in the senior credit agreement), plus (ii) the net decrease in working capital, plus (iii) noncash charges previously deducted from consolidated net income, plus (iv) non-cash losses from assets sales, minus (B) the sum of (i) certain amortization and other mandatory prepayment of indebtedness, plus (ii) unfinanced capital expenditures plus (iii) the cash portion of permitted investments plus (iv) noncash gains previously including in consolidated net income, plus (v) the net increase in working capital, plus (vi) certain cash payments of long-term liabilities, plus (vii) cash restricted payments, plus (viii) cash expenditures not expensed during such period, plus (ix) penalties paid in connection with the repayment of indebtedness, plus (x) certain cash distributions from the SRS business, plus (xi) aggregate unfinanced portion of contract consideration for acquisition or capital expenditures to be consummated, plus (xii) aggregate amount of cash amounts received in such period but excluded from consolidated net income, plus (xiii) certain cash payments in respect of earnout obligations, plus (xiv) certain voluntary prepayments of indebtedness, plus (xv) certain cash payments of non-cash charges added back in a prior period, plus (xvi) all charges or expenses incurred in such period but excluded from consolidated net income. NMHI is required to repay the term loan facility portion of the senior secured credit facilities in quarterly principal installments of 0.25% of the principal amount commencing on June 30, 2014, with the balance payable at maturity. The senior credit agreement permits NMHI to offer to the lenders newly issued notes in exchange for their term loans in one or more permitted debt exchange offers, subject to the conditions set forth in the senior credit agreement. In addition, if, on or prior to July 31, 2014, NMHI prepays or reprices any portion of the term loan facility, it will be required to pay a prepayment premium of 1% of the loans being prepaid or repriced.

### ***Senior Notes***

On February 9, 2011, NMHI issued \$250.0 million in aggregate principal amount of senior notes at a price equal to 97.7% of their face value. The senior notes mature on February 15, 2018 and bear interest at a rate of 12.50% per annum, payable semi-annually on February 15 and August 15 of each year, beginning on August 15, 2011. The senior notes are NMHI's unsecured obligations and are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by certain of NMHI's existing subsidiaries.

On February 26, 2014, NMHI redeemed \$38 million aggregate principal amount of the outstanding principal amount of senior notes, in accordance with the provisions of the indenture governing the senior notes. The redemption price of the senior notes was 106.250% of the principal amount redeemed, plus accrued and unpaid interest to, but not including, the redemption date. We intend to use the net proceeds from the sale of common stock by us in this offering to redeem an additional \$162 million in aggregate principal amount of the outstanding senior notes at a redemption price of 106.25% plus accrued and unpaid interest thereon to the date of redemption. After giving effect to that redemption, \$50 million in aggregate principal amount of senior notes will remain outstanding.

### ***Covenants***

The senior credit agreement and the indenture governing the senior notes contain negative financial and non-financial covenants, including, among other things, limitations on our 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. NMHI was in compliance with these covenants as of June 30, 2014.

In addition, the senior credit agreement contains a springing financial covenant. If, at the end of any fiscal quarter, NMHI's usage of the senior revolver exceeds 30% of the commitments thereunder, NMHI is required to

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maintain at the end of each such fiscal quarter, commencing with the quarter ending June 30, 2014, a consolidated first lien leverage ratio of not more than 5.50 to 1.00. This consolidated first lien leverage ratio will step down to 5.00 to 1.00 commencing with the fiscal quarter ending March 31, 2017.

The senior credit agreement also contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability and the ability of its subsidiaries to: (i) incur additional indebtedness; (ii) create liens on assets; (iii) engage in mergers or consolidations; (iv) sell assets; (v) pay dividends and distributions or repurchase our capital stock; (vi) enter into swap transactions; (vii) make investments, loans or advances; (viii) repay certain junior indebtedness; (ix) engage in certain transactions with affiliates; (x) enter into sale and leaseback transactions; (xi) amend material agreements governing certain of our junior indebtedness; (xii) change our lines of business; (xiii) make certain acquisitions; and (xiv) limitations on the letter of credit cash collateral account. If NMHI withdraws any of the \$50.0 million from the cash collateral account supporting the issuance of letters of credit, it must use the cash to either prepay the term loan facility or to secure any other obligations under the senior secured credit facilities in a manner reasonably satisfactory to the administrative agent. The senior credit agreement contains customary affirmative covenants and events of default.

**Contractual Commitments Summary**

The following table summarizes our contractual obligations and commitments as of June 30, 2014:

	Total	Less Than 1 Year	1-3 Years (In thousands)	3-5 Years	More Than 5 Years
Long-term debt obligations (1)	\$ 1,100,539	\$ 61,216	121,642	305,909	611,772
Operating lease obligations (2)	202,212	50,019	74,504	42,562	35,127
Capital lease obligations	6,615	441	1,020	1,249	3,905
Purchase obligations (3)	10,679	3,433	6,348	898	
Standby letters of credit	44,736	44,736			
Total obligations and commitments	\$ 1,364,781	\$ 159,845	203,514	350,618	650,804

- (1) Represents the principal amount of our long-term debt and the expected cash payments for interest on our long-term debt based on the interest rates in place and amounts outstanding at June 30, 2014, which does not reflect redemption of the \$162 million of senior notes using net proceeds of this offering. See Note 3 to our unaudited consolidated financial statements included elsewhere herein for further information about our senior secured credit facilities.
- (2) Includes the fixed rent payable under the leases and does not include additional amounts, such as taxes, that may be payable under the leases.
- (3) Represents purchase obligations related to information technology services and maintenance contracts.

**Inflation**

We do not believe that general inflation in the U.S. economy has had a material impact on our financial position or results of operations.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet transactions or interests.

**Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting





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principles ( GAAP ). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

We believe our application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates are constantly reevaluated, and adjustments are made when facts and circumstances dictate a change.

As of June 30, 2014, there has been no material change in our accounting policies or the underlying assumptions or methodology used to fairly present our financial position, results of operations and cash flows for the periods covered by this prospectus. In addition, no triggering events have come to our attention pursuant to our review of goodwill that would indicate impairment as of June 30, 2014.

The following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

### ***Revenue Recognition***

Revenue is reported net of allowances (discussed below) and state provider taxes. Revenue is recognized when evidence of an arrangement exists, the service has been provided, the price is fixed or determinable and collectability is reasonably assured.

Generally, we recognize revenue for services provided to our clients when earned. Our services fall into two general categories: residential and non-residential. In residential services, we are providing a living environment, usually a community residence, to a client and providing care on a 24-hour basis. Non-residential services are provided to a client on an hourly (or other unit of time) basis for therapy, community support or in our day program centers. Revenues for residential services are recognized for the number of days in the accounting period that the client is in our service. Periodic service revenue is recognized when the related services are performed.

In addition, we operate under four distinct types of contracting arrangements with our payors:

**Negotiated Contracts.** For these contracts, services are priced pursuant to a plan of care for the client which encompasses habilitation and therapies. Such contracts are not subject to retroactive adjustment or cost reimbursement requirements. However, we may petition for a change in rate based upon a change in circumstances with a particular client or in situations where additional services are needed. For these contracts, we recognize revenue at the negotiated rate when earned. Subsequent adjustments to rates, if any, are recognized when approved by the payor. For fiscal 2011, fiscal 2012, fiscal 2013 and the nine months ended June 30, 2014, 44.3%, 40.5%, 41.9% and 32.9%, respectively, of our revenues were earned from contracts that fall into this category.

**Fixed Fee Contracts.** For these contracts, payors set a standard rate or set of rates for a particular service usually dependent on the acuity of the client. These rates are the same for all agencies providing the service. For these contract types, there is generally no cost report required or if a cost report is required it is used for informational purposes only. For these contracts, we recognize revenue at the standard rate as earned. For fiscal 2011, fiscal 2012, fiscal 2013 and the nine months ended June 30, 2014, 35.5%, 38.2%, 37.2% and 45.4%, respectively, of our revenues were earned from contracts that fall into this category.

**Retrospective reimbursement contracts.** For these contracts, a provisional rate is set for the year pending the filing of an annual cost report that may further adjust that rate. Cost reimbursement rules differ by jurisdiction and program type but generally include direct costs, indirect costs, depreciation, interest, overhead allocations with interest, overhead and profit usually subject to limitation. Should the cost

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report indicate that allowable rate is lower than what has been billed, we record a liability and these funds are adjusted back or refunded to the state payor at some time in the future. For these contracts we prepare an analysis quarterly to determine if any of the revenue that has been billed and recognized should be deferred and if so record that portion as a current liability. In a subsequent quarter, allowable costs may increase which would result in a reversal of the liability but if this condition persists through the end of the statutory annual period, we would refund the unallowed portion of the revenue to the state and offset the liability. For fiscal 2011, fiscal 2012, fiscal 2013 and the nine months ended June 30, 2014, 10.7%, 12.0%, 12.2% and 12.6%, respectively, of our revenues were earned from contracts that fall into this category.

Prospective payment contracts. These contracts are cost reported in the same way as retrospective contracts, except the cost report for the annual period is used to set the rates in a future period. For these contracts, changes in rates are recognized in revenue prospectively. For fiscal 2011, fiscal 2012, fiscal 2013 and the nine months ended June 30, 2014, 9.6%, 9.3%, 8.7% and 9.0%, respectively, of our revenues were earned from contracts that fall into this category.

All four types of contracting arrangements are subject to audit by the payor and may be subject to recoupments of revenue if in performing its services we have not adhered to the terms of the contract, or not documented our services as specified by the payor. For fiscal 2011, fiscal 2012, fiscal 2013 and the nine months ended June 30, 2014 liabilities to payors for cost based contracts were \$6.3 million, \$5.4 million, \$3.6 million and \$4.9 million, respectively.

***Accounts Receivable and Reserves***

Accounts receivable primarily consists of amounts due from state payors, not-for-profit providers and commercial insurance companies. Generally there is no bad debt risk with government payors or insurance companies. However, allowances are still required for disallowances of revenue that have not been billed timely or if authorizations to deliver services have been exceeded. In addition, there are numerous retroactive adjustments to revenue in cases where rates are adjusted by payors, often after an assessment of our client that takes effect retroactively. The company records the following reserves against revenue:

**Sales Adjustment Allowance.** The types of sales adjustments that we record typically involves rate adjustments due to billing errors or an agreed upon settlement of rate or level of services disputes with the payors. Sales adjustments expense is recorded against revenue in accordance with industry practice. We estimate the sales adjustment allowance based on historical sales adjustments experience. In addition, we also regularly evaluate our accounts receivable, especially receivables that are past due, and reassess our sales adjustment allowance based on specific payor collection issues and may record a specific addition to our sales adjustment allowance to reduce the net recognized receivable to the amount we reasonably expect to collect. As of September 30, 2011, 2012, 2013 and June 30, 2014, our sales adjustment allowance was \$7.9 million, \$9.3 million, \$12.5 million and \$9.7 million, respectively.

**Non Authorized Sales Allowance.** Our clients are generally long-term recipients of our services and require continuous care. The majority of the services are paid for through state Medicaid programs. When we enter into an arrangement to provide services to a client, we obtain an authorization to provide services for a specified period of time such as a six months or one year. When an authorization expires we generally do not discontinue providing service to our clients and in some cases are prevented from doing so legally. Therefore, it is not uncommon for us to serve a client without a current authorization. In this situation we determine whether a non-authorized sales allowance is required by whether the lapse in authorization is within the documented customary business practice period that we have established for that particular payor. Once the lapse in authorization extends beyond the normal period for that payor, we adjust the non-authorized sales allowance to reserve the revenue. As of September 30, 2011, 2012, 2013 and June 30, 2014, our non-authorized sales allowance was \$1.4 million, \$1.7 million, \$1.8 million and \$2.4 million, respectively.

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**Table of Contents*****Goodwill and Indefinite-lived Intangible Assets***

We review costs of purchased businesses in excess of the fair value of identifiable tangible and intangible net assets acquired (goodwill), and indefinite-lived intangible assets, which consist primarily of trade names acquired in business combinations, for impairment annually, as of July 1st, or whenever events or changes in circumstances indicate the carrying value of these assets may not be recoverable to determine whether any impairment exists, and, if so, the extent of such impairment. We test goodwill at the reporting unit level, which is the same level as our operating segments. We have the option to first assess qualitative factors to determine whether further impairment testing is necessary. We have elected to bypass the qualitative assessments for the fiscal year ended 2013 and proceed directly to the two-step impairment test. The first step is to compare the fair value of the reporting unit with its carrying value. We estimated the fair value of each of our 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 our discounted cash flow analysis, we forecasted cash flows by reporting unit for each of the next seven years and applied a long term growth rate to the final years 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. For 2013, the estimated fair value of each reporting unit as determined by the income approach exceeded the carrying value by at least 25%. A 10% change in our key assumptions will not change the result of the impairment test. If the carrying amount of the reporting unit exceeds its estimated fair value, we are required to perform the second step, or Step 2, of the goodwill impairment test to measure the amount of impairment loss. Step 2 of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying value of that goodwill in order to determine the amount of impairment to be recognized. The implied fair value of goodwill is calculated as the difference between the fair value of the reporting unit and the estimated fair value of its assets and liabilities.

For our indefinite-lived intangible assets, we have the option to first assess qualitative factors to determine whether further impairment testing is necessary. The Company has elected to bypass the qualitative assessments for fiscal year 2013 and proceed directly to the quantitative impairment test. The impairment test for indefinite-lived intangible assets requires the determination of the fair value of the intangible asset. If the fair value of the indefinite-lived intangible asset is less than its carrying value, an impairment loss is recognized in an amount equal to the difference. Fair values are established using the relief from royalty method.

The estimated fair values of our reporting units are based on discounted estimated future cash flows. The discounted cash flow analysis requires significant judgment, including judgments about the appropriate discount rates and terminal values, future growth, capital expenditures and market conditions over the estimated remaining operating period. As such, actual results may differ from these estimates and lead to a revaluation of our goodwill and indefinite-lived intangible assets. If updated estimates indicate that the fair value of goodwill or any indefinite-lived intangibles is less than the carrying value of the asset, an impairment charge is recorded in the consolidated statements of operations in the period of the change in estimate.

We completed our annual impairment tests in the fourth quarter of 2013, 2012 and 2011 and determined in each of those periods that the carrying value of goodwill and indefinite-lived assets was not impaired.

***Impairment of Long-Lived Assets***

Intangible assets with finite lives consist of agency contracts, acquired licenses and permits and non-competition agreements and are valued according to the future cash flows they are estimated to produce. Tangible assets with finite lives consist of property and equipment, which are depreciated over their estimate useful lives. We review these long-lived assets for impairment by continually evaluating whether circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded.

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### ***Income Taxes***

We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are determined by multiplying the differences between the financial reporting and tax reporting bases for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled. These deferred tax assets and liabilities are separated into current and long-term amounts based on the classification of the related assets and liabilities for financial reporting purposes and netted by jurisdiction. Valuation allowances on deferred tax assets are estimated based on our assessment of the realizability of such amounts.

The ultimate recovery of certain of our deferred tax assets is dependent on the amount and timing of taxable income we will ultimately generate in the future, as well as other factors. A high degree of judgment is required to determine the extent a valuation allowance should be provided against deferred tax assets. On a quarterly basis, we assess the likelihood of realization of our deferred tax assets considering all available evidence, both positive and negative. Our operating performance in recent years, the scheduled reversal of temporary differences, our forecast of taxable income in future periods in each applicable tax jurisdiction, our ability to sustain a core level of earnings, and the availability of prudent tax planning strategies are important considerations in our assessment. Our forecast of future earnings includes assumptions about service volumes, payor reimbursement, labor costs, operating expenses, and interest expense. Based on the weight of available evidence, we determine if it is more likely than not our deferred tax assets will be realized in the future.

We also recognize the benefits of tax positions when certain criteria are satisfied. 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. We recognize 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.

### ***Stock-Based Compensation***

NMH Investment, our parent, adopted an equity-based compensation plan, and issued units of limited liability company interests 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 pursuant to such plan. The units are limited liability company interests and are available for issuance to our employees and members of the Board of Directors for incentive purposes. Compensation expense is recorded for these awards based on the estimated fair value on the grant date. Compensation expense reflects an estimate of the number of awards expected to vest and is recognized on a straight-line basis over the requisite service period or at the time it is probable that certain performance conditions will be met.

For purposes of determining the estimated fair value of these grants, management values the business enterprise using a variety of widely accepted valuation techniques which considered a number of factors such as our financial performance, the values of comparable companies and the lack of marketability of our equity. We then use the option pricing method to determine the fair value of these units at the time of grant. Significant assumptions include the expected term in which the units will be realized; a risk-free interest rate equal to the U.S. federal treasury bond rate consistent with the term assumption; expected dividend yield, for which there is none; and expected volatility based on the historical data of equity instruments of comparable companies. For Class B Common Units, Class C Common Units, Class D Common Units, Class E Common Units and Class F Common Units, the estimated fair value of the units, less an assumed forfeiture rate, is recognized in expense on a straight-line basis over the requisite service periods of the awards. We use the historical forfeiture patterns to determine the forfeiture rate. The Class G Common Units and Class H Common Units vest upon a liquidity event and/or upon the occurrence of certain investment return conditions. We regularly assess the probability of these events occurring. At the time these events are determined to be probable, compensation expense will then be

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recognized in its entirety. As of September 30, 2013, there had been no expense recorded for these performance based awards.

The Class H Common Units currently vest upon a sale of the Company. In connection with this offering, we intend to amend the terms of the Class H Common Units so that they vest upon the earlier to occur of a sale of the Company and the achievement of a multiple of investment return threshold by Vestar and its affiliates. However, the employment agreements for the executive officers and two other individuals will provide that (i) in the event that such individual's employment is terminated due to such individual's death or disability or (ii) the individual's employment is terminated six months prior to or within 24 months after a sale of the Company, such individual's unvested Class F Common Units and Class H Common Units will vest. Once vested, the holders of Class H Units are entitled to receive between 0.0% and 5.0% of the common equity value distributed by NMH Investment to its unitholders depending upon the multiple of investment achieved by Vestar and its affiliates. We do not expect to record any compensation expense in connection with the amendment or future vesting of the Class H Common Units.

***Derivative Financial Instruments***

We report derivative financial instruments on the balance sheet at fair value and establish criteria for designation and effectiveness of hedging relationships. Changes in the fair value of derivatives are recorded each period in current operations or in the consolidated statements of comprehensive income (loss) depending upon whether the derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction.

We, from time to time, enter into interest rate swap agreements to hedge against variability in cash flows resulting from fluctuations in the benchmark interest rate, which is LIBOR, on our debt. These agreements involve the exchange of variable interest rates for fixed interest rates over the life of the swap agreement without an exchange of the notional amount upon which the payments are based. On a quarterly basis, the differential to be received or paid as interest rates change is accrued and recognized as an adjustment to interest expense in the accompanying consolidated statement of operations. In addition, on a quarterly basis the mark to market valuation is recorded as an adjustment to gain (loss) on derivative within the consolidated statements of comprehensive income (loss). The related amount receivable from or payable to counterparties is included as an asset or liability, respectively, in our consolidated balance sheets.

The fair value of the swap arrangements are determined based on pricing models and independent formulas using current assumptions that include swap terms, interest rates and forward LIBOR curves and our credit risk. As of September 30, 2013, the fair value of the swap agreements was \$3.2 million, which was recorded in current liabilities in our consolidated balance sheet.

***Accruals for Self-Insurance***

We maintain employment practices liability, professional and general liability, workers' compensation, automobile liability and health insurance with policies that include self-insured retentions. Employment practices liability is fully self-insured. We record 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, employment practices liability and professional and general liability programs are based on analyses performed internally by management and for certain balances, take into account reports by independent third party actuaries.

We regularly analyze our reserves for incurred but not reported claims and for reported but not paid claims related to our self-insured retentions and fully self-insured programs. We believe our reserves are adequate. However, significant judgment is involved in assessing these reserves, such as assessing historical paid claims, average lags between the claims' incurred date, reported dates and paid dates and the frequency and severity of claims. There may be differences between actual settlement amounts and recorded reserves and any resulting adjustments are included in expense once a probable amount is known. Any significant increase in the number of claims or costs associated with claims made under these programs above our reserves could have a material adverse effect on our financial results.

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### ***Legal Contingencies***

We are regularly involved in litigation and regulatory proceedings in the operation of our business. We reserve for costs related to contingencies when a loss is probable and the amount is reasonably estimable. While we believe our provision for legal contingencies is adequate, the outcome of our legal proceedings is difficult to predict, and we may settle legal claims or be subject to judgments for amounts that differ from our estimates. In addition, legal contingencies could have a material adverse impact on our results of operations in any given future reporting period. See [Risk Factors](#) and [Business Legal Proceedings](#) for additional information.

### **Subsequent Events**

#### ***Redemption of Senior Notes***

We intend to issue a notice of redemption to the holders of the senior notes notifying such holders that, subject to the completion of this offering, we intend to use the net proceeds from the sale of common stock by us in this offering to redeem \$162 million in aggregate principal amount of the outstanding senior notes issued by our subsidiary, NMHI, at a redemption price of 106.25% plus accrued and unpaid interest thereon to the date of redemption.

#### ***Stock Split***

In August 2014, the Board of Directors and our sole stockholder, NMH Investment, approved a 2,525,000-for-one stock split, which we effected on September 2, 2014. The stock split had no effect on the par value of the common stock, which remains at \$0.01 per share.

### **Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to changes in interest rates as a result of our outstanding variable rate debt. The variable rate debt outstanding relates to the term loan and the senior revolver, which bears interest at (i) a rate equal to the greater of (a) the prime rate, (b) the federal funds rate plus 1/2 of 1% and (c) the Eurodollar rate for an interest period of one-month beginning on such day plus 100 basis points plus 2.75%; or (ii) the Eurodollar rate (subject to a LIBOR floor of 1.00%), plus 3.75%, at our option. A 1% increase in the interest rate on our floating rate debt as of June 30, 2014 would have increased cash interest expense on the floating rate debt by approximately \$6.1 million per annum, without giving effect to the interest rate swap agreement discussed below.

To reduce the interest rate exposure related to our variable debt, we entered into an interest rate swap in a notional amount of \$400.0 million effective March 31, 2011 and ending September 30, 2014. Under the terms of the swap, as amended on October 15, 2012, we receive from the counterparty a quarterly payment based on a rate equal to the greater of 3-month LIBOR and 1.25% per annum, and we make payments to the counterparty based on a fixed rate of 2.08% per annum, in each case on the notional amount of \$400.0 million, settled on a net payment basis. We intend to enter into a new interest rate swap or other hedging agreement following the expiration of the existing swap, but the type of instrument, notional amount and duration of any such instrument or arrangement have not yet been determined.

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**BUSINESS**

**Company Overview**

We are the leading national provider of home- and community-based health and human services to must-serve individuals with intellectual, developmental, physical or behavioral disabilities and other special needs. These populations are large, growing and increasingly being served in home- and community-based settings such as those we provide. Our clinicians and caregivers develop customized service plans, delivered in non-institutional settings, designed to address a broad range of often life-long conditions and to enable those we serve to thrive in less-restrictive settings. We believe we offer a powerful value proposition to government and non-public payors, referral sources and individuals and families by providing innovative, high-quality and cost-effective services that enable greater client independence, skill building and community involvement.

Since our founding in 1980, we have been a pioneer in the movement to provide home- and community-based services for people who would otherwise be institutionalized. During our nearly 35-year history, we have evolved from a single residential program serving at-risk youth to a diversified national network providing an array of high-quality services and care in large, growing and highly-fragmented markets. While we have the capabilities to serve individuals with a wide variety of special needs and disabilities, the current principal focus of our business is on the provision of services to individuals with intellectual and/or developmental disabilities, youth with emotional, behavioral and/or medically complex challenges, or at-risk youth, and individuals with catastrophic injuries and illnesses, particularly acquired brain injury. As of June 30, 2014, we operated in 36 states, serving more than 12,500 clients in residential settings and more than 15,700 clients in non-residential settings. We have a diverse group of hundreds of public payors which fund our services with a combination of federal, state and local funding, as well as an increasing number of non-public payors related to our services for ABI and other catastrophic injuries and illnesses.

Our core strength is providing a continuum of residential, day and vocational programs, and periodic services to support diverse populations with disabilities and special needs. We currently offer our services through a variety of models, including (i) neighborhood group homes, most of which are residences for six or fewer individuals, (ii) host homes, or the Mentor model, in which a client lives in the private home of a licensed caregiver, (iii) in-home settings, within which we support clients independent living or provide therapeutic services, (iv) specialized community facilities to support individuals with more complex medical, physical and behavioral challenges, and (v) non-residential care, consisting primarily of day and vocational programs and periodic services that are provided outside the client's home. As of June 30, 2014, our services were provided by over 20,000 full-time equivalent employees, as well as approximately 5,500 independently-contracted host home caregivers.

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The following table presents an overview of our two reportable segments:

<b>Segment:</b>	<b>Human Services</b>	<b>Post-Acute Specialty Rehabilitation Services</b>	
<b>Populations Served:</b>	I/DD: Individuals with intellectual and/or developmental disabilities	ARY: Youth with emotional, behavioral and/or medically complex challenges	ABI: Individuals who have sustained brain, spinal cord and other catastrophic injuries and illnesses
	Residential support	Therapeutic foster care	Neurorehabilitation
	Day habilitation	Family preservation	Neurobehavioral rehabilitation
	Vocational services	Adoption services	Specialized nursing
<b>Core Services:</b>	Case management	Early intervention	Physical, occupational and speech therapies
	Crisis intervention	School-based services	Supported living
	Hourly support	Juvenile offender programs	Outpatient treatment
			Pre-vocational services
			Commercial insurers
			Workers compensation companies
<b>Payors / Referral Sources</b>	State governments		Veterans Health Administration
	County governments		Managed care organizations
	Managed care organizations		State governments
			County governments
<b>Number of Individuals Served</b>	~17,000	~10,300	~1,300
<b>Number of States</b>	23	17	26
<b>Market Size</b>	\$57 billion in 2011(1)	\$29 billion in 2010 (2)	\$10 billion spent annually (3)
<b>Net Revenue (Fiscal 2013)</b>	\$772.1 million (64% of total)	\$218.1 million (19% of total)	\$208.4 million (17% of total)

- (1) Based on data from the Braddock Report.
- (2) Based on data from Child Trends.
- (3) Based on data from the CDC.



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For fiscal 2013, we generated net revenue of \$1,199 million and a net loss of \$(18.3) million, and for the nine months ended June 30, 2014, we generated net revenue of \$938.9 million and a net loss of \$(16.9) million. Over the last three fiscal years ended September 30, 2013, we grew our annual revenue 19%, or \$195 million, 54% of which was from organic growth and 46% of which was attributable to businesses acquired during this period or in the preceding year. In each of these years our revenue growth has accelerated, driven in large part by a rapid expansion in organic growth resulting from our investment in our de novo, or new start, programs. We believe that our considerable new start investment in 2012 and 2013, coupled with new opportunities to expand our services in new and existing markets, as well as our substantial acquisition pipeline, have positioned us well for continued strong growth.

### **Our Industry**

We provide home- and community-based services to large populations of individuals with intellectual, developmental, physical or behavioral disabilities and other special needs. These populations are must serve due

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to the nature of their disabilities, which in many cases are life-long and irreversible, or their status as children or adolescents. Within the broader health and human services market, we currently serve three primary populations:

**I/DD.** The largest portion of our client base consists of adults and children with I/DD. Public spending on I/DD services was estimated to be \$56.6 billion in 2011, of which approximately 80% was spent to provide services in community settings of six or fewer beds, our target market, and for other non-institutional services, including supported living, supported employment and family assistance. In 2012, there were approximately 4.9 million individuals with an intellectual or developmental disability across the nation. Over the past two decades, the delivery of services to the I/DD population in supervised residential settings has grown significantly and, at the same time, there has been a shift from institutional settings to home- and community-based settings.

**ARY.** We provide services to youth with emotional, behavioral and/or medically complex challenges, or at-risk youth. According to reports published by the organization Child Trends, an estimated \$29.4 billion was spent in 2010 on child welfare, including spending for residential and non-residential family support services such as those that we offer. Approximately 3.3 million referrals for abuse or neglect were investigated or assessed in the United States in 2010. Of that, approximately 663,000 were served by the foster care system. According to the Federal Department of Health and Human Services AFCARS data, there were nearly 400,000 children and adolescents in foster care as of September 30, 2012. Of those individuals, approximately 200,000 are living in non-relative foster family homes, which includes the therapeutic foster care market, the primary market for our residential ARY services. Furthermore, over the last decade state and local agencies have increasingly favored innovative solutions that provide at-risk youth and families with periodic support services to promote and preserve successful family environments.

**ABI.** We provide services to individuals with ABI and other catastrophic injuries and illnesses. The market for post-acute care and rehabilitation for individuals with ABI, the largest of these populations, is approximately \$10 billion annually, according to the CDC. According to the Brain Injury Association of America ( BIAA ), there are more than 2.6 million new brain injuries each year, many of which result in complex, life-long medical and/or behavioral issues that require specialized care. Approximately 5.3 million individuals in the United States are living with permanent disability as a result of an ABI. Many of these individuals are currently served in costly and often medically inappropriate care settings such as long-term acute care facilities and nursing homes. We expect that there will be a continuing shift in care delivery to more appropriate community-based settings such as those that we offer.

### **Industry Trends**

We believe we are well positioned to benefit from a number of favorable trends in our industry:

#### ***There are large and growing must-serve populations for our services***

The markets we serve are growing as a result of changing demographics, shifts in public policy, consumer awareness and increased focus on cost-effectiveness.

There is an expanding population of individuals with I/DD eligible for residential and other support services. This growth has been driven by a number of factors, including the following:

**Longer lifespan.** Increasingly, individuals with I/DD are living longer lives, with life expectancy climbing from 59 years in the 1970s to 66 years in 1993, the most recent year for which data is available. As these individuals increasingly live longer lives, they require additional care and in many cases outlive the ability to live independently or with family caregivers.

**Aging caregivers.** In 2011, approximately 72% of individuals with I/DD, or 3.5 million individuals, lived with family caregivers, including more than 850,000 with family caregivers aged 60 years or

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older. As these family caregivers age and become less capable of providing continuous care, we expect they will increasingly seek out-of-home or supported living arrangements, such as those we provide, for their relatives with disabilities.

**Waiting lists.** There is a significant unmet need for residential services for individuals with I/DD. Many states maintain waiting lists for individuals seeking placements for these services. Nationwide, as of 2010, there were an estimated 115,000 individuals with I/DD waiting for residential services, including 88,000 on formal waiting lists in 35 states. There are legislative, advocacy and litigation efforts currently under way in many states to reduce waiting lists and provide additional access to residential services, which we believe will continue to drive additional demand for services such as those we provide.

**De-institutionalization.** As of 2011, there were approximately 84,000 individuals with I/DD residing in institutions with 16 or more beds, including nearly 30,000 in public institutions. At the federal and state levels, policy changes, legal decisions and cost containment efforts are driving a continuing trend of de-institutionalization for the treatment of individuals with disabilities and special needs. Several states are currently in the process of downsizing or closing I/DD institutions, including California, New Jersey and Georgia.

We believe the ARY population is growing, along with the demand for many of the services we offer. Specific trends impacting the ARY population include:

**Shifting demographics of children.** An increasing number of children are living in poverty in the United States. According to the Children's Defense Fund, the number of children living below the poverty line increased by more than 4.5 million from 2000 to 2012, and 2.75 million more children were categorized as poor in 2012 than before the economic downturn began in 2007. In addition, the number of children in single-parent families increased from 22.7 million in 2008 to 24.7 million in 2012, or an increase of approximately 9%. We believe these children are more likely to require the residential and periodic services offered through our ARY segment as their caregivers face greater demands.

**Stabilization of the foster care population.** The number of children in foster care reached a peak of 567,000 in 1999 and declined to nearly 400,000 as of September 30, 2012. The decline in the population was driven by several factors causing a shift in care delivery, but we believe the full impact of those factors has already been experienced. The population has stabilized, evidenced by the fact the number of children in foster care has been approximately 400,000 for each of 2010, 2011 and 2012.

**Growing demand for periodic services.** In an effort to prevent children and adolescents from requiring an out-of-home placement, public child welfare agencies have for several years been emphasizing periodic support services to strengthen families at-risk. Consistent with this trend, we have been expanding our ARY periodic services in existing and new markets to meet this demand and help more children and families in need of support.

The market for ABI services is growing due to several factors, including:

**Advances in medical care.** Advances in emergency care and medical technology are increasing the survival rate and extending the life span of those who suffer a catastrophic injury. This has served to both expand the overall population of these individuals and to place increased responsibility on payors and government agencies to seek cost-effective care.

**Increasing public awareness.** Increases in public awareness of the causes and potential complications of brain injury are driving an increased focus on the diagnosis and proper treatment of these injuries. In particular, the conflicts in Afghanistan and Iraq, where traumatic brain injury has been one of the signature wounds for our military, as well as significant research and media coverage related to the incidence of brain injury in contact sports, especially professional football, have contributed to this increased awareness. As a result, emergency room visits for traumatic brain injury increased by approximately 30% from 2006 to 2010, an eight times increase compared with the growth in emergency room visits generally.



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**Increasing demand for specialized care.** Patients, families and payors are increasingly seeking specialized care provided in ABI-specific community-based settings such as those that we offer. There are tens of thousands of individuals with brain injuries currently in nursing facilities. We believe many of these patients, particularly younger individuals, would be better served in community-based rehabilitative programs, as evidenced and supported by growing advocacy, changes in public policy and legal precedents supporting their transition to specialized care settings.

**Increasing funding for community-based settings.** Both the public and private sectors finance post-acute services for individuals with ABI. We believe that payors are increasingly seeking to serve patients in more cost-effective and appropriate community-based settings. For example, in recent years the increase in state ABI waiver programs that provide easier access to Medicaid funds has expanded the number of individuals who can afford ABI services. According to the Kaiser Family Foundation, there were 17,193 individuals served through state waiver programs for brain injury in 2010, up from 11,214 in 2006, representing a compound annual growth rate of 11.3%.

***Clients, caregivers and payors are increasingly recognizing the value of home- and community-based services***

We believe home- and community-based services are strongly preferred by clients and their caregivers. The less restrictive settings provide greater control over care delivery, support patient quality of life and independence, and facilitate stronger bonds between those we serve and their caregivers. Additionally, consumers are becoming increasingly aware of the full spectrum of services available in the market, and we believe they will continue to demand the type of tailored and cost-effective community-based care we offer.

Furthermore, we believe that in our target markets, both public and non-public payors will increasingly emphasize and fund community-based services that offer comprehensive care across the continuum at a better relative value. We believe tailored solutions and ongoing support, such as the services we provide, offer better overall outcomes for the populations we serve. For most of our patient populations, our customized service plans cost less than care plans in large-scale institutional settings. Home- and community-based services are also preferred as a clinically appropriate and less expensive step-down alternative for individuals who no longer require care in more expensive acute care settings.

***Funding for home- and community-based services is expanding***

We believe funding for home and community-based services is expanding for a variety of reasons, including the must-serve nature of our population, and legislation, legal precedents and advocacy efforts supporting the individuals we serve.

Human services, including services for the I/DD and ARY populations, are generally funded by government programs, predominantly Medicaid, while ABI services are funded by a mix of government programs and private insurance. These programs are often administered on a state-wide level and, in selected states, decisions regarding funding for individual clients and programs occur at the county level, resulting in a large and diverse payor base. State governments are financially incentivized to continue funding services in our core markets because states receive matching federal funds for state expenditures. As a result of these factors, our rates have remained stable, with some rate contraction in 2009 through 2011 following the economic downturn and modest expansion starting in 2012. We believe improving state budgets resulting from a recovering economic environment will further drive growth in funding.

The individuals we serve are faced with significant challenges in everyday life, and require outside care and support to reach independence and successfully integrate within their communities. Funding for this support is established by legislation and legal precedents, and driven by strong advocacy groups. For example, funding for services in our I/DD segment is supported by the *Olmstead* decision by the U.S. Supreme Court in 1999, which held that, under the Americans with Disabilities Act of 1990 ( ADA ), state governments are required to support

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persons with I/DD in the least restrictive setting that is medically appropriate. The U.S. Justice Department has significantly intensified *Olmstead* enforcement actions in recent years, most notably in a 2010 settlement with the state of Georgia under which the state agreed to a five-year plan to fund residential waiver services for 1,150 people with I/DD living in state institutions or waiting for residential services. Prompted by the *Olmstead* decision, policy makers, civil rights lawyers, social workers and advocacy groups are driving states to offer individuals with I/DD and other disabilities the option to live and receive services in home- and community-based settings.

### ***The health and human services markets we serve are highly fragmented, and we expect continued consolidation of the numerous local and regional providers who lack our scale and resources***

The markets we serve are highly fragmented, with only a limited number of national providers of significant scale. For example, within the I/DD market the two leading national providers only account for less than 5% of services by revenue, with the remaining services provided primarily by smaller, local providers. We believe as payors and other stakeholders increasingly look to evidence-informed services and evidence-based outcomes, the demand will increase for more sophisticated reporting, quality, billing and clinical outcomes data, which require complex and robust administrative and IT systems. Small providers often lack the resources to implement and the scale to leverage these systems. We also believe that payors are increasingly seeking to contract with larger providers that can offer a more comprehensive suite of services across a continuum of care, deliver consistent quality of care and act quickly to establish new programs for populations in need of service. As a result of these trends, we believe our industry will continue to consolidate and larger, well-capitalized providers will be well positioned to benefit from this consolidation.

### **Competitive Strengths**

We believe our scale, broad range of services, high-quality reputation and longstanding relationships with a diverse group of referral services and payors have made us the leading provider of home- and community-based health and human services in the markets we serve. The current healthcare environment that demands better access to high-quality care at a lower cost, improved patient experience and continuous clinical improvement and administrative efficiency aligns well with our competitive strengths.

### ***The Leading Provider of Home- and Community-Based Health and Human Services in the United States***

Since our founding in 1980, our company has evolved to become the largest provider of home- and community-based health and human services in the markets we serve. As of June 30, 2014, we provided services to more than 12,500 clients in residential settings and more than 15,700 clients in non-residential settings across 36 states, which are home to approximately 85% of the U.S. population. Our national scale and breadth of service offerings provide us with significant competitive advantages:

**Responsiveness:** Our scale enables us to deliver a broad range of highly customized services across a continuum of care with a greater level of responsiveness than many of our regional or local service competitors. We have the knowledge, financial resources and relationships to anticipate and rapidly respond to customer needs and market opportunities, positioning us well to capture new business.

**Clinical Expertise:** Given our extensive national network of clinicians and the wide variety of service models we use, we have developed a broad range of clinical expertise to address a range of disabilities and special needs. We leverage clinical best practices from across our network to expand into new markets and initiate new service lines and programs to address the needs of our payors, our clients and their caregivers. We believe our ability to serve individuals with the most complex physical and behavioral challenges distinguishes us from many of our competitors.

**Infrastructure:** Unlike smaller competitors that lack our scale and resources, we have developed a robust infrastructure, including functions such as quality assurance, compliance, risk management, information technology, human resources, billing and financial management, that we leverage across

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our care-delivery network. This infrastructure enables our operations to focus on efficiently delivering consistent, high-quality care and enables us to respond to the increasing compliance, regulatory and fiscal requirements of payors.

### ***Powerful Value Proposition***

We believe we offer a powerful value proposition to our payors, our clients and their caregivers through our ability to design customized service plans to meet the unique needs of our clients in cost-effective settings. We specialize in adapting our service offerings to a wide range of intensities of care and other client requirements. Through our customized service plans we believe we are able to deliver better outcomes, more community integration and a better quality of life for the individuals we serve. We deliver our services in appropriate non-institutional settings, enabling us to provide significant cost savings for our payors while maintaining high quality standards.

Our recent strategic focus in California highlights the powerful value proposition we offer. Through the recent economic downturn, the state of California faced unprecedented fiscal distress, with a budget deficit at one point of approximately \$42 billion. As a result, state and local payors were receptive to innovative care models to achieve cost savings. Over a three-year period, we worked with state and local regulators to create innovative solutions, and despite the economic downturn, we were able to grow our net revenue in California at a compound annual growth rate of 9.2% during that period. Our strategic response was to:

Aggressively market our Family Home Agency (FHA) host home model, which was underutilized in California. Payors have embraced this model, which allows individuals with I/DD to live with host home families at a significantly lower cost to payors. This effort increased FHA census by approximately 50% to 682 in the last three years.

Deploy a new model for adult residential care to accommodate the transition of individuals with I/DD and intensive medical needs from public institutions to community-based settings, resulting in substantial cost savings for our payors.

Significantly expand day and vocational programming. For example, we launched a new College to Career program aimed at helping young adults with developmental disabilities succeed in college and reducing their dependency on government services.

### ***Proven Ability to Make Acquisitions at Attractive Valuations***

We believe our scale, in-depth industry knowledge, payor relationships, reputation for quality and operational expertise strategically position us as a preferred acquirer, with an ability to efficiently and opportunistically deploy capital. We are the only company with a national platform dedicated to serving each of the I/DD, ARY and ABI populations. This positions us as a prime exit option for small providers in these highly-fragmented markets. We believe we appeal to small providers looking to ensure their clients and businesses are well cared for following a sale.

We have completed 36 acquisitions and deployed approximately \$127 million of capital for acquisitions from the beginning of fiscal 2009 through June 30, 2014. The majority of the acquisitions we make are small and of a tuck-in nature, although we have completed more transformative acquisitions, including REM, Inc. in 2003 and CareMeridian, LLC in 2006. We have a demonstrated history of both in-market acquisitions and acquisitions that expand market segments.

### ***Unique First Mover Advantage in SRS***

Through our history of acquisitions and new starts, we now serve over 1,300 individuals in 26 states in our SRS segment. We are the only provider with a national platform dedicated to providing post-acute care for individuals with brain injuries or other catastrophic injuries and illnesses, and thus we believe we are the leader

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serving this market. Through our NeuroRestorative and CareMeridian business units, we offer solutions to SRS clients across the continuum of care, from post-acute care and neurorehabilitation to day treatment and supportive living services, that help individuals in their recovery and, in many cases, to regain independence. On this continuum of care, our CareMeridian business unit is focused on the more medically-intensive post-acute care services, including specialty rehabilitation and specialized nursing services, and our NeuroRestorative business unit is focused on rehabilitation and transitional living services, including neurorehabilitation, neurobehavioral, transitional living, supported living and outpatient services. Our experience in SRS enables us to deliver high-quality specialized care and offer significant cost savings for payors, leading to an expanding pipeline of referrals. Our quality of care and outcomes, along with limited competition of scale in the underserved SRS market, position us to capitalize on this opportunity and benefit from its rapid growth.

### ***Stable Cash Flows Fund Growth Opportunities***

Our highly-diverse group of payors and the must-serve populations we support have insulated our revenue streams from significant and widespread rate reductions. This, coupled with our historically consistent annual capital expenditures of only 2% to 3% of net revenue and low working capital needs, has helped us deliver stable cash flows through periods of economic recession and prosperity. We have utilized our stable cash flows to invest in new growth opportunities and fuel the expansion of our services.

### ***Proven Management Team with a Track Record of Performance***

Our management team, having served previously as policy makers, fiscal managers and service providers, has extensive public and private sector experience in health and human services. Our management team has a history of identifying market opportunities and providing creative solutions to states and payors, as demonstrated by the continued growth of I/DD services and identification of the growth opportunity in our ABI services. Our executive officers have been with us for an average of 13 years and average approximately 23 years in the human services industry. Our management team has demonstrated the ability and experience to ensure the delivery of high quality services to clients, pursue and integrate numerous acquisitions, manage critical human resources, develop and maintain robust IT and financial systems, mitigate risk in the business and oversee our significant growth and expansion.

### ***Our Business Strategy***

We believe the market opportunity for home- and community-based health and human services that increase client independence and participation in community life while reducing costs will continue to grow. We intend to continue leveraging our strengths to capitalize on this trend, both in existing markets and in new markets where we believe significant opportunities exist. The primary aspects of our strategy include the following:

#### ***Leverage our Core Competencies to Drive Organic Growth***

We expect to capture the embedded growth opportunities resulting from recent organic growth initiatives and leverage our core competencies to further expand our presence in markets we currently serve and to further expand our geographic footprint in our existing service lines. During our nearly 35-year history, we have developed and refined a core set of competencies through our experience developing customized service plans for complex cases and supporting our operations with expertise in areas such as risk management, compliance and quality assurance.

#### ***Continue to Invest in our New Start Programs***

A key driver of growth has been our new start programs that have historically generated attractive returns on our investments. Our demonstrated ability to quickly launch new start programs positions us well to meet new sources of market demand. New starts, which typically turn profitable within 18-24 months, require modest



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investments, consisting of operating losses and capital expenditures. Our investment of approximately \$8 million in new starts between fiscal 2007 and fiscal 2010 generated net revenues and new start operating income of approximately \$70 million and \$14 million, respectively, in fiscal 2013.

We have made a number of recent investments that we believe will continue to drive near term growth as they reach maturity. In 2011, we dramatically increased our level of new start investment, expanding it from an average of \$3.1 million in fiscal 2009 and fiscal 2010 to an average of more than \$8 million in fiscal 2012 and fiscal 2013. We intend to continue to aggressively pursue new start opportunities with attractive rates of return.

### ***Pursue Opportunistic Acquisitions***

As the leading provider in our markets with national scale and a proven track record of quality care, we are well positioned as an acquirer of choice for small operators in a highly-fragmented industry. This dynamic leads to a number of attractive tuck-in acquisition opportunities that can drive returns and create stockholder value. We continue to maintain a robust acquisition pipeline and deploy capital in a disciplined and opportunistic manner to pursue acquisitions. From the beginning of fiscal 2009 through June 30, 2014, we have successfully acquired 36 companies, at an aggregate price of approximately \$127 million.

We intend to continue to pursue acquisitions that are consistent with our mission and can complement our existing operations. We have invested in a team dedicated to mergers and acquisitions, as well as infrastructure and formalized processes to enable us to pursue acquisition opportunities and to integrate them into our business. We monitor the market nationally for businesses that we can acquire at attractive prices and efficiently integrate with our existing operations. As a public company, with a more flexible capital structure, we expect to maintain, and potentially expand, our existing acquisition program.

### ***Expand our SRS Platform***

We intend to leverage our unique scale and leadership position to continue to expand our SRS platform through continued organic growth in new and existing markets, as well as opportunistic acquisitions. We are the only provider with a national platform dedicated to providing post-acute care for individuals with brain injuries or other catastrophic injuries and illnesses, and thus we believe we are the leader serving this market. We have more than doubled the size and contribution of our SRS segment since 2009, achieving a 21% compound annual growth rate in net revenue over that period. Furthermore, our SRS business is funded by a highly attractive payor mix, with 56% of net revenues in 2013 derived from commercial insurers and other private entities.

### ***Pursue Opportunities in Adjacent Markets and Complementary Service Lines that Diversify our Service Offerings***

We have a proven track record of developing new service areas, as evidenced by the growth of our SRS segment. We believe our reputation and credibility in our existing markets and service lines will facilitate our entry into adjacent markets. We may also explore strategic acquisitions to enhance our ability to pursue adjacent markets. We intend to leverage our core competencies and relationships with state agencies to pursue opportunities in adjacent markets, including potentially those serving elders, youth with autism and individuals with mental health issues. We believe our periodic, day and residential services can be leveraged to address a portion of the estimated \$75 billion spent in 2010 on residential and personal healthcare services and home healthcare services for individuals 64 years of age or older, based on data from the Centers for Medicare and Medicaid Services. More specifically, we initially intend to pursue the adult day services portion of this market, an estimated \$6 billion market based on IBISWorld estimates for spending on adult day care in 2010, and we have recently agreed to acquire a company in this market, subject to customary closing conditions. See Prospectus Summary Recent Developments.

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### **Customers and Contracts**

Our customers, which pay us to provide services to our clients, are governmental agencies, non-public payors and not-for-profit organizations. Our I/DD and ARY services, as well as a significant portion of our SRS services, are delivered pursuant to contracts with various governmental agencies, such as state departments of developmental disabilities, juvenile justice, child welfare and the Federal Veterans Health Administration. Such contracts may be issued at the county or state level, depending upon the structure of the service system of the state in question. In addition, a majority of our SRS revenue is derived from contracts with commercial insurers, workers' compensation carriers and other non-public payors.

In all of our service lines, the clients and/or the payors/referral sources (e.g., state agencies) select us as a provider and, although clients funded by Medicaid have the right to choose an alternative provider at any time, it has been our experience that our clients change providers infrequently. We believe that many of our clients develop close relationships with their direct care workers and our organization. Although a client may develop a close relationship with his or her direct care worker, it is our experience that if such direct care worker leaves our employment, clients rarely elect to switch providers based on such direct care worker's departure. The length of stay of our clients varies widely based on their individual needs. For instance, in our SRS segment, a client's care may be focused on rehabilitation, in which case we will provide services for several months, or, if a client suffered a catastrophic illness or accident, that client could remain in our care for the duration of that individual's life, which could span years or decades. In our I/DD business, the length of stay is generally years, with many of our clients having used our services for decades. For our ARY clients, the length of treatment can vary widely but most often is for several months.

Contracts may cover a range of individuals such as all children referred for host home services in a county or a particular set of individuals who will share group living arrangements. Contracts are sometimes issued for specific individuals, where rates are individually determined based on need. Although our contracts generally have a stated term of one year and generally may be terminated without cause on 60 days' notice, the contracts are typically renewed annually if we have complied with licensing, certification, program standards and other regulatory requirements. As a provider of record, we contractually obligate ourselves to adhere to the applicable federal and state regulations regarding the provision of services, the maintenance of records and submission of claims for reimbursement under Medicaid and other government programs. In addition, while we are not obligated to serve each individual that is referred to us, we make every effort to review referrals made and accept individuals who need our services.

During fiscal 2013 and 2012, revenue from our contracts with state and local governmental payors in the states of Minnesota, California, West Virginia, Florida and Indiana, our five largest revenue-generating states, comprised 42% and 40%, respectively, of our revenue. Revenue from our contracts with state and local governmental payors in the State of Minnesota, our largest state, accounted for 14% and 15% of our revenue for fiscal 2013 and 2012, respectively.

### **Training and Support**

We provide pre-service and in-service education to all of our direct service professionals and clinical and administrative staff, and we encourage staff to avail themselves of outside training opportunities whenever possible. Employees participate in orientation programs designed to increase their understanding of our mission, philosophy of service, and our Code of Conduct and compliance program. Our employees benefit from our library of training materials and an intranet site that facilitates the identification and exchange of expertise across all of our operations. We work to increase individual job satisfaction and retention of motivated and qualified employees.

We use equally rigorous methods to identify and contract with independent contractor providers (host home providers), whether in an adult host home or foster care environment. In addition to pre-service and in-service orientation to familiarize the host home providers to the specifics of our model and expectations, the contracted

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host home providers in our ARY business receive a detailed briefing tailored to the individualized needs of the individual or child placed in their home. Prior to any placements being made, we conduct a home study to evaluate the appropriateness of any placement and conduct interviews and criminal background checks on adult members residing in the host home provider household. The services provided by host home providers are evaluated for contractual compliance by our case manager or coordinator according to a standards set by licensing and regulatory agencies as well as our own strict quality standards. While all host home providers can provide services independently and with minimal oversight, they have access to emergency telephone triage and on-site crisis intervention, when necessary. Host home providers also avail themselves of support groups, whether independent or offered at the program office.

### **Employees and Independent Contractors**

As of June 30, 2014, we had approximately 20,000 full-time equivalent employees and approximately 5,500 independent contractors. Although our employees are generally not unionized, we have one business in New Jersey with approximately 38 employees who are represented by a labor union and approximately 276 Connecticut direct care workers who are also represented by a labor union. We began negotiating a labor agreement with the Connecticut union in September 2012. Those negotiations, however, were recently suspended after our Connecticut-based business notified the State of Connecticut and the union of its intention to stop providing services under existing contracts due to rate cuts and a change in state policy. We are currently working with our public partners on a plan to effectively transition our programs to new providers, and we anticipate that this transition will be complete during the first quarter of fiscal 2015. We consider our employee relations to be good.

### **Sales/Business Development and Marketing**

We market our services nationally as The MENTOR Network, a national network of local service providers. We operate under several brands across the country, predominantly under the REM and MENTOR brands in our Human Services segment and the NeuroRestorative and CareMeridian brands in our SRS segment.

The majority of our human services clients come to us through third-party referrals, and frequently our I/DD referrals come through recommendations to family members from state or local agencies. Since our operations depend heavily on these referrals, we seek to ensure that we provide high-quality services in all states in which we operate, allowing us to enhance our name recognition and maintain our positive reputation with state and local agencies.

Relationships with referral sources are cultivated and maintained at the local level by key operations managers and supported by an array of corporate supports including marketing communications, government relations and business development services to promote both new and existing product lines.

Our SRS sales activities are independently organized from those of our Human Services businesses. We have dedicated, geographically assigned clinical marketing and sales staff cultivating relationships with public and private payors, referral sources and directly with potential participants and their families. These regional teams are also supported by corporate resources as outlined above.

To further distinguish ourselves in both segments, we have established a comprehensive presence at both the national and local level through a robust online presence, including social media. Additionally, through our government relations and business development activities, we have successfully positioned ourselves to anticipate and meet the needs of our public partners.

### **Competition**

#### ***I/DD***

The I/DD market is highly fragmented, with both not-for-profit and for-profit providers ranging in size from small, local agencies to large, national organizations. We and the other leading national provider only account for less than 5% of services by revenue in the I/DD market. Although state and local governments continue to supply a small percentage of services, the majority of services are provided by the private sector. Not-for-profit

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organizations are also active in all states and range from small agencies serving a limited area with specific programs to multi-state organizations. Many of the not-for-profit companies are affiliated with advocacy groups such as community mental health and religious organizations.

### ***ARY***

The at-risk youth and troubled youth market is extremely fragmented, with several thousand providers in the United States. Competitors include both for-profit and not-for-profit local providers serving one particular geographic area to a single state, and, to a limited extent, multi-state providers.

### ***SRS***

We compete with local providers, both large and small, including hospitals, post-acute rehabilitation facilities, residential community-based facilities, day treatment centers and outpatient centers specializing in long-term catastrophic care and short-term rehabilitation. This market also includes several large national providers of general inpatient and outpatient rehabilitation services.

### **Properties**

Our principal executive office is located at 313 Congress Street, Boston, Massachusetts 02210. We operate a number of facilities and administrative offices throughout the United States. As of June 30, 2014, we provided services in 378 owned facilities and approximately 1,318 leased facilities, as well as in homes owned by our Mentors. We also own three offices and lease approximately 263 offices. We believe that our properties are adequate for our business as presently conducted and we believe we can meet requirements for additional space by exercising options on leases or by finding alternative space.

### **Regulatory Framework**

We must comply with comprehensive government regulation of our business, including federal, state and local statutes, regulations and policies governing the licensing of facilities, the quality of service, the revenues received for services, and reimbursement for the cost of services. State and federal regulatory agencies have broad discretionary powers over the administration and enforcement of laws and regulations that govern our operations.

The following regulatory considerations are critical to our operations:

*New federal regulation regarding waived services.* On March 17, 2014, a newly promulgated federal regulation governing home- and community-based waived services ( HCBS Waiver ) became effective. The rule establishes eligibility requirements for Medicaid home and community-based services provided under the waiver program. The waiver program allows the states to furnish an array of home- and community-based services and avoid institutional care. Under the new rule, home- and community-based settings must be integrated in and support full access to the greater community, be selected by the individual from different setting options, ensure individual rights of privacy, and optimize autonomy and independence in making life choices. The rule includes additional requirements for provider-owned or controlled home and community-based residential settings, including that the individual has a lease or other legally enforceable agreement, and standards related to the individual's privacy, control over schedule and visitors, and physical accessibility of the setting. At this juncture it is unclear how individual states will seek to implement this newly adopted regulation. The rule may present some implementation challenges. Some of the broad requirements may conflict with the needs and/or precautions that we must take for some of the individuals that we serve. It is unclear how each state will seek to address this potential conflict. The impact and costs of implementation and compliance with this regulation is currently unknown. States have the option to request a variation or delay of compliance with the federal standards for as long as five (5) years from the effective date. Moreover, each state Medicaid agency may interpret and submit different requests and extension timelines.

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*Funding.* Federal and state funding for our services is subject to statutory and regulatory changes, contracting and managed care initiatives, level of care assessments, court orders, rate setting and state budgetary considerations, all of which may materially increase or decrease reimbursement for our services. We actively participate in local and national legislative initiatives that seek to impact funding and regulation of our services. We derive revenues for our I/DD and ARY services and a significant portion of our SRS services from Medicaid programs.

*Licensure and qualification to deliver service.* We are required to comply with extensive licensing and regulatory requirements applicable to the services we deliver. These include requirements for participation in the Medicaid program, state and local contractual obligations, and requirements relating to individual rights, the credentialing of all of our employees and contract Mentors (including background and Office of Inspector General checks), the quality of care delivered, the physical plant and facilitation of community participation. Compliance with state licensing requirements is a prerequisite for participation in government-sponsored health care assistance programs, such as Medicaid. To qualify for reimbursement under Medicaid, facilities and programs are subject to various requirements imposed by federal and state authorities. We maintain a licensing database that tracks activity on licenses governing the provision of services.

In addition to Medicaid participation requirements, our facilities and services are subject to annual or semi-annual licensing and other regulatory requirements of state and local authorities. These requirements relate to the condition of the facilities, the quality and adequacy of personnel and the quality of services provided. State licensing and other regulatory requirements vary by jurisdiction and are subject to change and local interpretation.

From time to time we receive notices from regulatory inspectors that, in their opinion, there are deficiencies resulting from a failure to comply with various regulatory requirements. We review such notices and take corrective action as appropriate. In most cases we and the reviewing agency agree upon the steps to be taken to address the deficiency and, from time to time, we or one or more of our subsidiaries may enter into agreements with regulatory agencies requiring us to take certain corrective action in order to maintain our licenses. Serious deficiencies, or failure to comply with any regulatory agreements, may result in the assessment of fines or penalties and/or decertification or de-licensure actions by various federal or state regulatory agencies.

We deliver services and support under a number of different funding and program provisions. Our most significant sources of funding for our I/DD services are HCBS Waiver programs, Medicaid programs for which eligibility is based on a set of criteria (typically disability or age) established by the state and approved by the federal government. There is no uniformity among states and/or regulations governing our delivery of waived services to individuals. Each state where we deliver services operates under a plan submitted by the state to Centers for Medicare and Medicaid Services ( CMS ) to use Medicaid funds in non-institutional settings. Typically the state writes its own regulations governing providers and services provided under the state waiver program. Consequently, there is no uniform method of describing or predicting the outcomes of regulations across states where we deliver HCBS Waiver services. In addition, our ICFs-MR are governed by federal regulations, and may also be subject to individual state rules that vary widely in application and content. Federal regulations require that in order to maintain Medicaid certification as an ICF-MR, the facility is subject to annual on-site survey (a federal rule and process implemented by state agencies). Failure to successfully pass this inspection and remedy all defects or conditions cited may result in a finding of immediate jeopardy or other serious sanction and, ultimately, may cause a loss of both certification and funding for that particular facility.

Similarly, child foster care and other children s services are largely governed by individual state regulations which vary both in terms and regulatory content. Failure to comply with any state s regulations requires remedial action on our part and a failure to adequately remedy the problem may result in provider or contract termination.

All states in which we operate have adopted laws or regulations which generally require that a state agency approve us as a provider, and many require a determination that a need exists prior to the addition of covered individuals or services. Provider licenses are not transferable. Consequently, should we intend to acquire,

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develop, expand or divest services in any state or to enter a new state, we may be required to undergo a rigorous licensing, transfer and approval process prior to conducting business or completing any transaction.

Similarly, some states have a formal Certificate of Need ( CON ) process, whereby the state health care authority must first determine that a service proposed is needed under the state health plan, prior to any service being licensed or applied for. The CON process varies by state and may be formal in design, encompassing any transfer, organizational change, capital improvements, divestitures or acquisitions. Formal processes may include public notice, opportunity for affected parties to request a hearing prior to the health care authority approving the project, as well as an opportunity for the state authority to deny the project. Other states have a less formal process for CON application and approval and may be limited to new or institutional projects. Very few states require CON approval for waived services. Failure to comply with a state CON process may result in a prohibition on Medicaid billing and may subject the provider to fines, penalties, other civil sanctions or criminal penalties for the operators or owners of an unapproved health service.

*Other regulatory matters.* HIPAA, as amended by the HITECH Act, set national standards for the protection of health information created, maintained or transmitted by health providers. Under the law and regulations known collectively as the privacy and security rules, covered entities must implement standards to protect and guard against the misuse of individually identifiable health information.

Federal regulations issued pursuant to HIPAA and the HITECH Act contain, among other measures, provisions that require organizations to implement significant and expensive computer systems, employee training programs and business procedures. Rules have been established to protect the integrity, security and distribution of electronic health and related financial information. Many states have also implemented extensive data privacy and security laws and regulations. Failure to timely implement or comply with HIPAA or other data privacy and security regulations may, under certain circumstances, trigger the imposition of civil or criminal penalties.

The federal False Claims Act imposes civil liability on individuals and entities that submit or cause to be submitted false or fraudulent claims for payment to the government. Violations of the False Claims Act may include treble damages and penalties of up to \$11,000 per false or fraudulent claim. Similarly, retention of any overpayments may be regarded by the government as a false claim.

In addition to actions being brought by government officials under the False Claims Act, this statute and analogous state laws also allow a private individual with direct knowledge of fraud to bring a whistleblower claim on behalf of the government for violations. The whistleblower receives a statutory amount of up to 30% of the recovered amount from the government's litigation proceeds if the litigation is successful or if the case is successfully settled. Recently, the number of whistleblower suits brought against healthcare providers has increased dramatically, and has included suits based (among other things) upon alleged violations of the Federal Anti-Kickback Law.

The Anti-Kickback Law prohibits kickbacks, rebates and any other forms of remuneration in return for referrals. Any remuneration, direct or indirect, offered, paid, solicited or received, in return for referrals of patients or business for which payment may be made in whole or in part under Medicaid, could be considered a violation of law. The language of the Anti-Kickback law also prohibits payments made to anyone to induce them to recommend purchasing, leasing, or ordering any goods, facility, service or item for which payment may be made in whole or in part by Medicaid. Criminal penalties under the Anti-Kickback Law include fines up to \$25,000, imprisonment for up to 5 years, or both. In addition, acts constituting a violation of the Anti-Kickback Law may also lead to civil penalties, such as fines, assessments and exclusion from participation in the Medicaid program.

Additionally we must comply with local zoning and licensing ordinances and requirements. The Federal Fair Housing Amendments Act of 1988 protects the interests of the individuals we serve, prohibits local discriminatory ordinance practices and provides additional opportunities and accommodations for people with disabilities to live in their community of choice.

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Federal regulations promulgated by the Occupational Safety and Health Administration ( OSHA ) require us to have safety plans for blood borne pathogens and other work place risks. At any point in time OSHA investigators may receive a complaint which requires on-site inspection and/or audit, the outcome of which may adversely affect our operations.

Periodically, new statutes and regulations are written and adopted that directly affect our business. It is often difficult to predict the impact a new regulation will have on our operations until we have taken steps to implement its requirements. For example, the Patient Protection and Affordable Care Act provided a mandate for more vigorous and widespread enforcement and directed state Medicaid agencies to establish Recovery Audit Contractor ( RAC ) programs. RACs are private entities which will perform audits on a contingency fee basis, giving them an incentive to identify discrepancies in payments, from which they may be permitted to extrapolate disproportionately large penalties and fines. States were required to be in compliance by January 1, 2012 unless granted an extension. We have experienced only modest RAC auditing activity to date; however this remains a fairly new federal initiative and the ultimate impact remains unclear. Only the passage of time and our experience with enforcement and compliance will permit our assessment of the exact impact the new statute and regulations have on our business.

Similarly HIPAA and HITECH regulations increased both the scope of liability and obligations of business associates with whom such covered entities contract for services, as well as increase disclosure obligations of providers in the event of a breach. The Federal enforcement agency has expressed an intent to increase investigations and potential penalties for noncompliance in part due to these new standards.

Managed care initiatives undertaken in a given state may impact our business by modifying the types of services eligible for payment, the qualifications required for payment and the rates that are paid for those services. Similarly, some states are pursuing waivers for dual-eligible populations (that is, persons eligible for both Medicare and Medicaid), and our ability to participate in such waived services may depend on our ability to become a Medicare provider.

We participate in Medicare in a very select number of areas of the country, as well as in managed care projects that allocate funds for recipients who are dually eligible for Medicare and Medicaid. Medicare has a unique and different set of regulations, funding mechanisms and audit and compliance risks compared to Medicaid. In recent years, states have begun working toward maximizing Medicare funding for services for dual eligible populations due to the fiscal incentive to lower state contributions and shift the cost of service to Medicare. In some state markets equalization of rates is required, thereby mandating that the rates we charge to private payors may not exceed rates established and paid by Medicaid and/or Medicare. Public policy initiatives and cost-containment initiatives in the Medicare program may continue and may affect our operating margins where we participate in Medicare.

Conviction of abusive or fraudulent behavior with respect to one facility or program may subject other facilities and programs under common control or ownership to disqualification from participation in the Medicaid program. Executive Order 12549 prohibits any corporation or facility from participating in federal contracts if it or its principals (included but not limited to officers, directors, owners and key employees) have been debarred, suspended or declared ineligible or have been voluntarily excluded from participating in federal contracts. In addition, some state regulators provide that all facilities licensed with a state under common ownership or control are subject to delicensure if any one or more of such facilities are delicensed.

We must also comply with the standards set forth by the Office of Inspector General ( OIG ) governing internal compliance and external reporting requirements. We regularly review and monitor OIG advisory opinions, although they are limited in their application to Medicaid programs. Significant legislative, media and public attention has recently focused on health care. Because the law in this area is complex and continuously evolving, ongoing or future governmental investigations or litigation may result in interpretations that are inconsistent with our current practices. It is possible that outside entities could initiate investigations or future

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litigation impacting our services and that such matters could result in penalties and adverse publicity. It is also possible that our executive and other management personnel could be included in these investigations and litigation or be named defendants.

The Patient Protection and Affordable Care Act was signed into law in March 2010 and represents significant changes to the U.S. healthcare system. The legislation is far-reaching and is intended to expand access to health insurance coverage over time. The legislation includes requirements that most individuals obtain health insurance coverage beginning in 2014 and that most large employers offer coverage to their employees or they will be required to pay a financial penalty beginning in 2015. In addition, the new laws encompass certain new taxes and fees, including limitations on the amount of compensation that is tax deductible and new fees which may not be deductible for income tax purposes.

The legislation also imposes new requirements and restrictions, including, but not limited to, guaranteed coverage requirements, prohibitions on some annual and all lifetime limits on amounts paid on behalf of or to our employees, increased restrictions on rescinding coverage, establishment of minimum medical loss ratio requirements, the establishment of state insurance exchanges and essential benefit packages, and greater limitations on product pricing.

The Affordable Care Act has already had a significant impact on the structure of the health plans we offer our employees. We have recently redesigned our health benefits to only offer employees health coverage that meets the requirements of the Affordable Care Act.

Finally, we are also subject to a large number of employment related laws and regulations, including laws regarding discrimination, wrongful discharge, retaliation, and federal and state wage and hours laws.

A material violation of a law or regulation could subject us to fines and penalties and in some circumstances could disqualify some or all of the facilities and programs under our control from future participation in Medicaid or other government programs. Failure to comply with laws and regulations could have a material adverse effect on our business.

A Compliance Officer (vice president level position) oversees our compliance program and reports to our Chief Legal Officer, a management compliance committee, and a board compliance committee. The program activities are reported regularly to the management compliance committee which includes the CEO, CFO, as well as medical, HR, legal and quality assurance leaders. In addition, the program activities are periodically reported at the board level.

## **Seasonality**

In general, our financial performance is not significantly impacted by fluctuations from seasonality.

## **Legal Proceedings**

We are in the health and human services business and, therefore, we have been and continue to be subject to substantial claims alleging that we, our employees or our Mentors failed to provide proper care for a client. We are also subject to claims by our clients, our employees, our Mentors or community members against us for negligence, intentional misconduct or violation of applicable laws. Included in our recent claims are claims alleging personal injury, assault, abuse, wrongful death and other charges. Regulatory agencies may initiate administrative proceedings alleging that our programs, employees or agents violate statutes and regulations and seek to impose monetary penalties on us. We could be required to incur significant costs to respond to regulatory investigations or defend against civil lawsuits and, if we do not prevail, we could be required to pay substantial amounts of money in damages, settlement amounts or penalties arising from these legal proceedings.



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We also are 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 we are found to have violated the False Claims Act, we could be excluded from participation in Medicaid and other federal healthcare programs. 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.

Finally, we are also subject to employee-related claims under state and federal law, including claims for discrimination, wrongful discharge or retaliation and claims for wage and hour violations under the Fair Labor Standards Act or state wage and hour laws.

We reserve for costs related to contingencies when a loss is probable and the amount is reasonably estimable. While we believe our provision for legal contingencies is adequate, the outcome of our legal proceedings is difficult to predict, and we may settle legal claims or be subject to judgments for amounts that differ from our estimates. In addition, legal contingencies could have a material adverse impact on our results of operations in any given future reporting period.

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The following table sets forth the name, age and position of each of our directors and executive officers as of August 31, 2014:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Edward M. Murphy	67	Executive Chair and Director
Bruce F. Nardella	57	President, Chief Executive Officer and Director
Denis M. Holler	60	Chief Financial Officer and Treasurer
Neil D. Brendmoen	57	Cambridge Operating Group President
David M. Petersen	66	Redwood Operating Group President
Jeffrey M. Cohen	46	Chief Information Officer
Linda De Renzo	54	Chief Legal Officer, General Counsel and Secretary
Kathleen P. Federico	54	Chief Human Resources Officer
Dwight D. Robson	43	Chief Public Strategy and Marketing Officer
Gerald J. Morrissey, Jr.	61	Chief Quality Officer
Robert M. Melia	58	Chief Business Development Officer
Chris A. Durbin	49	Director
James L. Elrod, Jr.	59	Director
Pamela F. Lenehan	62	Director
Kevin A. Mundt	60	Director
Guy Sansone	49	Director
Gregory T. Torres	64	Director
Patrick M. Gray	65	Director Designee

Directors are elected at the annual meeting of our sole stockholder and hold office until the next annual meeting or a special meeting in lieu thereof, and until their successors are elected and qualified, or upon their earlier resignation or removal. There are no family relationships between any of the directors and executive officers listed in the table. There are no arrangements or understandings between any executive officer and any other person pursuant to which he or she was selected as an officer.

*Edward M. Murphy* has served as Executive Chair of the Board of Directors since January 2014 and as Director since he was appointed to the Board of Directors in September 2004. Mr. Murphy served as Chief Executive Officer from January 2005 until December 2013. He also served as our President from September 2004 until December 2009. Mr. Murphy founded Alliance Health and Human Services, Inc. ( Alliance ) in 1999 and served as the organization's President and CEO until September 2004. Prior to founding Alliance, he was a Senior Vice President at Tucker Anthony and President and Chief Operating Officer of Olympus Healthcare Group. Mr. Murphy is a former Commissioner of the Massachusetts Department of Youth Services and the Massachusetts Department of Mental Health, and the former Executive Director of the Massachusetts Health and Educational Facilities Authority. Mr. Murphy was selected as a director for his knowledge and experience in the human services industry, the public, private and nonprofit sectors and finance. Mr. Murphy earned an A.B. from Boston College, and an M.A. and Ph.D from the University of Massachusetts at Amherst.

*Bruce F. Nardella* has served as Chief Executive Officer and Director since January 2014 and has served as President since December 2009. Mr. Nardella was our President and Chief Operating Officer from December 2009 to December 2013, as well as our Executive Vice President and Chief Operating Officer from May 2007 to December 2009. Mr. Nardella joined the Company in 1996 as a state director and in May 2003 he was named President of our Eastern Division. Prior to that, he was a deputy commissioner for the Massachusetts Department of Youth Services. Mr. Nardella was selected as a director for his knowledge and experience in the human services industry and the public, private and nonprofit sectors. Mr. Nardella earned a B.A. from Colgate University, a M.A. in Education from Boston University and an M.P.A. from the Kennedy School of Government at Harvard University.

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*Denis M. Holler* has served as our Chief Financial Officer and Treasurer since May 2007. Mr. Holler was named Senior Vice President of Finance in January 2002 and led the Company's corporate finance functions through the acquisition of the Company by Vestar in 2006. In addition to overseeing all finance functions of the Company, he manages external relationships with our equity sponsor, banking partners and high-yield investors. Prior to joining the Company in October 2000 as Vice President of Financial Operations, Mr. Holler was Chief Financial Officer of the Fortress Corporation. Mr. Holler earned a B.A. from Fordham University, an M.S. in Accounting and an M.B.A. from Northeastern University.

*Neil D. Brendmoen* was named Cambridge Operating Group President in July 2014, where he oversees all human services operations in Alabama, Connecticut, Delaware, Florida, Georgia, Louisiana, Maryland, Massachusetts, Mississippi, Missouri, New Jersey, North Carolina, South Carolina and Texas and services for at-risk youth in Indiana, Illinois, Ohio and Pennsylvania. Mr. Brendmoen began his human services career in 1979 as a direct care worker in a state institution for individuals with developmental disabilities. Mr. Brendmoen joined REM Minnesota in 1980 as a Program Director before being appointed as Executive Director and Vice President of Operations for the Redwood Operating Group's eastern region. Mr. Brendmoen earned a B.A. from Southwest State University.

*David M. Petersen* served as our Redwood Operating Group President since June 2007. He had been serving as Senior Vice President and President of our Central Division since May 2003. Prior to joining the Company, Mr. Petersen worked for REM beginning in 1972, managing various operations in Minnesota, Montana, North Dakota and Wisconsin. Mr. Petersen earned a B.S. and M.A. from St. Cloud State University.

*Jeffrey M. Cohen* joined the Company as its Chief Information Officer in November 2011. From 2008 until joining the Company, Mr. Cohen served as Vice President of Information Technology for Magellan Biosciences, a private equity backed medical device company, where he oversaw the strategic transformation of its worldwide IT and communications systems. Prior to that, Mr. Cohen was Director of Information Technology at Biogen Idec, where he was responsible for its ERP, SOX program and ancillary systems for finance, human resources, legal and business development. He started his career at Cambridge Technology Partners, in various consulting roles culminating as a Vice President for its eBusiness practice. Mr. Cohen earned a B.S. in Mechanical Engineering from Cornell University and an M.B.A. from the Wharton School at the University of Pennsylvania.

*Linda De Renzo* was named our Chief Legal Officer in March 2011, and has served as our General Counsel and Secretary since March 2006. Ms. De Renzo oversees the corporate, litigation and risk management, regulatory, compliance and labor and employment legal functions. Prior to joining the Company, Ms. De Renzo was a partner at Testa, Hurwitz & Thibault, LLP in Boston from 1992 to 2004 and was an associate with the firm from 1986 to 1992. Ms. De Renzo represented high-growth companies and their financiers in a variety of industries including information technology, life sciences and health services. She also represented both issuers and underwriters in public offerings. She has a professional director certification from the American College of Corporate Directors, a national public company director education organization. Ms. De Renzo earned an A.B. from Dartmouth College and a J.D. from Harvard Law School.

*Kathleen P. Federico* joined the Company in December 2008 as our Senior Vice President, Human Resources, and was named our Chief Human Resources Officer in March 2011. From 2005 until joining the Company, Ms. Federico served as Senior Vice President, Sales and Human Resources, for World Travel Holdings in Woburn, Massachusetts, and was its Senior Vice President, Human Resources, from 2002 to 2005. Prior to that, she served as Vice President of Human Resources for KaBloom LLC, NE Restaurant Company and Sodexo Marriott Services. Ms. Federico was also Chief Operating Officer for Sheehan Associates, an employee benefits brokerage firm. Ms. Federico earned a B.A. in Psychology from Merrimack College.

*Dwight D. Robson* was named Chief Public Strategy and Marketing Officer in March 2011 after serving as Vice President of Public Strategy since joining the Company in 2003. He leads the work of the Public Strategy Group, which is responsible for developing and implementing the Company's agenda with respect to

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communications, investor relations, marketing and proposal development, and government and community affairs. Mr. Robson's experience prior to joining the Company includes senior policy and management positions in Massachusetts state government, most recently as Assistant State Treasurer. Mr. Robson earned a B.A. from the University of Massachusetts.

*Gerald J. Morrissey, Jr.* was named Chief Quality Officer in July 2014. Mr. Morrissey joined the Company in 2007 as Vice President of Quality Assurance and Service Development. Prior to joining the Company, Mr. Morrissey devoted more than thirty years of his career to the Commonwealth of Massachusetts, having served for four years as Assistant Secretary for Disabilities and Community Services and more than a decade as the Commissioner of the Department of Developmental Services. Mr. Morrissey formerly served as President and Board Member of the National Association of State Directors of Developmental Disabilities Services. Mr. Morrissey holds a B.A. in Special Education from the University of Massachusetts at Amherst, an M.Ed. from Antioch University, and an M.P.A. from the Kennedy School of Government at Harvard University.

*Robert M. Melia* was named Chief Business Development Officer in July 2014. Mr. Melia joined the Company in 2007, serving first as the head of the affiliated employment services business and then as Senior Vice President, Mergers & Acquisitions, before assuming the role of Cambridge Operating Group President in 2011, which included oversight of human services operations in seventeen states. Prior to joining the Company, Mr. Melia served as President of the Workforce Services Division at MAXIMUS and spent 12 years in a variety of positions at Massachusetts state agencies. Mr. Melia earned a B.A. from the University of Massachusetts and a M.A. in Management of Human Services from the Florence Heller School at Brandeis University.

*Chris A. Durbin* was elected to our board of directors in December 2010. He is a Managing Director in the Vestar Resources group of Vestar Capital Partners. Before joining Vestar in 2007, Mr. Durbin was Managing Director of Strategy and Business Development in Bank of America's Global Wealth and Investment Management business from 2001 to 2007. Prior to this, he worked at Mercer Management Consulting and Corporate Decisions, Inc., where he designed and implemented growth strategies for clients including several Vestar portfolio companies. Mr. Durbin is currently a director of and serves on the Audit Committee for Triton Container International Limited and DeVilbiss Healthcare. Mr. Durbin also chairs the Compensation Committee for DeVilbiss Healthcare. He also serves as Director of International Asset Systems (IAS). Mr. Durbin was selected as a director for his knowledge and experience in strategy and operations. Mr. Durbin earned a B.B.A. from the University of Notre Dame and an M.B.A. from Northwestern University's J.L. Kellogg School of Management.

*James L. Elrod, Jr.* joined our board of directors in June 2006. Mr. Elrod is a Managing Director of Vestar Capital Partners, having joined Vestar in 1998. Previously, he was Executive Vice President, Finance and Operations, for Physicians Health Service, a public managed care company. Prior to that, he was a Managing Director and Partner of Dillon, Read & Co. Inc. Mr. Elrod is currently a director of 21<sup>st</sup> Century Oncology (formerly known as Radiation Therapy Services, Inc.). Mr. Elrod was selected as a director for his knowledge and experience in finance and the health care industry. Mr. Elrod earned a B.A. from Colgate University and an M.B.A. from Harvard Business School.

*Pamela F. Lenehan* was elected to our board of directors in December 2008. Ms. Lenehan has served as President of Ridge Hill Consulting, a strategy consulting firm, since 2002. Prior to this, Ms. Lenehan was self-employed as a private investor. From 2000 to 2001, she was vice president and chief financial officer of Convergent Networks. From 1995 to 2000, she was senior vice president of corporate development and treasurer of Oak Industries Inc., which was acquired by Corning Inc. in 2000. Prior to that, Ms. Lenehan was a Managing Director in Credit Suisse First Boston's Investment Banking division and a vice president of Corporate Banking at Chase Manhattan Bank. Ms. Lenehan is currently a member of the boards of directors of Monotype Imaging Holdings Inc., where she is a member of the Audit Committee and chair of the Management Development and Compensation Committee, and American Superconductor Corporation where she chairs the Audit Committee. From 2004 to 2013, she was a member of the board of directors of Spartech Corporation until it was acquired by PolyOne and from 2001 to 2007 she was a member of the board of directors of Avid Technology. Ms. Lenehan

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was selected as a director for her knowledge and experience in finance and strategy and holds from the American College of Corporate Directors an Executive Masters Professional Director Certificate. Ms. Lenehan earned a B.A. in mathematical economics and an M.A. in economics from Brown University.

*Kevin A. Mundt* joined our board of directors in March 2008. He is a Managing Director at Vestar Capital Partners, and is President of the Vestar Resources group. Before joining Vestar in 2004, Mr. Mundt spent 23 years as a strategy and operations consultant specializing in consumer products, retailing and multi-point distribution, as well as healthcare and industrial marketing. For eleven of those years, Mr. Mundt was a strategic adviser to Vestar, and served on the boards of several Vestar portfolio companies. He began his consulting career at Bain and Company, and went on from there to co-found Corporate Decisions, Inc. When that firm was acquired by Marsh and McLennan, Mr. Mundt became a Managing Director of Marsh and McLennan's financial consulting arm, Mercer Oliver Wyman. Mr. Mundt is currently a Director and serves on the Compensation Committee of Big Heart Pet Brands (formerly known as Del Monte Foods), The Sun Products Corp. and Roland Foods, companies in which Vestar or its affiliates have a significant equity interest. In addition, Mr. Mundt is a member of the President's Leadership Council at Brigham & Women's Hospital and a member of the Corporation of Brown University. He is also a past director of MediMedia USA, Inc., Solo Cup Company, Fiorucci Foods, Birds Eye Foods, Sunrise Medical and Duff & Phelps. Mr. Mundt was selected as a director for his knowledge and experience in strategy and operations. Mr. Mundt earned a B.A. in economics from Brown University and an M.B.A. from Harvard Business School.

*Guy Sansone* was elected to our Board of Directors in December 2009. Mr. Sansone is a Managing Director at Alvarez & Marsal in New York and serves as head of its Healthcare Industry Group. Over the past 20 years, he has invested in and consulted as an executive to numerous companies, focusing on developing and evaluating strategic and operating alternatives designed to enhance value. While at Alvarez & Marsal, Mr. Sansone served as Chief Executive Officer and Chief Restructuring Officer at Saint Vincent Catholic Medical Centers in New York from October 2005 to August 2007 and as interim Chief Financial Officer of HealthSouth Corporation from March 2003 to October 2004, among other positions. He most recently served as Chief Restructuring Officer for Erickson Retirement Communities, which filed for bankruptcy protection in October 2009. Mr. Sansone served as a director of Rotech Healthcare, Inc. from March 2002 to August 2005. Mr. Sansone was selected as a director for his knowledge and experience in strategy and operations, with an emphasis on the health care industry. Mr. Sansone earned a B.S. in economics from the State University of New York at Albany.

*Gregory T. Torres* was elected to our board of directors in 1980 as a member of our first board of directors. Mr. Torres served as Chairman of the board of directors from September 2004 to December 2013. He was also the Company's Chief Executive Officer from January 1996 to January 2005, as well as its President from January 1996 until September 2004. Prior to joining the Company in 1980, Mr. Torres held prominent positions within the public sector, including chief of staff of the Massachusetts Senate Committee on Ways and Means and assistant secretary of human services. Since May 2007, Mr. Torres has been president and chief executive officer of the Massachusetts Institute for a New Commonwealth, known as MassINC, an independent, nonpartisan research and educational institute in Boston. On December 16, 2013, the Board of Directors accepted the resignation of Mr. Torres as Chairman and employee of the Company, effective as of January 1, 2014. In connection with Mr. Torres' resignation, the Company entered into a Termination of Amended and Restated Employment Agreement (the Torres Termination Agreement). Mr. Torres was selected as a director for his knowledge and experience in the human services industry, in the nonprofit, public and private sectors. Mr. Torres earned a B.A. from St. Vincent's College and an M.P.A. from the Kennedy School of Government at Harvard University.

*Patrick M. Gray* will be named a director upon the completion of this offering. Mr. Gray was an audit partner of PricewaterhouseCoopers from 1984 to 2009, where he most recently served as a leader of its U.S. corporate governance group from 2007 to 2009. While at PricewaterhouseCoopers, Mr. Gray worked with the management teams of growing companies on matters related to internal controls, finance department staffing, compensation arrangements, budgeting, financial arrangements, risk management, mergers and acquisitions and

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exits, including initial public offerings and sales. Mr. Gray is currently a member of the board of Sancilio & Company, a privately-held, research-based biopharmaceutical company, where he has served in such capacity since 2012. Mr. Gray was selected as a director designee for his knowledge and experience in accounting and finance. Mr. Gray is a certified public accountant, and he earned a B.S. from the Wharton School at the University of Pennsylvania.

### **Controlled Company**

Upon completion of this offering, Vestar will continue to hold a majority of the voting power of our outstanding common stock and, as a result, we would be a controlled company under the New York Stock Exchange corporate governance standards. As a controlled company, exemptions under the standards would free us from the obligation to comply with certain corporate governance requirements, including the requirements that:

a majority of our Board of Directors consists of independent directors, as defined under the rules of the New York Stock Exchange;

we have, to the extent applicable, a nominating and corporate governance committee that is composed entirely of independent directors; and

we have a compensation committee that is composed entirely of independent directors.

If we qualify as a controlled company under New York Stock Exchange corporate governance standards upon completion of this offering and would therefore be eligible to rely on these corporate governance exemptions, we may choose to rely upon those exemptions. These exemptions, however, do not modify the independence requirements for our Audit Committee, and we also intend to comply with the requirements of Rule 10A-3 of the Exchange Act and the rules of the New York Stock Exchange within the applicable time frame. These rules require that our Audit Committee be composed of at least three members, a majority of whom will be independent within 90 days of the date of this prospectus, and all of whom will be independent within one year of the date of this prospectus.

### **Classification of Board of Directors**

Our amended and restated certificate of incorporation will provide that our Board of Directors will be divided into three classes of directors, with the classes as nearly equal in number as possible. Upon completion of this offering, our directors will be divided among the three classes as follows:

Class I directors, who will be Messrs. Nardella, Durbin and Gray, whose initial term will expire at the first annual meeting of the stockholders occurring after this offering;

Class II directors, who will be Messrs. Murphy, Mundt and Sansone, whose initial term will expire at the second annual meeting of the stockholders occurring after this offering; and

Class III directors, who will be Mr. Torres, Mr. Elrod and Ms. Lenehan, whose initial term will expire at the third annual meeting of the stockholders occurring after this offering.

Directors in a particular class will be elected for three-year terms at the annual meeting of stockholders in the year in which their terms expire. As a result, only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms. Each director's term continues until the election and qualification of his successor, or his earlier death, resignation or removal.

### **Board Committees**

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Upon completion of this offering, our Board of Directors will have four standing committees: an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee and a Quality and

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Risk Management Committee. Each of the committees will report to the Board of Directors as they deem appropriate, and as the Board of Directors may request. The expected composition, duties and responsibilities of these committees are set forth below. In the future, our Board of Directors may establish other committees, as it deems appropriate, to assist it with its responsibilities.

### ***Audit Committee***

The Audit Committee will be responsible for, among other matters: (1) appointing, compensating, retaining, overseeing and terminating our independent registered public accounting firm; (2) reviewing our independent registered public accounting firm's independence from management; (3) reviewing with our independent registered public accounting firm the scope of their audit; (4) approving all audit and permissible non-audit services to be performed by our independent registered public accounting firm; (5) overseeing the financial reporting process and discussing with management and our independent registered public accounting firm the interim and annual consolidated financial statements that we file with the SEC; (6) reviewing and monitoring our accounting principles, accounting policies, financial reporting processes and controls and compliance with applicable legal and regulatory requirements; (7) establishing procedures for the confidential anonymous submission of concerns regarding questionable accounting, internal controls or auditing matters; (8) reviewing and approving related party transactions; and (9) reviewing and discussing policies and guidelines with respect to risk assessment and risk management.

Upon completion of this offering, our Audit Committee will consist of Ms. Lenehan (Chair), Mr. Durbin and Mr. Gray. The SEC rules and New York Stock Exchange rules require us to have one independent Audit Committee member upon the listing of our common stock on the New York Stock Exchange, a majority of independent directors within 90 days of the date of this prospectus and all independent Audit Committee members within one year of the date of this prospectus. Our Board of Directors has affirmatively determined that Ms. Lenehan and Mr. Gray meet the definition of "independent director" for purposes of serving on the Audit Committee under applicable SEC and New York Stock Exchange rules, and we intend to comply with these independence requirements within the time periods specified. In addition, Ms. Lenehan will qualify as our "audit committee financial expert," as such term is defined in Item 407 of Regulation S-K.

Our Board of Directors will adopt a new written charter for the Audit Committee, which will be available on our corporate website at [www.civitas-solutions.com](http://www.civitas-solutions.com) upon the completion of this offering. Our website is not part of this prospectus.

### ***Compensation Committee***

The Compensation Committee will be responsible for, among other matters: (1) reviewing and approving executive officer compensation goals, objectives and plans; (2) reviewing and recommending the compensation of our directors; (3) reviewing and approving employment agreements, severance arrangements and change in control agreements/provisions between us and our executive officers; and (4) administering our stock plans and other incentive compensation plans.

Upon completion of this offering, our Compensation Committee will consist of Mr. Durbin (Chair), Mr. Elrod and Mr. Sansone.

Our Board of Directors will adopt a new written charter for the Compensation Committee, which will be available on our corporate website at [www.civitas-solutions.com](http://www.civitas-solutions.com) upon the completion of this offering. Our website is not part of this prospectus.



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### ***Nominating and Corporate Governance Committee***

The Nominating and Corporate Governance Committee will be responsible for, among other matters: (1) identifying individuals qualified to become members of our Board of Directors, consistent with criteria approved by our Board of Directors; (2) overseeing the organization of our Board of Directors to discharge the Board's duties and responsibilities properly and efficiently; (3) identifying best practices and recommending corporate governance principles; and (4) developing and recommending to our Board of Directors a set of corporate governance guidelines and principles applicable to us.

Upon completion of this offering, our Nominating and Corporate Governance Committee will consist of Mr. Mundt (Chair), Mr. Murphy and Mr. Durbin.

Our Board of Directors will adopt a written charter for the Nominating and Corporate Governance Committee, which will be available on our corporate website at [www.civitas-solutions.com](http://www.civitas-solutions.com) upon the completion of this offering. Our website is not part of this prospectus.

### ***Quality and Risk Management Committee***

The Quality and Risk Management Committee will be responsible for, among other matters: (1) oversight of our management compliance committee, which is responsible for the structure and implementation of our compliance plan and service delivery risk management plan; (2) discussing specific material compliance and other legal issues with the Audit Committee, the Chief Legal Officer and the Compliance Officer, as appropriate; (3) oversight of our quality assurance and quality improvement programs and (4) conducting such investigations into matters relating to compliance matters as the committee may deem necessary.

Upon completion of this offering, our Quality and Risk Management Committee will consist of Mr. Elrod (Chair), Mr. Torres and Mr. Nardella.

Our Board of Directors will adopt a written charter for the Quality and Risk Management Committee, which will be available on our corporate website at [www.civitas-solutions.com](http://www.civitas-solutions.com) (<http://www.civitas-solutions.com>) upon the completion of this offering. Our website is not part of this prospectus.

### **Risk Oversight**

Following the completion of this offering, our Board of Directors will delegate to the Audit Committee oversight of our risk management process. The Audit Committee will focus on our general risk management strategy and the most significant risks facing us, and will direct management to implement appropriate risk mitigation strategies. The Quality and Risk Management Committee will focus on our service delivery risk management process, and will direct management to implement appropriate risk mitigation strategies with respect to service delivery. Our other board committees will also consider and address risk as they perform their respective committee responsibilities. All committees will report to the full Board of Directors as appropriate, including when a matter rises to the level of a material or enterprise level risk. Our management will be responsible for day-to-day risk management. This oversight includes identifying, evaluating, and addressing potential risks that may exist at the enterprise, strategic, financial, operational, compliance and reporting levels.

### **Compensation Committee Interlocks and Insider Participation**

Messrs. Durbin, Elrod and Sansone are the members of our Compensation Committee, and none of them is or has been our officer or employee. Messrs. Durbin and Elrod are managing directors of Vestar, which controls the Company. For a description of the transactions between us and Vestar, see Certain Relationships and Related Party Transactions. Apart from these relationships, no member of the Compensation Committee has any relationship that would be required to be reported under Item 404 of Regulation S-K. No member of the Compensation Committee serves or served during the fiscal year as a member of the board of directors or compensation committee of a company that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

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**Code of Conduct**

We have adopted the MENTOR Network Code of Conduct that applies to our directors, officers and employees, including our principal executive officers and our principal financial and accounting officer. In connection with this offering, we will adopt a code of ethics for senior financial officers that applies to our chief executive officer, chief financial officer, principal accounting officer and all persons performing similar functions. The MENTOR Network Code of Conduct and the code of ethics for senior financial officers will be publicly available on our website at [www.civitas-solutions.com](http://www.civitas-solutions.com), via a link from our **What We Promise** page under the tab **Quality of Care** and the sub-tab **Compliance**. If we make any substantive amendments to the Code, or grant any waiver from a provision of the code of ethics for senior financial officers to our chief executive officer, chief financial officer or principal accounting officer, we will disclose the nature of such amendment or waiver on our website or in a report on Form 8-K.

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**EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

*General Overview.* We are owned by Vestar and certain affiliates, certain of our directors and members of our management team. Our board of directors consists of representatives of Vestar (Chris Durbin, James Elrod Jr. and Kevin Mundt) and representatives of management (Gregory Torres and Edward Murphy), as well as two outside directors (Pamela Lenehan and Guy Sansone). Messrs. Elrod, Durbin and Sansone serve as the members of our Compensation Committee for purposes of this Executive Compensation section (the Committee), and Mr. Durbin is the Committee's chairman.

In connection with the Merger, we entered into an amended and restated employment agreement our Executive Chair, Edward Murphy. We also entered into severance agreements with its other named executive officers, Bruce Nardella, our President and Chief Executive Officer, Denis Holler, our Chief Financial Officer, David Petersen, President of the Redwood Operating Group, Linda De Renzo, our Chief Legal Officer, and, subsequently upon her hire, Kathleen P. Federico, Chief Human Resources Officer. The compensation initially paid to Mr. Murphy reflects negotiations at the time of the Merger, which has been adjusted since the Merger as described below. Messrs. Holler, Nardella, Petersen and Ms. De Renzo and Ms. Federico have all received raises since the Merger, upon being promoted or otherwise. Also in connection with the Merger, or after joining us, most of our executive officers invested in the Preferred Units and Class A Common Units of NMH Investment. As of June 30, 2014, our executive officers (including the named executive officers) have invested approximately \$3.0 million. Our executive officers also hold earned equity in NMH Investment.

On December 16, 2013, the Company entered into a further amended and restated employment agreement with Mr. Murphy and an employment agreement with Bruce Nardella. Pursuant to Mr. Murphy's amended and restated employment agreement, effective January 1, 2014, Mr. Murphy resigned his position as Chief Executive Officer and became Executive Chair of the board of directors. Pursuant to Mr. Nardella's employment agreement, effective January 1, 2014, Mr. Nardella resigned his position as Chief Operating Officer of the Company and was promoted to Chief Executive Officer. Mr. Nardella retained the title of President of the Company and became a member of our board of directors. The severance agreement between us and Mr. Nardella has been superseded by his employment contract.

In connection with this offering, we intend to amend the employment agreements with Messrs. Murphy and Nardella, and we intend to enter into new employment agreements with each of our executive officers who currently has a severance agreement, which will supersede their existing severance agreements. See Employment Agreements following this Offering.

*Compensation Policies and Practices.* The primary objectives of our executive compensation program are to:

attract and retain top executive talent;

achieve accountability for performance by linking annual cash incentive awards to achievement of measurable performance objectives; and

align short and longer-term incentives with equity value creation.

Our executive compensation programs are designed to encourage our executive officers to operate the business in a manner that best serves our clients, payors and other public partners, as well as our employees, thereby enhancing equity value. They do this by awarding a significant portion of our executives' overall compensation based on our financial performance, specifically, revenue and achievement of earnings before interest, taxes, depreciation and amortization, or EBITDA (with certain adjustments). Our compensation philosophy provides for a direct relationship between compensation and the achievement of our goals and seeks to include management in upside rewards.

We seek to achieve an overall compensation program that provides foundational elements such as base salary and benefits, as well as an opportunity for variable incentive compensation that constitutes a significant portion of an executive officer's annual compensation in order to drive our achievement of performance goals.



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Our executive compensation program is overseen by the Committee. The role of the Committee is, among other things, to review and approve salaries and other compensation of our executive officers, to review and recommend equity grants under NMH Investment's equity plan, and to review and approve payments under the annual cash incentive plan in which the executive officers participate. During fiscal 2012, the Wilson Group (Wilson), a boutique consulting firm that specializes in designing compensation programs that drive organizational performance, conducted an extensive competitive analysis and review of certain compensation elements for executives. Following Wilson's review and analysis, the Committee considered Wilson's recommendations and approved certain changes to executive compensation.

*Elements of Compensation.* Each element of the executive compensation program works to fulfill one or more of the objectives of the program. The elements of our compensation program are as follows:

base salary;

annual cash bonus incentives;

long-term incentive compensation in the form of equity-based units, including equity units which vest upon the achievement of certain investment returns by Vestar Capital Partners;

deferred compensation;

severance benefits and equity vesting upon a change in control; and

other benefits.

Base salaries for our executive officers are designed to recognize the contributions of our senior management team and provide a stable source of income in line with the market for comparable positions. Our annual bonuses are designed to reward executive officers for achievement of business performance, primarily EBITDA (with certain adjustments) and revenue. In addition, we consider quality of services managed and work performed by the executive officers. Our equity component of compensation, in the form of equity units in NMH Investment, is designed to reward equity value creation over a longer period of time.

*Executive Compensation Study.* With the approval of the Committee, in fiscal 2012 we retained the Wilson compensation consulting firm to evaluate our executive compensation program. Wilson conducted an extensive analysis of the competitiveness and appropriateness of our cash and equity executive compensation opportunity and made recommendations based on this analysis. Wilson conducted interviews with senior management and members of the Committee, reviewed market data from multiple commercial survey sources and reviewed public company peer group data. Set forth below is the public company peer group that Wilson used in fiscal 2012 to evaluate compensation. The companies were chosen based on industry (health and human services), and size (revenue and number of employees) as of their then-most recent SEC filings. There were 17 U.S.-based companies, with a median revenue of \$1.48 billion and a median employee population of 18,800.

<b>Name of Company</b>	<b>Revenue (In thousands)</b>	<b>Employees</b>
Amsurg Corp.	\$ 710,409	3,100
Bioscrip, Inc.	\$ 1,638,623	2,589
Emeritus Corp.	\$ 1,007,065	29,300
Five Star Quality Care, Inc.	\$ 1,240,728	22,500
Gentiva Health Services, Inc.	\$ 1,447,029	18,950
HealthSouth Corp.	\$ 1,999,300	23,000
Healthways, Inc.	\$ 695,974	2,800

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Lincare Holdings Inc.	\$ 1,669,205	10,225
Mednax, Inc.	\$ 1,401,559	6,270
National Healthcare Corp.	\$ 701,594	12,760

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Name of Company	Revenue (In thousands)	Employees
Providence Service Corp.	\$ 879,697	10,309
Psychiatric Solutions, Inc.	\$ 1,805,361	23,000
Rehabcare Group, Inc.	\$ 1,329,443	18,800
Res-Care, Inc.	\$ 1,579,155	45,700
Skilled Healthcare Group, Inc.	\$ 820,238	9,736
Sun Healthcare Group, Inc.	\$ 1,906,861	29,922
Sunrise Senior Living, Inc.	\$ 1,409,501	31,700

Wilson reviewed base salary, annual cash bonus incentives and long-term incentive compensation in the form of equity-based units of executive officers in health and human services public companies with similar revenue base and/or employee base. After completing its review, and presenting its findings to the Committee and to the Board of Directors in executive session, Wilson recommended that we: (i) increase the base salaries of our executive officers, to align them more closely with median salaries for comparably situated executive officers, and (ii) issue additional equity to the executive officers in order to more tightly align management and equity sponsor interests in creating stockholder value. Wilson did not recommend changes to the annual cash bonus incentives.

*Base Salary.* Base salary provides executives with a fixed amount of compensation paid on a regular basis throughout the year. The Committee's charter charges the Committee with reviewing and determining each executive's base salary on an annual basis. The named executive officers' base salaries were reviewed in December 2012 as required by the Committee's charter. Wilson found that base salaries were significantly under market at the executive officer level and recommended increases to raise each named executive officer's base salary to align them more closely with the median salary of their respective counterparts at companies in the public company peer group and in comparison to commercial survey data, in order to remain competitive for executive talent. The salary of Mr. Petersen, as an Operating Group President, was increased based on commercial survey data and relative to the other executive officers and the respective size of the business he manages. Effective January 1, 2013, the salary of Mr. Murphy was increased from \$350,000 to \$500,000; the salary of Mr. Nardella was increased from \$302,500 to \$400,000; the salary of Mr. Holler was increased from \$285,000 to \$335,000; the salary of Mr. Petersen was increased from \$270,000 to \$320,000; the salary of Ms. De Renzo was increased from \$250,000 to \$285,000; and the salary of Ms. Federico was increased from \$230,000 to \$280,000.

The named executive officers' base salaries were reviewed in December 2013 as required by the Committee's charter. The salaries of each of the named executive officers, other than Messrs. Murphy and Nardella, remain the same in fiscal year 2014. In connection with Mr. Murphy's election to Executive Chair of the Board of Directors and resignation as Chief Executive Officer, effective as of January 1, 2014, Mr. Murphy's salary was decreased from \$500,000 to \$400,000. In connection with Mr. Nardella's promotion to Chief Executive Officer and his continuing service as President, effective January 1, 2014, Mr. Nardella's salary was increased from \$400,000 to \$500,000.

*Annual Incentive Compensation.* In addition to base salary, each named executive officer participates in The MENTOR Network Human Services and Corporate Management Incentive Compensation Plan, an annual cash incentive plan, which constitutes the variable, performance-based component of an executive's annual cash compensation. The objective of this element of executive compensation is to drive individual performance and the achievement of organizational goals, particularly those pertaining to the provision of quality services. The plan provides the executive officers with the opportunity to earn significant annual cash bonuses. Wilson did not recommend any changes to the incentive compensation plan because, assuming adequate salaries, the payout opportunities were deemed adequate compared with survey data and with data for similarly situated executive officers at companies in the public company peer group and, accordingly, the payout opportunities and the plan were left unchanged in fiscal 2012.

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On December 20, 2012, we amended and restated The MENTOR Network Human Services and Corporate Management Incentive Compensation Plan, effective October 1, 2012. The amended and restated plan applies to fiscal years beginning with fiscal 2013. Two changes were made. First, the scorecard element was eliminated from the plan in order to simplify plan administration. Instead of an individual scorecard, named executive officers (except for the Chief Executive Officer) are assessed by the Chief Executive Officer or the President (based on whether the executive officer reports to the Chief Executive Officer or President) on the individual quality of their work (which includes workforce management and employee engagement). The Chief Executive Officer's performance is assessed by the Committee. The assessment of each executive's quality of work may result in a downward adjustment of up to 50% of their payout if the quality of their work is less than satisfactory. Second, the payout scale for the Operating Group targets was also modified to reflect the payout of maximum incentive compensation at a lower percentage of the target. The maximum payout of 150% would be payable for achievement of 104% of the adjusted EBITDA target for the Operating Groups, as well as for 104% of the revenue target for the Operating Groups. This change was intended to motivate Operating Group leaders to focus equally on margin and revenue growth when they are undertaking new business ventures. The payout scales for the Company-wide targets were unchanged. That is, the maximum payout of 150% is payable for achievement of 107.5% of the adjusted EBITDA and revenue targets.

For fiscal 2013, the incentive compensation payout opportunity at threshold, target and maximum performance levels was as follows:

<b>Officers</b>	<b>Threshold payout (% of base salary)</b>	<b>Target payout (% of base salary)</b>	<b>Maximum payout (% of base salary)</b>
Mr. Murphy	50.0	100.0	150.0
Mr. Nardella	37.5	75.0	112.5
Messrs. Holler, Petersen and Ms. De Renzo and Federico	25.0	50.0	75.0

The annual incentive plan for fiscal 2013 was structured to provide incentive compensation based upon our and/or relevant Operating Group's attainment of certain financial targets for fiscal 2013, which were approved by the Committee, and includes a ratings system that considers an individual participant's quality of work or quality of services managed. The Chief Executive Officer and President are responsible for certification of the quality ratings of the executive officers and the Compensation Committee is responsible for the certification of the CEO's quality rating.

The calculation of awards under the plan followed a two-step process in fiscal 2013.

First, a potential payout was calculated. As in prior years, the potential payout was based on achievement of revenue and adjusted EBITDA goals, adjusted to exclude the revenue and costs relating to companies that were acquired for more than \$3 million during fiscal 2013, certain new program starts that were identified at the beginning of fiscal 2013, and operations identified as discontinued operations in our financial statements, as well as certain additional operations that were closed or sold during fiscal 2013. In fiscal 2013, adjusted EBITDA was weighted 50 percent and revenue was weighted 50 percent for all participants in the plan. The weighting reflects an equal emphasis on promoting organic growth in addition to profitability. For Mr. Petersen, an Operating Group President, our consolidated performance on these two measures was weighted 25 percent, and the Operating Group's revenue performance was weighted 75 percent, in order to emphasize and reward expansion and performance of the relevant business organization that he manages. Potential payouts for the rest of the named executive officers were calculated based on our consolidated Adjusted EBITDA and revenue results.

On November 7, 2012, the Committee approved the following financial targets for fiscal 2013:

	<b>Target Revenue</b>	<b>Target Adjusted EBITDA</b>
Company	\$ 1,206.6 million	\$ 129.2 million
Cambridge Operating Group	\$ 376.9 million	\$ 51.8 million
Redwood Operating Group	\$ 620.9 million	\$ 89.2 million



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The Committee chose these targets as profitability continues to be a major objective of the Company, while the continuing focus on revenue is meant to incentivize management to expand the Company's overall business in order to grow its adjusted EBITDA.

In the case of the named executive officers other than the Operating Group President, the potential payout ranges from 50% of target for achievement of 92.5% of the Adjusted EBITDA or revenue goals, to 150% of target for achievement of 107.5% of the Adjusted EBITDA or revenue goals. For Mr. Petersen, an Operating Group President, 75% of the potential payout that is based on Operating Group performance ranges from 50% of target for achievement of 92.5% of organizational unit revenue goals and 150% of target for achievement of 104.0% of organizational unit revenue and EBITDA goals and 25% of the potential payout that is based on the our consolidated performance as calculated in a manner consistent with the other named executive officers. Payouts for performance levels between threshold and target, and between target and maximum, are calculated proportionately. This year, our performance was close to the financial goals and the Redwood Operating Group, managed by Mr. Petersen, exceeded its financial goals. Performance on the respective goals for fiscal 2013 was as follows:

	Actual Revenue	Actual Adjusted EBITDA
Company	\$ 1,186.1 million	\$ 129.6 million
Cambridge Operating Group	\$ 354.1 million	\$ 49.9 million
Redwood Operating Group	\$ 625.9 million	\$ 93.5 million

As a result of this performance, Mr. Petersen received 121.6% of his target payout based on achievement toward the targets by us and in excess of the targets by Redwood. The remaining named executive officers were potentially eligible to receive 96.6% of the target payout based on Company-wide financial performance.

Second, one-half of the potential payout was subject to reduction of up to 50% based on the participant's quality of services or work. A participant could also receive no incentive payout, notwithstanding the potential payout calculation or quality rating, if he or she engaged in exceptionally poor conduct or poor performance during the fiscal year.

In fiscal 2013, Messrs. Murphy, Nardella and Holler each received a satisfactory quality rating with a reduction in incentive compensation of 2.5% in total. The Committee, in the case of the Chief Executive Officer, and the Chief Executive Officer, in the case of Messrs. Nardella and Holler, decided to assign a 2.5% quality modifier primarily because we failed to achieve a satisfactory number of days sales outstanding ( DSO ) in fiscal year 2013. The quality modifier was considered in the calculation of incentive compensation because it reinforces our primary mission of providing high-quality services to individuals with disabilities and other challenges and because management strongly believes that service, quality and growth are inextricably linked, with service outcomes and the satisfaction of those we serve and our payor and referral sources driving our ability to maintain existing levels of service and expand our operation by receiving additional referrals and winning new contracts.

Based on the Revenue, Adjusted EBITDA and quality ratings, Messrs. Murphy, Nardella and Holler received 94.2% of their target payout. Mr. Petersen received 121.6% of his target payout; Ms. De Renzo and Ms. Federico, who are not responsible for our DSO results, each received a satisfactory quality rating and each received 96.6% of her target payout.

Each participant may receive additional discretionary incentive compensation. In the case of executive officers, discretionary incentive compensation is determined by the Chief Executive Officer and approved by the Committee. In fiscal 2013, none of the named executive officers received a discretionary award.

On December 16, 2013, we amended and restated The MENTOR Network Human Services and Corporate Management Incentive Compensation Plan, effective October 1, 2013. The amended and restated plan applies to

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fiscal years beginning with fiscal 2014. The plan was amended to include a further modifier to the plan to increase or decrease (up to a maximum increase or decrease of ten percent (10%)) of the amount of incentive compensation to be paid to certain employees based on the DSO achieved by us as of the end of fiscal 2014 compared to the target approved by the Compensation Committee at the beginning of each fiscal year. Each of the named executive officers (other than Ms. De Renzo and Federico) is subject to the DSO modifier in the calculation of the amount of incentive compensation due to such executive officer in fiscal year 2014.

*Equity-Based Compensation.* Long-term incentive compensation is provided in the form of non-voting equity units in our indirect parent company, NMH Investment, pursuant to the NMH Investment 2006 Unit Plan. The plan allows certain of our officers, employees, directors and consultants to participate in our long-term growth and financial success through acquisition of equity interests in NMH Investment, including Class B, Class C, Class D, Class E, Class F, Class G and Class H Common Units of NMH Investment. The purpose of the plan is to promote our long-term growth and profitability by aligning the interests of our management with the interests of our ultimate parent and by encouraging retention. The plan is administered by the Committee which recommends awards to the management committee of NMH Investment. The management committee determines, among other things, specific participants in the plan as well as the amount and value of any units awarded.

As part of the Merger, a pool of units had been set aside for management employees, including the named executive officers, and granted to executive officers during the second quarter of fiscal 2007. Messrs. Holler and Nardella received additional grants of B, C and D Common Units during fiscal 2007 in recognition of their promotions, and all of the named executive officers received subsequent grants of B, C and D Common Units during the fourth quarter of fiscal 2008. All of the Class B, C and D Common Units that had been unvested became vested during fiscal 2011 concurrently with the creation of a new pool of Class F Common Units. In June 2011, the Class F Common Units were issued to management employees, including the named executive officers. As of December 15, 2012, all of the Class F Common Units issued to the named executive officers were vested. The earned equity program was designed to motivate management to achieve financial results that would enhance the valuation of the Company upon a sale of the Company or other liquidity event. Pursuant to the terms of NMH Investment's limited liability company agreement, holders of the Class B, C, D and F Common Units would receive distributions representing 10% of the total increase in common equity value upon a sale or other liquidity event involving NMH Investment.

Consistent with Wilson's recommendation in fiscal 2012 and following numerous conversations between our then-current Chief Executive Officer and members of the Board of Directors in which equity compensation was considered and discussed, NMH Investment decided to grant earned equity to the executive officers and certain other senior leaders of the Company. On August 13, 2012, a new pool of Class G Common Units and Class H Common Units was created and on September 20, 2012, 1,000,000 Class H Common Units were issued to the named executive officers and other executive officers and 130,000 Class G Common Units were issued to non-executive employees and one executive officer. The Compensation Committee designed the Class H Common Units to have the potential to more tightly align management and equity sponsor interests in creating shareholder value. The Class H Common Units vest upon a sale of the Company and may receive up to 5.0% (or as little as 0.0%) of the increase in common equity value upon the sale of the Company, depending upon the multiple of investment received by Vestar and its affiliates. However, upon an initial public offering of the Company, the management committee of NMH Investment may convert the Class H Common Units into options of equivalent value if and to the extent Vestar and its affiliates achieve a certain multiple of investment. The Class G Common Units will share any common equity appreciation pro rata with the Class A Common Units, within a range from 84.9235% (assuming the Class H Common Units receive the full 5.0%) to 89.9190% (assuming the Class H Common Units do not vest) of the increase in common equity value upon a sale or other liquidity event. The Class B, C, D and F Common Units will continue to receive 10% of the equity appreciation upon a sale or other liquidity event involving NMH Investment.

In connection with his promotion to Chief Executive Officer in January 2014, NMH Investment issued 100,000 Class F Common Units and 100,000 Class H Common Units to Mr. Nardella. The Class F Common Units will vest over a three-year period.

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If an executive's employment is terminated, NMH Investment may repurchase the executive's Class B, C, D and F Common Units, and all unvested Class H Common Units will be forfeited (or Class G Common Units, as applicable). Class B, C, D and F Common Units that are already vested would be purchased for fair market value, except in the case of a termination for cause. In the case of a termination for cause, the units would be purchased at cost (or forfeited with no payment, in the case of the Class F and H Common Units, or Class G Common Units, as applicable). If an executive officer's employment is terminated due to death, disability or retirement prior to the earlier of (i) an initial public offering by or involving NMH Investment or any of its subsidiaries or (ii) a sale of the Company, the named executive officer and each of his or her permitted transferees (collectively, the NEO group) has the right, subject to certain limitations, for 45 days following the six month anniversary of his or her termination, to sell to NMH Investment, on one occasion, a number of Class F Common Units equal to a specified percentage (the specified percentage) of the total number of Class F Common Units held by the NEO group, at a purchase price equal to fair market value (the put right). In order to exercise this put right, the NEO group will also be required to simultaneously sell to NMH Investment a number of Class B, C and D Common Units equal to the specified percentage of the total number of such Class B, C and D Common Units held by the NEO group. The specified percentages for each of the named executive officers are as follows: Mr. Murphy, 38.15%; Mr. Nardella, 52.23%; Mr. Holler, 65.29%; Mr. Petersen, 59.37%; Ms. De Renzo, 75.26%, and Ms. Federico, 34.61%.

In connection with this offering, we intend to amend the terms of the Class H Common Units so that they vest upon the earlier to occur of a sale of the Company and the achievement of a multiple of investment return threshold by Vestar and its affiliates. Once vested, the holders of Class H Units are entitled to receive between 0.0% and 5.0% of the common equity value distributed by NMH Investment to its unitholders depending upon the multiple of investment achieved by Vestar and its affiliates.

*Deferred Compensation.* Under the National Mentor Holdings, LLC Executive Deferred Compensation Plan, the named executive officers receive an allocation to their account based on a percentage of base salary, as follows: Mr. Murphy, 13%; Mr. Nardella, 12%; Mr. Holler, 11%; and Mr. Petersen, Ms. De Renzo and Ms. Federico, 9%. These allocations are made as of the end of the plan year, December 31, for service rendered during the prior fiscal year. The balances earn a return, which for plan years 2013, 2012 and 2011, was a fixed rate of 6%. The plan is an unfunded, nonqualified deferred compensation arrangement, which provides deferred compensation to the executive officers. We may make additional discretionary allocations to the plan, although we did not do so in fiscal 2013. A participant's account balance is 100% vested and non-forfeitable and will be distributed to a participant following his or her retirement or termination from us, disability or death, or at our direction under certain circumstances. In connection with Mr. Nardella's promotion, the percentage of base salary allocated to Mr. Nardella as of January 1, 2014 will be increased to 13%.

A 401(k) plan is available to eligible employees, including the named executive officers. Under the plan, we may make an annual discretionary matching contribution and/or profit-sharing contribution. To supplement the 401(k) plan, the National Mentor Holdings, LLC Executive Deferral Plan is available to highly compensated employees (as defined by Section 414(q) of the Internal Revenue Code), including the named executive officers. Participants may contribute up to 100% of salary and/or incentive compensation bonus earned during the plan year. This plan is a nonqualified deferred compensation arrangement and is coordinated with our 401(k) plan so as to maximize a participant's contributions and the Company's matching contributions to the 401(k) plan, with the residual remaining in the Executive Deferral Plan. Amounts contributed to the 401(k) and/or Executive Deferral Plan are matched by us up to 1.5% of base salary. Distributions are made upon a participant's termination of employment, disability, death, retirement or at a time specified by the participant when he or she makes a deferral election. Participants can elect to have distributions made in a lump sum or in monthly installments over a five-year period. A specific-date election may be made only in a lump sum. We have established a grantor trust to accumulate assets to provide for the obligations under the plan. Any assets of the grantor trust are subject to the claims of our general creditors.

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*Severance and Change-in-Control Benefits.* As part of the Merger, we entered into an amended and restated employment agreement with Mr. Murphy, which was further amended on December 16, 2013, effective as of January 1, 2014, and entered into severance agreements with each of the other named executive officers who were employed by us at that time. Ms. Federico entered into a severance agreement when she joined us in December 2008. Each of these agreements provides for severance benefits to be paid to the named executive officer if the Company terminates his or her employment without cause or he or she resigns for good reason, each as defined in the applicable agreement. See *Severance Agreements*. Mr. Nardella's severance agreement was superseded effective as of January 1, 2014, by his employment agreement with us.

If any of the named executive officers terminates employment, for any reason other than by us for cause, he or she would be entitled to receive fair market value for his or her vested Class B, C, D and F Common Units. Under each executive officer's management unit subscription agreement, NMH Investment has the right to repurchase the units upon termination of employment. Fair market value is as determined in good faith by the management committee of NMH Investment (valuing the Company and its subsidiaries as a going concern, disregarding any discount for minority interest or marketability of the units).

In addition, upon a change in control of the Company, the Class H Common Units will vest immediately. We believe that this accelerated vesting could align the interests of the named executive officers with the interests of the indirect parent of the Company in the event of a sale of the Company by encouraging the named executive officers to remain with us and enhancing their focus on us during a sale of the Company.

In connection with this offering, we intend to amend the employment agreements with Messrs. Murphy and Nardella, and we intend to enter into new employment agreements with each of our executive officers who currently has a severance agreement, which will supersede their existing severance agreements. See *Employment Agreements* following this Offering.

*Other Benefits.* The named executive officers are entitled to participate in group health and welfare benefits on the same basis as all regular, full-time employees. These benefits include medical, dental, vision care, flexible spending accounts, term life insurance, short-term and long-term disability insurance and other benefits. In addition, all employees, including the executive officers, have the option of purchasing supplemental group term life insurance for themselves as well as coverage for their spouses and dependent children. Executive officers may also elect to receive Company-paid parking (plus gross-up for tax liability) and supplemental disability insurance and long-term care insurance, with the premiums paid for by us.

*Compensation Risk.* The Compensation Committee has considered the compensation policies and practices throughout the Company to assess the risks presented by such policies and practices. Based on this review, we have determined that such policies and practices are not reasonably likely to have a material adverse effect on us. In reaching this determination, we have taken into account the following design elements of our compensation programs and policies and practices: mixture of cash and equity opportunities, use of performance-based pay vehicles, use of financial metrics that are easily capable of review and avoidance of uncapped rewards.

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**Fiscal 2013 Summary Compensation Table**

Name and Principal Position	Fiscal Year	Salary (\$ (a))	Bonus (\$ (b))	Equity Awards (\$ (c))	Non-Equity Incentive Plan	Nonqualified Deferred Compensation	All Other	Total (\$)
					Compensation (\$ (d))	Earnings (\$ (e))	Compensation (\$ (f))	
Edward M. Murphy Executive Chair (former Chief Executive Officer)	2013	461,923			470,858	12,577	82,269	1,027,627
	2012	350,000			335,760	11,217	68,091	765,069
	2011	350,000	175,000	715,270	302,406	4,585	112,526	1,659,787
Bruce F. Nardella President and Chief Executive Officer	2013	375,250			282,515	61,289	57,354	776,408
	2012	302,500			217,644	47,829	48,097	616,070
	2011	302,500	150,000	464,730	196,025	3,204	77,535	1,193,994
Denis M. Holler Chief Financial Officer and Treasurer	2013	322,308			157,737	65,449	47,613	593,107
	2012	285,000			136,702	73,353	43,318	538,374
	2011	280,962	135,000	362,730	123,123	3,110	72,653	977,578
David M. Petersen President, Redwood Operating Group	2013	305,417			194,635	15,720	40,667	556,439
	2012	270,000			149,041	17,192	36,600	472,833
	2011	265,833	112,000	321,076	116,643	3,096	59,157	877,805
Linda De Renzo Chief Legal Officer	2013	276,115			137,635	5,225	35,794	454,770
	2012	250,000			129,914	4,042	33,351	417,307
	2011	243,942	108,500	244,809	108,003	1,880	73,517	780,651
Kathleen P. Federico Chief Human Resources Officer	2013	267,308			135,221	36,151	34,979	473,659

- (a) Includes individual's pre-tax contributions to health plans and contributions to retirement plans.
- (b) During fiscal 2011, all the named executive officers received discretionary recognition bonuses, and Ms. De Renzo received an additional \$8,500 bonus as part of a retroactive salary adjustment.
- (c) Figures represent respective grant date fair value of the Class H Common Units and Class F Common Units awarded during fiscal 2011, respectively, under the NMH Investment, LLC Amended and Restated 2006 Unit Plan (as amended) in accordance with Accounting Standards Codification Topic 718 (ASC 718, formerly FAS 123R). Please refer to Note 19 in the Notes to Consolidated Financial Statements included elsewhere herein for the relevant assumptions used to determine the compensation expense of our equity awards. The figures in this column also represent the value of the Class H Common Unit awards at the grant date assuming that the highest level of performance conditions will be achieved, in accordance with an analysis performed as of September 30, 2012.
- (d) Represents cash bonuses under The MENTOR Network Human Services and Corporate Management Incentive Compensation Plan.
- (e) Represents earnings in excess of 120% of the applicable federal long-term rate under the Executive Deferred Compensation Plan and the Executive Deferral Plan.
- (f) Includes Company contributions to the Executive Deferred Compensation Plan and the Company match on executive contributions to the 401(k) plan and Executive Deferral Plan. The amounts in this column were estimated at the time and have not been restated, as any differences were immaterial. Also included are Company paid parking, tax gross-ups for Company paid parking, imputed income on group term life insurance premiums and Company contributions for supplemental disability insurance and long-term care insurance premiums available to the executive officers. For fiscal 2013, the components of All Other Compensation were as follows:

Company Contributions to Executive Deferred Compensation Plan (\$)	Company Match on Contributions to 401(k) and Executive Deferral	Company Paid Parking (\$)	Gross-ups (\$)	Group Term Life Insurance (\$)	Supplemental Disability Insurance (\$)	Long-Term Care Insurance (\$)
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	Plan (\$)						
Edward M. Murphy	60,125	3,806	1,320	614	3,038	5,563	7,803
Bruce F. Nardella	45,075	3,806	1,320	614	1,642	2,313	2,583
Denis M. Holler	35,475	3,806	1,320	614	1,386	2,565	2,446
David M. Petersen	27,675	3,806			2,360	3,652	3,174
Linda De Renzo	24,863	3,806	1,320	614	617	2,162	2,412
Kathleen P. Federico	24,075	3,806	1,320	614	590	2,162	2,412

**Table of Contents****Grants of Plan-Based Awards in Fiscal 2013****Estimated Possible Payouts Under Non-Equity Incentive Plan**

Name	Threshold (a) (\$)	Target (a) (\$)	Maximum (a) (\$)
Edward M. Murphy	250,000	500,000	750,000
Bruce F. Nardella	150,000	300,000	450,000
Denis M. Holler	83,750	167,500	251,250
David M. Petersen	80,000	160,000	240,000
Linda De Renzo	71,250	142,500	213,750
Kathleen P. Federico	70,000	140,000	210,000

(a) Amounts represent potential payouts relating to fiscal 2013 under The MENTOR Network Human Services and Corporate Management Incentive Compensation Plan, based on percentages of base salary as in effect at September 30, 2013. For a description of the plan, see Compensation Discussion and Analysis Annual Incentive Compensation .

**Outstanding Equity Awards at Fiscal 2013 Year-End**

Shares and stock options are not included in this table because none were issued during the fiscal year and none were outstanding at fiscal year-end.

Name	Number and Class of Earned Units Not Vested (#)	Equity Incentive Plan Awards		Payout Value of Unearned Units Not Vested (\$) (g)
		Payout Value of Earned Units Not Vested (\$)	Number and Class of Unearned Units Not Vested (#)	
		(g)	(g)	
Edward M. Murphy	664.13 B Common Units(a)	345.35		
	696.90 C Common Units(a)	348.45		
	26,095.96 D Common Units(a)	12,526.06		
	6,737.50 B Common Units(b)	3,503.50		
	7,070.00 C Common Units(b)	3,535.00		
	7,490.00 D Common Units(b)	3,595.20		
	701,245.51 F Common Units(c)	329,585.39		
				200,000 H Common Units(d)
Bruce F. Nardella	664.13 B Common Units(a)	345.35		
	696.90 C Common Units(a)	348.45		
	21,723.95 D Common Units(a)	10,427.50		
	962.50 B Common Units(e)	500.50		
	1,010.00 C Common Units(e)	505.00		
	1,070.00 D Common Units(e)	513.60		
	5,775.00 B Common Units(b)	3,003.00		
	6,060.00 C Common Units(b)	3,030.00		
	6,420.00 D Common Units(b)	3,081.60		
	455,617.52 F Common Units(c)	214,140.23		
			150,000 H Common Units(d)	
Denis M. Holler	664.13 B Common Units(a)	345.35		
	696.90 C Common Units(a)	348.45		
	21,723.95 D Common Units(a)	10,427.50		
	481.25 B Common Units(e)	250.25		
	505.00 C Common Units(e)	252.50		
	535.00 D Common Units(e)	256.80		
	6,256.25 B Common Units(b)	3,253.25		

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	6,565.00 C Common Units(b)	3,282.50	
	6,955.00 D Common Units(b)	3,338.40	
	355,617.52 F Common Units(c)	167,140.23	
			150,000 H Common Units(d)
David M. Petersen	664.13 B Common Units(a)	345.35	
	696.90 C Common Units(a)	348.45	
	15,603.14 D Common Units(a)	7,489.51	
	5,775.00 B Common Units(b)	3,003.00	
	6,060.00 C Common Units(b)	3,030.00	
	6,420.00 D Common Units(b)	3,081.60	
	314,780.83 F Common Units(c)	147,946.99	
			100,000 H Common Units(d)



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Name	Equity Incentive Plan Awards			
	Number and Class of Earned Units Not Vested (#)	Payout Value of Earned Units Not Vested (\$) (g)	Number and Class of Unearned Units Not Vested (#)	Payout Value of Unearned Units Not Vested (\$) (g)
Linda De Renzo	664.13 B Common Units(a)	345.35		
	696.90 C Common Units(a)	348.45		
	13,854.33 D Common Units(a)	6,650.08		
	6,256.25 B Common Units(b)	3,253.25		
	6,565.00 C Common Units(b)	3,282.50		
	6,955.00 D Common Units(b)	3,338.40		
	240,008.39 F Common Units(c)	112,803.94		
			100,000 H Common Units(d)	
Kathleen P. Federico	4,990.33 B Common Units(f)	2,594.97		
	5,236.60 C Common Units(f)	2,618.30		
	5,547.68 D Common Units(f)	2,662.89		
	259,225.39 F Common Units(c)	121,835.93		
				100,000 H Common Units(d)

- (a) Granted on August 22, 2008 in connection with compensatory grants under the NMH Investment, LLC 2006 Unit Plan, as amended. The units fully vested on May 10, 2011. Because payment of the value of the B, C and D Common Units is deferred until termination of a recipient's employment with the Company or the occurrence of a liquidity event, we have included all such awards under the column for equity incentive plan awards that have been earned but have not vested. Vesting is explained in more detail above, under Compensation Discussion and Analysis Equity-Based Compensation .
- (b) Granted on January 12, 2007 in connection with the initial compensatory grants under the NMH Investment, LLC 2006 Unit Plan. The units fully vested on May 10, 2011. Because payment of the value of the B, C and D Common Units is deferred until termination of a recipient's employment with the Company or the occurrence of a liquidity event, we have included all such awards under the column for equity incentive plan awards that have been earned but have not vested. Vesting is explained in more detail above, under Compensation Discussion and Analysis Equity-Based Compensation .
- (c) Granted on June 15, 2011, in connection with compensatory grants under the NMH Investment, LLC 2006 Unit Plan, as amended. The units were 75% vested upon grant date, and the remaining 25% vested on December 15, 2012. Because payment of the value of the F Common Units is deferred until termination of a recipient's employment with the Company or the occurrence of a liquidity event, we have included all such awards under the column for equity incentive plan awards that have been earned but have not vested. Vesting is explained in more detail above, under Compensation Discussion and Analysis Equity-Based Compensation . The F Common Units are subject to a put right of the named executive officers, as described under Compensation Discussion and Analysis Equity-Based Compensation .
- (d) Granted on September 20, 2012 in connection with compensatory grants under the NMH Investment, LLC 2006 Unit Plan, as amended. The units will vest if and to the extent that the multiple of investment received by Vestar and its affiliates meets or exceeds 1.5. Because payment of the value of the H Common Units is deferred until the occurrence of a specified liquidity threshold, we have included all such awards under the column for equity incentive plan awards that have not been earned and have not vested. Vesting is explained in more detail above, under Compensation Discussion and Analysis Equity-Based Compensation .
- (e) Granted on August 14, 2007 under the NMH Investment, LLC 2006 Unit Plan, as amended, in recognition of the named executive officer's promotion. The units fully vested on May 10, 2011, to the extent not already vested. Because payment of the value of the B, C and D Common Units is deferred until termination of a recipient's employment with the Company or the occurrence of a liquidity event, we have included all such awards under the column for equity incentive plan awards that have been earned but have not vested. Vesting is explained in more detail above, under Compensation Discussion and Analysis Equity-Based Compensation .
- (f) Granted on April 7, 2009 in connection with compensatory grants under the NMH Investment, LLC 2006 Unit Plan, as amended. The units fully vested on May 10, 2011, to the extent not already vested. Because payment of the value of the B, C and D Common Units is deferred until termination of a recipient's employment with the Company or the occurrence of a liquidity event, we have included all such awards under the column for equity incentive plan awards that have been earned but have not vested. Vesting is explained in more detail above, under Compensation Discussion and Analysis Equity-Based Compensation .
- (g) Payout value represents fair market value determined as of fiscal year-end, which has been determined to be \$0.52 per Class B Common Unit, \$0.50 per Class C Common Unit, \$0.48 per Class D Common Unit, \$0.47 per Class F Common Unit and \$0.00 per Class H Common Unit. For purposes of calculating fair market value, we assumed hypothetical transaction costs in a change in control of the Company.

**Table of Contents****Option Exercises and Stock Vested**

No options were issued, outstanding or exercised during fiscal 2013. For purposes of this disclosure item, certain of the units vested during fiscal 2013 such that if the named executive officer terminated his or her employment voluntarily during fiscal 2013 and NMH Investment had elected to repurchase his or her units, it would have been required to repurchase them at fair market value. The units that vested in fiscal 2013 are set forth in the table below.

Name	Number of F Common Units Acquired on Vesting
Edward M. Murphy	175,311.38
Bruce F. Nardella	113,904.38
Denis M. Holler	88,904.38
David M. Petersen	78,695.21
Linda De Renzo	60,002.10
Kathleen P. Federico	64,806.35

**Pension Benefits**

We do not have any pension plans.

**Fiscal 2013 Nonqualified Deferred Compensation**

Name	Executive Contributions in Last Fiscal Year (\$ (a)(b))	Company Contributions in Last Fiscal Year (\$ (b)(c))	Aggregate Earnings in Last Fiscal Year (\$ (b)(d))	Aggregate Withdrawals/ Distributions (\$ (e))	Aggregate Balance at Last Fiscal Year End (\$ (f))
Edward M. Murphy	13,771	63,931	27,268		535,367
Bruce F. Nardella	51,750	48,881	81,011	2,750	701,681
Denis M. Holler	8,400	39,281	94,732	31	930,256
David M. Petersen	37,260	31,481	28,552	8,800	451,747
Linda De Renzo	5,509	28,669	11,231	4,720	223,320
Kathleen P. Federico	27,580	27,881	45,409	1,900	326,083

- (a) Represents amounts contributed to the Executive Deferral Plan during fiscal 2013. The Executive Deferral Plan is available to highly compensated employees to supplement the 401(k) plan. For details about the plan, see Compensation Discussion and Analysis Deferred Compensation, above.
- (b) All of the amounts reported under Executive Contributions in Last Fiscal Year and Company Contributions in Last Fiscal Year are reported as compensation for fiscal 2013 in the Summary Compensation Table. Under Aggregate Earnings in Last Fiscal Year, the following amounts are reported as compensation in the Summary Compensation Table that were in excess of 120% of the applicable federal long-term rate are as follows:

Edward M. Murphy	\$ 12,577
Bruce F. Nardella	61,289
Denis M. Holler	65,449
David M. Petersen	15,720

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Linda De Renzo	5,225
Kathleen P. Federico	36,151

- (c) Represents Company match (up to 1.5% of base salary) on executive contributions to the Executive Deferral Plan, plus Company contributions to the Executive Deferred Compensation Plan. The Executive Deferred

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- Compensation Plan is an unfunded, nonqualified deferred compensation arrangement to provide deferred compensation to executive officers. For details about both these plans, see Compensation Discussion and Analysis Deferred Compensation above.
- (d) Represents the 6% return credited to the participant's account in the Executive Deferred Compensation Plan for balances in fiscal 2013, plus the executives' respective returns for amounts invested in the Executive Deferral Plan.
- (e) Represents amounts withdrawn from the Executive Deferral Plan and deposited into the executive's respective 401(k) account in accordance with IRS rules.
- (f) Represents aggregate balances in Executive Deferral Plan and Executive Deferred Compensation Plan for each executive as of fiscal year-end. Of the amounts in this column, the following amounts have been reported as Company contributions in the All Other Compensation column in the Summary Compensation Table for fiscal 2013, fiscal 2012 and fiscal 2011.

	Fiscal 2013	Fiscal 2012	Fiscal 2011
Edward M. Murphy	\$ 63,931	\$ 49,231	\$ 94,675
Bruce F. Nardella	48,881	40,031	69,831
Denis M. Holler	39,281	35,081	64,358
David M. Petersen	31,481	28,031	50,625
Linda De Renzo	28,669	26,231	66,725
Kathleen P. Federico	27,881	N/A	N/A

**Severance and Employment Agreements**

Mr. Murphy entered into an amended and restated employment agreement at the time of the Merger, which was amended in 2009 (for compliance with Section 409A under the Internal Revenue Code) and further amended and restated on December 16, 2013, effective as of January 1, 2014, to reflect his resignation as Chief Executive Officer and his election to Executive Chair of the board of directors of the Company (the Amended and Restated Employment Agreement). The initial term of the further Amended and Restated Employment Agreement is one year, after which the agreement renews automatically each year for a one-year term, unless terminated earlier by the parties. The Amended and Restated Employment Agreement provides for a base salary of \$400,000 per year, subject to review and adjustment from time to time, with an annual bonus from the incentive compensation plan equal to no less than Mr. Murphy's base salary if the Company reaches certain yearly determined performance objectives. Under the terms of the agreement, if Mr. Murphy is terminated by the Company without cause or Mr. Murphy resigns with good reason, the Company is obligated to continue to pay him his base salary and targeted incentive compensation for two years following the date of such termination, as well as a pro rata incentive compensation amount for the year in which such termination occurs if termination occurs within the second half of the year and a monthly payment of \$2,000 for two years. The definition of cause includes the commission of fraud or embezzlement, an indictment or conviction for a felony or a crime involving moral turpitude, willful misconduct, violation of any material written policy of the Company, material neglect of duties, failure to comply with reasonable Board directives and material breach of any agreement with the Company or its securityholders or affiliates. The definition of good reason includes a material change in title, duties and responsibilities, a reduction in Mr. Murphy's annual base salary or annual bonus opportunity (subject to certain exclusions), a material breach by the Company of the amended and restated employment agreement, and relocation of Mr. Murphy's principal place of work from its current location to a location that is beyond a 50-mile radius of such location.

The Amended and Restated Employment Agreement contains provisions pursuant to which Mr. Murphy has agreed not to disclose our confidential information. Mr. Murphy has also agreed not to solicit our employees or contractors, nor compete with us for a period of two years after his employment with us has been terminated.

Messrs. Holler, Nardella and Petersen and Ms. De Renzo entered severance agreements with us at the time of the Merger, and Ms. Federico entered into the same form of severance agreement upon her hire in

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December 2008. These agreements were amended and restated during the first quarter of fiscal 2009 for compliance with Section 409A under the Internal Revenue Code. Pursuant to these agreements, in the event that the employment of any such employees is terminated by the Company without cause or the named executive officer resigns with good reason, they will be, subject to execution and non-revocation of a release, entitled to (i) the payment of an aggregate amount equal to their base salary for one year, (ii) the payment of an amount equal to their annual cash bonuses earned in the year prior to their termination and (iii) continued coverage under our health, medical and welfare benefit plans for a period of one year from the date of termination. Cause and good reason are defined as such terms are defined in Mr. Murphy's Amended and Restated Employment Agreement. The severance agreements also contain provisions pursuant to which the executive officer agrees not to disclose our confidential information at any time, or solicit our employees or contractors or compete with us for a period of one year after his or her employment with us has been terminated.

On December 16, 2013, the Company entered into an employment agreement with Bruce Nardella, effective as of January 1, 2014, in connection with his promotion to Chief Executive Officer of the Company. The employment agreement has an initial term of three years, after which the agreement renews automatically each year for a one-year term, unless terminated earlier by the parties. The employment agreement provides for a base salary of \$500,000 per year, subject to review and adjustment from time to time, with an annual bonus from the incentive compensation plan equal to no less than Mr. Nardella's base salary if the Company reaches certain yearly determined performance objectives. Under the terms of the agreement, if Mr. Nardella is terminated by the Company without cause or Mr. Nardella resigns with good reason, the Company is obligated to continue to pay him his base salary and targeted incentive compensation for two years following the date of such termination, as well as a pro rata incentive compensation amount for the year in which such termination occurs if termination occurs within the second half of the year and a monthly payment of \$2,000 for two years. The definition of cause includes the commission of fraud or embezzlement, an indictment or conviction for a felony or a crime involving moral turpitude, willful misconduct, violation of any material written policy of the Company, material neglect of duties, failure to comply with reasonable Board directives and material breach of any agreement with the Company or its securityholders or affiliates. The definition of good reason includes a material change in title, duties and responsibilities, a material reduction in Mr. Nardella's annual base salary or annual bonus opportunity (subject to certain exclusions), a material breach by the Company of the amended and restated employment agreement, and relocation of Mr. Nardella's principal place of work from its current location to a location that is beyond a 50-mile radius of such location.

Mr. Nardella's employment agreement contains provisions pursuant to which Mr. Nardella has agreed not to disclose our confidential information. Mr. Nardella has also agreed not to solicit our employees or contractors, nor compete with us for a period of two years after his employment with us has been terminated.

Mr. Nardella's severance agreement was superseded effective as of January 1, 2014 by his employment agreement.

**Employment Agreements following this Offering**

In connection with this offering, we intend to amend the employment agreements with Messrs. Murphy and Nardella. The amended employment agreements are expected to retain the terms of their existing employment agreements, except that the amended employment agreements will provide that (i) if Mr. Murphy or Mr. Nardella is terminated due to death or disability, he will be entitled to accelerated vesting of a pro rata portion of his unvested time-based equity awards under the 2014 Incentive Plan and accelerated vesting of all of his unvested Class F Common Units and Class H Common Units, (ii) if Mr. Murphy or Mr. Nardella is terminated (other than for cause and other than due to death or disability) within six months prior to or 24 months following a change in control, he will be entitled to accelerated vesting of all of his unvested time-based equity awards under the 2014 Incentive Plan and accelerated vesting of all of his unvested Class F Common Units and Class H Common Units. The payment of severance benefits will be conditioned upon the execution and non-revocation of a release. The amended employment agreements will revise the definition of the scope of our business for purposes of the

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noncompetition and nonsolicitation provisions set forth therein. Except as described above, the terms of the employment agreements with Messrs. Murphy and Nardella are not expected to change.

In connection with this offering, we intend to enter into new employment agreements with each of our executive officers who currently has a severance agreement (including Messrs. Holler and Petersen and Ms. De Renzo and Ms. Federico, who are named executive officers), which will supersede their existing severance agreements with us. The employment agreements will address the terms not covered by the existing severance agreements, including (i) making explicit that the agreement has a term of one year with automatic renewals unless terminated in accordance with the agreement, (ii) specifying the individual's position, duties, annual base salary and target bonus and (iii) providing for customary business expense reimbursement. The employment agreements for these executive officers will provide that if the executive officer is terminated without cause or resigns for good reason, he or she will be, subject to execution and non-revocation of a release, entitled to (i) continued payment of his or her base salary for one year, (ii) payment of an amount equal to his or her target bonus, (iii) payment of a pro rata bonus for the year in which such termination occurs if termination occurs within the second half of the year and (iv) a monthly payment of \$2,000 for 24 months. If the executive officer is terminated due to death or disability, he or she will be entitled to (i) payment of a pro rata bonus for the year in which such termination occurs and (ii) accelerated vesting of a pro rata portion of his or her unvested time-based equity awards and accelerated vesting of his or her unvested Class F Common Units and Class H Common Units. If the executive officer is terminated (other than for cause and other than due to death or disability) within six months prior to or 24 months following a change in control, he or she will be entitled to (i) the same severance payments as provided for in the event of a termination with cause or for good reason, except that the payment of his or her base salary will continue for 18 months instead of 12 months following such termination and (ii) accelerated vesting of all of his or her unvested time-based equity awards under the 2014 Incentive Plan and accelerated vesting of all of his or her unvested Class F Common Units and Class H Common Units. In addition the new employment agreements are expected to update the description of the scope of our business for purposes of the noncompetition and nonsolicitation provisions set forth therein.

The terms of the new and amended employment agreements are under discussion, and accordingly their definitive terms may vary from those described above.

**Estimated Severance and Change-in-Control Payments**

Mr. Murphy's amended and restated employment agreement and the severance agreements of the other named executive officers provide for severance benefits in the event of termination under certain circumstances. The following table shows the amount of potential severance benefits for the named executive officers pursuant to their employment or severance arrangements, assuming the named executive officer was terminated under circumstances qualifying for the benefits and that termination occurred as of September 30, 2013, our fiscal year-end. The table also shows the estimated present value of continuing coverage for the benefits and the amount that would be paid for the repurchase of the B, C, D and F Common Units in NMH Investment, assuming a termination without cause.

Name	Salary (\$ (a))	Bonus (\$ (b))	Repurchase of Restricted B, C, D and F Common Units (\$ (c))	Value of Continued Benefits (\$ (d))	Total (\$)
Edward M. Murphy	1,000,000	1,470,858	353,439	65,460	2,889,757
Bruce F. Nardella	400,000	282,515	235,895	21,566	939,976
Denis M. Holler	335,000	157,737	188,895	26,768	708,400
David M. Petersen	320,000	194,635	165,245	23,512	703,392
Linda De Renzo	285,000	137,635	130,022	5,389	558,046
Kathleen P. Federico	280,000	135,221	129,712	5,155	550,088

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- (a) Under Mr. Murphy's employment agreement, salary would continue for two years. For each of the other named executive officers, salary would have continued for one year upon a termination as of September 30, 2013. These amounts would be payable over time in accordance with the Company's regular payroll practices. Effective as of January 1, 2014, under Mr. Nardella's employment agreement, Mr. Nardella's salary would continue for two years.
- (b) Mr. Murphy would receive an amount equal to his target annual bonus of 100 percent of base salary under the incentive compensation plan for two years after termination. Each of the other named executive officers would have received an amount equal to the actual annual bonus for the prior fiscal year upon a termination as of September 30, 2013. Effective as of January 1, 2014, under Mr. Murphy's further amended and restated employment agreement, Mr. Murphy would receive an amount equal to his target bonus of 100% of his salary under the incentive compensation plan for two years after termination. Effective January 1, 2014, under Mr. Nardella's employment agreement, Mr. Nardella would receive an amount equal to his target bonus of 100% of his salary under the incentive compensation plan for two years after termination. These amounts would be payable over time in accordance with the Company's regular payroll practices.
- (c) Represents the amount the executive officer would receive for the Class B, C, D and F Common Units, including the original purchase price. The units may be repurchased upon the executive officer's termination. Assuming a termination without cause on September 30, 2013, the named executive officers would receive fair market value determined as of year-end to be \$0.52 per Class B Common Unit, \$0.50 per Class C Common Unit, \$0.48 per Class D Common Unit, \$0.47 per Class F Common Unit. For all of the Class B Common Units, Class C Common Units, Class D Common Units and Class F Common Units, as set forth below:

	<b>Number of Class B Common Units Purchased at Fair Market Value</b>	<b>Number of Class C Common Units Purchased at Fair Market Value</b>	<b>Number of Class D Common Units Purchased at Fair Market Value</b>	<b>Number of Class F Common Units Purchased at Fair Market Value</b>
Edward M. Murphy	7,402	7,767	33,586	701,246
Bruce F. Nardella	7,402	7,767	29,214	455,618
Denis M. Holler	7,402	7,767	29,214	355,618
David M. Petersen	6,439	6,757	22,023	314,781
Linda De Renzo	6,920	7,262	20,809	240,008
Kathleen P. Federico	4,990	5,237	5,548	259,225

For purposes of calculating fair market value, we assumed hypothetical transaction costs assuming a change in control of the Company. The purchase price may be paid in the form of a promissory note at the discretion of NMH Investment.

- (d) Mr. Murphy would continue to participate in health and welfare benefit plans at the Company's expense for two years. All other named executive officers would participate in the health and welfare benefit plans for one year. Amounts are estimated based on the respective named executive officer's current benefit elections. Effective as of January 1, 2014, Messrs. Murphy and Nardella are permitted to participate in the health and welfare benefit plans at their own expense.

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Neither Mr. Murphy's employment agreement nor the named executive officer's severance agreements contain provisions for payments upon a change of control of the Company. However, assuming a change of control occurred at September 30, 2013, the Company's fiscal year-end, under the governing documents, all of the H Common Units would vest. The payout based on estimated fair market value of each named executive officer's B, C, D, F and H Common Units, as of September 30, 2013, would be as set forth in the following table.

Name	Class B Common Units (\$)	Class C Common Units (\$)	Class D Common Units (\$)	Class F Common Units (\$)	Class H Common Units (\$)	Total (\$)
Edward M. Murphy	3,849	3,883	16,121	329,586		353,439
Bruce F. Nardella	3,849	3,883	14,023	214,140		235,895
Denis M. Holler	3,849	3,883	14,023	167,140		188,895
David M. Petersen	3,348	3,379	10,571	147,947		165,245
Linda De Renzo	3,599	3,631	9,988	112,804		130,022
Kathleen P. Federico	2,595	2,618	2,663	121,836		129,712

For purposes of calculating fair market value, we assumed hypothetical transaction costs assuming a change in control of the Company. As of fiscal year-end the fair market value has been determined to be \$0.52 per Class B Common Unit, \$0.50 per Class C Common Unit, \$0.48 per Class D Common Unit, \$0.47 per Class F Common Unit and \$0.00 per Class H Common Unit. The purchase price may be paid in the form of a promissory note at the discretion of NMH Investment.

**2014 Omnibus Incentive Plan**

In connection with this offering, we intend to adopt the 2014 Omnibus Incentive Plan (the "2014 Incentive Plan"). The 2014 Incentive Plan will provide for grants of stock options, stock appreciation rights, restricted stock, other stock-based awards and other cash-based awards. Directors, officers and other employees of us and our subsidiaries, as well as others performing consulting or advisory services for us, will be eligible for grants under the 2014 Incentive Plan. The purpose of the 2014 Incentive Plan is to provide incentives that will attract, retain and motivate high performing officers, directors, employees and consultants by providing them with appropriate incentives and rewards either through a proprietary interest in our long-term success or compensation based on their performance in fulfilling their personal responsibilities. Set forth below is a summary of the material terms of the 2014 Incentive Plan. For further information about the 2014 Incentive Plan, we refer you to the complete copy of the 2014 Incentive Plan.

*Administration*

The 2014 Incentive Plan will be administered by the Compensation Committee of our Board of Directors. Among the Compensation Committee's powers will be to determine the form, amount and other terms and conditions of awards; clarify, construe or resolve any ambiguity in any provision of the 2014 Incentive Plan or any award agreement; amend the terms of outstanding awards; and adopt such rules, forms, instruments and guidelines for administering the 2014 Incentive Plan as it deems necessary or proper. The Compensation Committee will have the authority to administer and interpret the 2014 Incentive Plan, to grant discretionary awards under the 2014 Incentive Plan, to determine the persons to whom awards will be granted, to determine the types of awards to be granted, to determine the terms and conditions of each award, to determine the number of shares of common stock to be covered by each award, to make all other determinations in connection with the 2014 Incentive Plan and the awards thereunder as the Compensation Committee deems necessary or desirable and to delegate authority under the 2014 Incentive Plan to our executive officers.

*Available Shares*

The aggregate number of shares of common stock which may be issued or used for reference purposes under the 2014 Incentive Plan or with respect to which awards may be granted will initially be 3,325,500 shares. This



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amount will automatically increase on the first day each fiscal year the 2014 Incentive Plan is in effect by 3.0% of the total number of shares of Common Stock outstanding on the last day of the immediately preceding fiscal year or a lesser amount determined by the Compensation Committee. The number of shares that will be available for issuance under the 2014 Incentive Plan may be subject to adjustment in the event of a reorganization, stock split, merger or similar change in the corporate structure or the outstanding shares of common stock. In the event of any of these occurrences, we may make any adjustments we consider appropriate to, among other things, the number and kind of shares, options or other property available for issuance under the plan or covered by grants previously made under the plan. The shares that will be available for issuance under the plan may be, in whole or in part, either authorized and unissued shares of our common stock or shares of common stock held in or acquired for our treasury. In general, if awards under the 2014 Incentive Plan are for any reason cancelled, or expire or terminate unexercised, the shares covered by such awards may again be available for the grant of awards under the 2014 Incentive Plan. The maximum number of shares of common stock with respect to which incentive stock options may be granted is 3,000,000 shares. The maximum grant date fair value of any award granted to any non-employee director during any fiscal year shall not exceed \$750,000; provided that the committee may grant awards in excess of such limit to any non-employee director upon a finding by the committee that such non-employee director has or will provide extraordinary services to the Company in such fiscal year.

The maximum number of shares of our common stock with respect to which any stock option, stock appreciation right, shares of restricted stock or other stock-based awards that will be subject to the attainment of specified performance goals and intended to satisfy Section 162(m) of the U.S. Internal Revenue Code of 1986, as amended (the Code) and may be granted under the 2014 Incentive Plan during any fiscal year to any eligible individual will be 3,000,000 shares (per type of award). The total number of shares of our common stock subject to the award of stock options or stock appreciation rights that may be granted under the 2014 Incentive Plan during any fiscal year to any eligible individual will be 3,000,000 shares. There are no annual limits on the number of shares of our common stock with respect to an award of restricted stock that are not subject to the attainment of specified performance goals to eligible individuals. To the extent required by Section 162(m) of the Code for awards under the Plan to qualify as performance-based compensation, the following individual participant limitations will apply after the expiration of certain transition periods available under Section 162(m) (which, generally, exempt certain grants made pursuant to plans that were in place prior to the consummation of this offering): (a) the maximum number of shares of our common stock subject to any performance award which may be granted under the 2014 Incentive Plan during any fiscal year to any eligible individual will be 3,000,000 shares and, (b) the maximum value of a cash payment made under a performance award which may be granted under the 2014 Incentive Plan during any fiscal year to any eligible individual will be \$5,000,000.

*Eligibility for Participation*

Members of our Board of Directors, as well as employees of, and consultants to, us or any of our subsidiaries and affiliates will be eligible to receive awards under the 2014 Incentive Plan.

*Award Agreement*

Awards granted under the 2014 Incentive Plan will be evidenced by award agreements, which need not be identical, that provide additional terms, conditions, restrictions and/or limitations covering the grant of the award, including, without limitation, additional terms providing for the acceleration of exercisability or vesting of awards in the event of a change of control or conditions regarding the participant's employment, as determined by the Compensation Committee.

*Stock Options*

The Compensation Committee will be able to grant nonqualified stock options to eligible individuals and incentive stock options only to eligible employees. The Compensation Committee will determine the number of

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shares of our common stock subject to each option, the term of each option, which may not exceed ten years, or five years in the case of an incentive stock option granted to a ten percent stockholder, the exercise price, the vesting schedule, if any, and the other material terms of each option. Other than in connection with certain substitutions of options in connection with corporate transactions (as defined in Treasury Regulation 1.424-1(a)(3)), no incentive stock option or nonqualified stock option may have an exercise price less than the fair market value of a share of our common stock at the time of grant or, in the case of an incentive stock option granted to a ten percent stockholder, 110% of such share's fair market value. Options will be exercisable at such time or times and subject to such terms and conditions as determined by the Compensation Committee at grant and the exercisability of such options may be accelerated by the Compensation Committee.

*Stock Appreciation Rights*

The Compensation Committee will be able to grant stock appreciation rights, which we refer to as SARs, either with a stock option, which may be exercised only at such times and to the extent the related option is exercisable, which we refer to as a Tandem SAR, or independent of a stock option, which we refer to as a Non-Tandem SAR. A SAR is a right to receive a payment in shares of our common stock or cash, as determined by the Compensation Committee, equal in value to the excess of the fair market value of one share of our common stock on the date of exercise over the exercise price per share established in connection with the grant of the SAR. The term of each SAR may not exceed ten years. The exercise price per share covered by a SAR will be the exercise price per share of the related option in the case of a Tandem SAR and will be the fair market value of our common stock on the date of grant in the case of a Non-Tandem SAR. The Compensation Committee will also be able to grant limited SARs, either as Tandem SARs or Non-Tandem SARs, which may become exercisable only upon the occurrence of a change in control, as defined in the 2014 Incentive Plan, or such other event as the Compensation Committee may designate at the time of grant or thereafter.

*Restricted Stock*

The Compensation Committee will be able to award shares of restricted stock. Except as otherwise provided by the Compensation Committee upon the award of restricted stock, the recipient will generally have the rights of a stockholder with respect to the shares, including the right to receive dividends, the right to vote the shares of restricted stock and, conditioned upon full vesting of shares of restricted stock, the right to tender such shares, subject to the conditions and restrictions generally applicable to restricted stock or specifically set forth in the recipient's restricted stock agreement. The Compensation Committee will be able to determine at the time of award that the payment of dividends, if any, will be deferred until the expiration of the applicable restriction period.

Recipients of restricted stock will be required to enter into a restricted stock agreement with us that states the restrictions to which the shares are subject, which may include satisfaction of pre-established performance goals, and the criteria or date or dates on which such restrictions will lapse.

If the grant of restricted stock or the lapse of the relevant restrictions is based on the attainment of performance goals, the Compensation Committee will establish for each recipient the applicable performance goals, formulae or standards and the applicable vesting percentages with reference to the attainment of such goals or satisfaction of such formulae or standards while the outcome of the performance goals are substantially uncertain. Such performance goals may incorporate provisions for disregarding, or adjusting for, changes in accounting methods, corporate transactions, including, without limitation, dispositions and acquisitions, and other similar events or circumstances. Section 162(m) of the Code requires that performance awards be based upon objective performance measures. The performance goals for performance-based restricted stock will be based on one or more of the objective criteria set forth on Exhibit A to the 2014 Incentive Plan and are discussed in general below.

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*Other Stock-Based Awards*

The Compensation Committee will be able to, subject to limitations under applicable law, make a grant of such other stock-based awards, including, without limitation, performance units, dividend equivalent units, stock equivalent units, restricted stock and deferred stock units under the 2014 Incentive Plan that are payable in cash or denominated or payable in or valued by shares of our common stock or factors that influence the value of such shares. The Compensation Committee will be able to determine the terms and conditions of any such other awards, which may include the achievement of certain minimum performance goals for purposes of compliance with Section 162(m) of the Code and/or a minimum vesting period. The performance goals for performance-based other stock-based awards will be based on one or more of the objective criteria set forth on Exhibit A to the 2014 Incentive Plan and discussed in general below.

*Other Cash-Based Awards*

The Compensation Committee will be able to grant awards payable in cash. Cash-based awards will be in such form, and dependent on such conditions, as the Compensation Committee will determine, including, without limitation, being subject to the satisfaction of vesting conditions or awarded purely as a bonus and not subject to restrictions or conditions. If a cash-based award is subject to vesting conditions, the Compensation Committee will be able to accelerate the vesting of such award in its discretion.

*Performance Awards*

The Compensation Committee will be able to grant a performance award to a participant payable upon the attainment of specific performance goals. The Compensation Committee will be able to grant performance awards that are intended to qualify as performance-based compensation under Section 162(m) of the Code as well as performance awards that are not intended to qualify as performance-based compensation under Section 162(m) of the Code. If the performance award is payable in cash, it may be paid upon the attainment of the relevant performance goals either in cash or in shares of restricted stock, based on the then current fair market value of such shares, as determined by the Compensation Committee. Based on service, performance and/or other factors or criteria, the Compensation Committee will be able to, at or after grant, accelerate the vesting of all or any part of any performance award.

*Performance Goals*

The Compensation Committee will be able to grant awards of restricted stock, performance awards, and other stock-based awards that are intended to qualify as performance-based compensation for purposes of Section 162(m) of the Code. These awards may be granted, vest and be paid based on attainment of specified performance goals established by the committee. These performance goals may be based on the attainment of a certain target level of, or a specified increase or decrease in, one or more of the following measures selected by the committee: (1) earnings per share; (2) operating income; (3) gross income; (4) net income, before or after taxes; (5) cash flow; (6) gross profit; (7) gross profit return on investment; (8) gross margin return on investment; (9) gross margin; (10) operating margin; (11) working capital; (12) earnings before interest and taxes; (13) earnings before interest, tax, depreciation and amortization; (14) return on equity; (15) return on assets; (16) return on capital; (17) return on invested capital; (18) net revenues; (19) gross revenues; (20) revenue growth; (21) annual recurring revenues; (22) recurring revenues; (23) sales or market share; (24) total stockholder return; (25) economic value added; (26) specified objectives with regard to limiting the level of increase in all or a portion of our bank debt or other long-term or short-term public or private debt or other similar financial obligations, which may be calculated net of cash balances and other offsets and adjustments as may be established by the Compensation Committee; (27) the fair market value of a share of our common stock; (28) the growth in the value of an investment in our common stock assuming the reinvestment of dividends; or (29) reduction in operating expenses.

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To the extent permitted by law, the Compensation Committee will also be able to exclude the impact of an event or occurrence which the Compensation Committee determines should be appropriately excluded, such as (1) restructurings, discontinued operations, extraordinary items and other unusual or non-recurring charges; (2) an event either not directly related to our operations or not within the reasonable control of management; or (3) a change in accounting standards required by generally accepted accounting principles.

Performance goals may also be based on an individual participant's performance goals, as determined by the Compensation Committee.

In addition, all performance goals may be based upon the attainment of specified levels of our performance, or the performance of a subsidiary, division or other operational unit, under one or more of the measures described above relative to the performance of other corporations. The Compensation Committee will be able to designate additional business criteria on which the performance goals may be based or adjust, modify or amend those criteria.

### *Change in Control*

In connection with a change in control, as defined in the 2014 Incentive Plan, the Compensation Committee will be able to accelerate vesting of outstanding awards under the 2014 Incentive Plan. In addition, such awards may be, in the discretion of the committee, (1) assumed and continued or substituted in accordance with applicable law; (2) purchased by us for an amount equal to the excess of the price of a share of our common stock paid in a change in control over the exercise price of the awards; or (3) cancelled if the price of a share of our common stock paid in a change in control is less than the exercise price of the award. The Compensation Committee will also be able to provide for accelerated vesting or lapse of restrictions of an award at any time.

### *Stockholder Rights*

Except as otherwise provided in the applicable award agreement, and with respect to an award of restricted stock, a participant will have no rights as a stockholder with respect to shares of our common stock covered by any award until the participant becomes the record holder of such shares.

### *Amendment and Termination*

Notwithstanding any other provision of the 2014 Incentive Plan, our Board of Directors will be able to, at any time, amend any or all of the provisions of the 2014 Incentive Plan, or suspend or terminate it entirely, retroactively or otherwise, subject to stockholder approval in certain instances; provided, however, that, unless otherwise required by law or specifically provided in the 2014 Incentive Plan, the rights of a participant with respect to awards granted prior to such amendment, suspension or termination may not be materially adversely affected without the consent of such participant.

### *Transferability*

Awards granted under the 2014 Incentive Plan generally will be nontransferable, other than by will or the laws of descent and distribution, except that the Compensation Committee will be able to provide for the transferability of nonqualified stock options and/or SARs, performance awards or other stock-based awards at the time of grant or thereafter to certain family members.

### *Clawback/Recoupment of Awards*

The 2014 Incentive Plan will provide that awards granted under the 2014 Incentive Plan are subject to any deduction, forfeiture, recoupment or similar requirements under any clawback policy that we may have in place or any obligation that we may have, including policies implemented after the date an award is granted, pursuant to the listing standards of any exchange or association on which the Company's securities are listed, or as required by applicable law including (without limitation) the Dodd-Frank Wall Street Reform and Consumer Protection Act.

**Table of Contents***Effective Date; Term*

The 2014 Incentive Plan will be adopted by the Board of Directors and approved by the stockholders and will become effective prior to the completion of this offering. The 2014 Incentive Plan will terminate on the tenth anniversary of the earlier of the date that the 2014 Incentive Plan is adopted or the date of stockholder approval. Any award outstanding under the 2014 Incentive Plan at the time of termination will remain in effect until such award is exercised or has expired in accordance with its terms.

*IPO Equity Awards*

In connection with this offering, we intend to grant equity awards under the 2014 Incentive Plan to our employees and our non-management directors who are not affiliated with Vestar. The awards to our employees, including our executive officers, are expected to be in the form of stock options and restricted stock units that vest in equal annual increments over a three year period. We expect to award stock options to purchase an aggregate of 559,572 shares of common stock with an aggregate value of \$4.3 million and an aggregate of 523,422 restricted stock units with an aggregate value of \$8.9 million to our employees.

The awards to our non-management directors who are not affiliated with Vestar are expected to be in the form of restricted stock units that vest in one year. We expect to award an aggregate of 27,058 restricted stock units with an aggregate value of \$0.5 million to these four directors.

**Director Compensation**

We reimburse directors for any out-of-pocket expenses incurred by them in connection with services provided in such capacity. The table below sets forth the compensation of our outside directors in fiscal 2013. In fiscal 2013, Mr. Murphy did not receive any additional compensation for his service as a director. Messrs. Durbin, Elrod and Mundt are employees of Vestar and do not receive any additional compensation for their service as directors of the Company.

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)</b>	<b>Equity Awards (\$ (e))</b>	<b>Nonqualified Deferred Compensation Earnings (\$)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
Gregory T. Torres	100,000(a)		7,330(b)	396(c)	107,726
Pamela F. Lenehan	30,000(d)				30,000
Guy Sansone	25,000(d)				25,000

- (a) In 2013, Mr. Torres was paid a salary of \$100,000 per year in accordance with his amended and restated employment agreement. Mr. Torres' amended and restated employment agreement was terminated by the Termination Agreement dated December 16, 2013, by and between Gregory T. Torres and the Company, pursuant to which the Company agreed to make a donation in the amount of \$100,000 to Mass INC. Effective as of January 1, 2014, Mr. Torres receives a fee of \$5,000 for each meeting of the Board of Directors attended in person and a fee of \$1,000 for each meeting attended by phone and each committee meeting attended.
- (b) Represents earnings in excess of 120% of the applicable federal long-term rate. Mr. Torres continues to accrue interest on amounts credited to him in the Executive Deferred Compensation Plan during his service as our President and Chief Executive Officer.
- (c) Represents imputed income for payment of premiums for group term life insurance.
- (d) Ms. Lenehan and Mr. Sansone received a fee of \$5,000 for each meeting of the Board of Directors attended in person and a fee of \$1,000 for each meeting attended by phone and each committee meeting attended.
- (e) At September 30, 2013, the last day of our fiscal year, Ms. Lenehan held 3,188.00 E Common Units and Mr. Sansone held 3,187.00 E Common Units.

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In connection with this offering, we intend to adopt a new director compensation program for our non-employee directors who are not affiliated with Vestar. These directors will receive an annual retainer of \$75,000. These directors will receive fees for committee membership will be paid as follows: (i) \$20,000 annual fee for the Chair of the Audit Committee and \$10,000 annual fee for other members of the Audit Committee; (ii) \$15,000 annual fee for the Chair of the Compensation Committee and \$7,500 annual fee for other members of the Compensation Committee, (iii) \$10,000 annual fee for the Chair of the Nominating and Corporate Governance Committee and \$5,000 annual fee for other members of the Nominating and Corporate Governance Committee and (iv) \$15,000 annual fee for the Chair of the Quality and Risk Management Committee and \$7,500 annual fee for other members of the Quality and Risk Management Committee. We do not intend to pay fees for attendance at committee meetings. We also intend to grant deferred or restricted stock units to these directors with a value of \$115,000 (to be converted to a number of shares based on our stock price on the grant date), with the initial grant to be made in connection with this offering and future annual grants on the date of our annual meeting of stockholders, beginning with the second annual meeting after this offering. These awards will have vesting periods of one year. We do not intend to impose any holding requirements but intend to adopt a stock ownership guideline for these directors which will require them to hold shares of our common stock with a value equal to three times their annual cash retainer, or \$225,000, within five years of this offering, or in the case of directors that join after this offering, within five years of their election to the Board of Directors. These directors will be required to hold 100% of their equity awards until this guideline is met.

**Table of Contents****PRINCIPAL STOCKHOLDERS**

The following table shows information about the beneficial ownership of our common stock as of September 2, 2014 by:

each person known by us to beneficially own 5% or more of our outstanding common stock;

each of our directors and executive officers; and

all of our directors and executive officers as a group;  
in each case, giving effect to the 2,525,000-for-one stock split of our common stock, which occurred on September 2, 2014.

The numbers (including percentages) listed below are based on 25,250,000 shares of our common stock outstanding as of September 2, 2014, after giving effect to the 2,525,000-for-one stock split, as if it had occurred on that date.

Name of Beneficial Owner (1)	Common stock owned before the offering		Common stock owned after the offering assuming no option exercise		Common stock owned after the offering assuming full option exercise	
	Number	Percentage	Number	Percentage	Number	Percentage
<b>Principal Stockholder:</b>						
NMH Investment LLC (2)(3)	25,250,000	100%	25,250,000	68%	25,250,000	65%
<b>Directors, Director Designee and Named Executive Officers:</b>						
Edward M. Murphy						
Bruce F. Nardella						
Denis M. Holler						
David M. Petersen						
Linda De Renzo						
Kathleen Federico						
Chris A. Durbin (4)						
James L. Elrod, Jr. (4)						
Pamela F. Lenehan						
Kevin A. Mundt (4)						
Guy Sansone						
Gregory T. Torres						
Patrick M. Gray						
All directors, director designee and executive officers as a group (18 persons)						

(1) A beneficial owner of a security is determined in accordance with Rule 13d-3 under the Exchange Act and generally means any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise, has or shares:

voting power which includes the power to vote, or to direct the voting of, such security; and/or

investment power which includes the power to dispose, or to direct the disposition of, such security.

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- (2) The address for NMH Investment is c/o Vestar Capital Partners, Inc., 245 Park Avenue, 41st Floor, New York, New York 10167.
- (3) Although our executive officers, Edward M. Murphy, Bruce F. Nardella, Denis M. Holler, Neil D. Brendmoen, David M. Petersen, Jeffrey M. Cohen, Linda De Renzo, Kathleen Federico, Dwight D. Robson, Gerald J.



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Morrissey, Jr., and Robert M. Melia, and two of our directors, Pamela F. Lenehan and Guy Sansone, do not have voting or dispositive power over the securities held by NMH Investment, each owns securities of NMH Investment with varying rights to participate in distributions by NMH Investment. Although these securities do not directly translate to an indirect percentage ownership interest of Civitas, NMH Investment estimates that Mr. Murphy, Mr. Nardella, Mr. Holler, Mr. Brendmoen, Mr. Petersen, Mr. Cohen, Ms. De Renzo, Ms. Federico, Mr. Robson, Mr. Morrissey, Mr. Melia, Ms. Lenehan and Mr. Sansone, would be entitled to approximately 3.1%, 2.0%, 1.5%, 0.3%, 1.2%, 0.2%, 0.9%, 0.8%, 0.7%, 0.1%, 1.0%, 0.1% and less than 0.1%, respectively, of the distributions of NMH Investment. These percentages (i) are calculated as of the date of this prospectus, (ii) are based on the initial public offering price of \$17.00 per share, (iii) assume no exercise by the underwriters of their option to purchase up to 1,755,000 additional shares from us, (iv) assume the Class H Common Units of NMH Investment issued to management vest and (v) exclude the issuance of the options and restricted stock units that we intend to grant in connection with this offering.

- (4) Messrs. Elrod, Mundt and Durbin are Managing Directors of Vestar. Each of Messrs. Elrod, Mundt and Durbin disclaims beneficial ownership of any units of NMH Investment beneficially owned by Vestar, except to the extent of his indirect pecuniary interest therein.

**Beneficial Ownership of NMH Investment's Equity**

Civitas Solutions, Inc. is a wholly owned subsidiary of NMH Investment, whose members include funds affiliated with Vestar and certain members of management. The following table shows information about the beneficial ownership of NMH Investment's equity, as of September 2, 2014 by funds affiliated with Vestar, each of our directors and named executive officers upon completion of this offering and all of our expected directors and executive officers as a group upon completion of this offering. The respective percentages of beneficial ownership of Preferred Units, Class A Common Units, 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 is based on 1,771,517.5 Preferred Units of NMH Investment, 7,344,831.97 Class A Common Units of NMH Investment, 127,774.92 Class B Common Units of NMH Investment, 134,083.72 Class C Common Units of NMH Investment, 250,478.53 Class D Common Units of NMH Investment, 6,375 Class E Common Units of NMH Investment, 4,414,405.83 Class F Common Units of NMH Investment, 125,000 Class G Common Units of NMH Investment and 1,100,000 Class H Common Units of NMH Investment outstanding as of September 2, 2014.

Name of Beneficial Owner (1)	Preferred Units		Class A Common Units		Class B Common Units		Class C Common Units		Class D Common Units	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
<b>Principal Shareholder:</b>										
Funds affiliated with Vestar(2)(3)	1,728,137	97.55%	6,918,627	94.2%						
<b>Directors, Director Designee and Named Executive Officers:</b>										
Edward M. Murphy	13,000	.73%	130,000	1.77%	7,401.63	5.79%	7,766.9	5.79%	33,585.96	13.41%
Bruce F. Nardella	3,000	.17%	30,000	.41%	7,401.63	5.79%	7,766.9	5.79%	29,213.95	11.66%
Denis M. Holler	4,016.85	.23%	40,168.52	.55%	7,401.63	5.79%	7,766.9	5.79%	29,213.95	11.66%
David M. Petersen	3,120	.18%	31,200	.42%	6,439.13	5.04%	6,756.9	5.04%	22,023.14	8.79%
Linda De Renzo	2,000	.11%	20,000	.27%	6,920.38	5.42%	7,261.9	5.42%	20,809.33	8.31%
Kathleen Federico	405	.02%	3,450	.05%	4,990.33	3.91%	5,236.6	3.91%	5,547.68	2.21%
Chris A. Durbin (4)										
James L. Elrod, Jr. (4)										
Pamela F. Lenehan	975	.06%	2,750	.04%						
Kevin A. Mundt (4)										
Guy Sansone										
Gregory T. Torres	2,500	.14%	25,000	.34%						
Patrick M. Gray										
All directors, director designee and executive officers as a group (18 persons)	29,016.85	1.64%	282,568.52	3.85%	40,554.73	31.74%	42,556.1	31.74%	140,394.01	56.04%

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Name of Beneficial Owner (1)	Class E Common Units		Class F Common Units		Class G Common Units		Class H Common Units	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
<b>Principal Shareholder:</b>								
Funds affiliated with Vestar(2)(3)								
<b>Directors, Director Designee and Named Executive Officers:</b>								
Edward M. Murphy			701,245.51	15.89%			200,000	18.18%
Bruce F. Nardella			555,617.52	12.59%			250,000	22.73%
Denis M. Holler			355,617.52	8.06%			150,000	13.64%
David M. Petersen			314,780.83	7.13%			100,000	9.09%
Linda De Renzo			240,008.39	5.44%			100,000	9.09%
Kathleen Federico			259,225.39	5.87%			100,000	9.09%
Chris A. Durbin (4)								
James L. Elrod, Jr. (4)								
Pamela F. Lenehan	3,188	50.01%						
Kevin A. Mundt (4)								
Guy Sansone	3,187	49.99%						
Gregory T. Torres								
Patrick M. Gray								
All directors, director designee and executive officers as a group (18 persons)	6,375	100%	2,426,495.16	54.97%			900,000	81.82%

- (1) A beneficial owner of a security is determined in accordance with Rule 13d-3 under the Exchange Act and generally means any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise, has or shares:

voting power which includes the power to vote, or to direct the voting of, such security; and/or

investment power which includes the power to dispose, or to direct the disposition of, such security.

In computing the number of securities beneficially owned by a person and the percentage ownership of that person, securities that the person currently has the right to acquire within 60 days of September 2, 2014 are deemed outstanding. Such securities, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person.

- (2) The address for Vestar Capital Partners V, L.P. is c/o Vestar Capital Partners, Inc., 245 Park Avenue, 41st Floor, New York, New York 10167.
- (3) Includes 1,727,280 Preferred Units and 6,915,196 Class A Common Units held by Vestar Capital Partners V, L.P. (the Fund), and 857 Preferred Units and 3,431 Class A Common Units held by Vestar/NMH Investors, LLC (Vestar/NMH). Vestar Associates V, L.P. (Vestar Associates V) is the general partner of the Fund and the managing member of Vestar/NMH, and has voting and investment power over the securities held or controlled by the Fund and Vestar/NMH. Vestar Managers V, Ltd. (VMV) is the general partner of Vestar Associates V. Daniel S. O'Connell is the sole director of VMV and as a result he may be deemed to have beneficial ownership of the shares owned by the Fund and Vestar/NMH. Each of Vestar Associates V, VMV and Mr. O'Connell disclaims beneficial ownership of any securities beneficially owned by the Fund and Vestar/NMH, except to the extent of their respective pecuniary interest therein. The address of the Fund, Vestar/NMH, Vestar Associates, VMV and Mr. O'Connell is 245 Park Avenue, 41st Floor, New York, NY 10167.
- (4) Messrs. Elrod, Mundt and Durbin are Managing Directors of Vestar. Each of Messrs. Elrod, Mundt and Durbin disclaims beneficial ownership of any shares beneficially owned by the Fund, except to the extent of his indirect pecuniary interest therein.

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**CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

Set forth below are certain transactions and relationships between us and our directors, executive officers and our sole stockholder that have occurred during the last three years.

**Limited Liability Company Agreement**

In connection with this offering, NMH Investment intends to enter into the Seventh Amended and Restated Limited Liability Company Agreement (as amended, the Limited Liability Company Agreement ) by and among NMH Investment, Vestar, an affiliate of Vestar, the management and director investors and future parties to such agreement, which will replace the Sixth Amended and Restated Limited Liability Company Agreement of NMH Investment in its entirety. Under the Limited Liability Company Agreement, the management committee of NMH Investment will consist of members elected by a plurality vote of the holders of NMH Investment's Class A Common Units consisting of the designees of Vestar as determined in accordance with the Securityholders Agreement described below and one additional person. Upon completion of this offering, the management committee will have four members. Subject to the terms of the Securityholders Agreement, any member of the management committee may be removed at any time by the holders of a majority of the total voting power of the outstanding Class A Common Units.

The management committee manages and controls the business and affairs of NMH Investment and has the power to, among other things, amend the Limited Liability Company Agreement, approve any significant corporate transactions and appoint officers. It can also delegate such authority by agreement or authorization.

The Limited Liability Company Agreement also contains agreements among the parties with respect to the allocation of net income and net loss and the distribution of assets among the holders of the Preferred Units and the Common Units. The value of the Preferred Units accrues over time so that holders of the Preferred Units are entitled to receive a specified rate of return upon distributions by NMH Investment prior to any distributions in respect of the Common Units. On July 5, 2007, the Company paid a dividend to its parent, NMH Investment, which was used by NMH Investment to pay a return of capital with respect to its Preferred Units. NMH Investment froze the accrual of the Preferred Units as of December 31, 2010, and NMH Investment restarted the accrual of the Preferred Units from July 1, 2013.

**Management Unit Subscription Agreements**

In connection with the Merger, NMH Investment entered into several agreements with management investors and with Mr. Torres, pursuant to which such investors subscribed for and purchased Preferred Units and Class A Common Units (which is the only class of voting equity interests in NMH Investment). Robert Melia, our Cambridge Operating Group President, and Kathleen Federico, our Chief Human Resources Officer, also subscribed for and purchased Preferred Units and Class A Common Units after their respective start dates with the Company. The Preferred Units and 30% of the Class A Common Units were vested with respect to appreciation upon issuance. The remaining 70% of the units vested ratably over 49 months, and thus all of the issuances are fully vested.

In addition, NMH Investment has previously entered into agreements with management investors, including all of the executive officers, whereby such management investors were granted non-voting Class B management Common Units, Class C Common Units, Class D Common Units, Class F Common Units and/or, for certain investors, Class G Common Units or Class H Common Units, all at either nominal or no cost. The Class B, Class C and Class D Common Units' rights to share in an increase in value of NMH Investment are fully vested for all holders. With respect to the executive officers except for Mr. Cohen, based on the fact they were hired before December 31, 2008, the Class F Common units were 75% vested when issued, and the remaining 25% vested as of December 15, 2012. Mr. Cohen was issued Class F Common Units at no cost in December 2011 after he joined the Company. In connection with his promotion, Mr. Nardella was issued Class F Common Units at no cost in January 2014. Mr. Cohen's and Mr. Nardella's Class F Common Units are vesting over a three-year period, with one-third vesting each year upon the anniversary of the date the units were issued. The Class G Common Units vest upon the consummation of a sale of the Company or an initial public offering of the

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Company. The agreement governing the Class H Common Units originally provided that such units would vest upon the consummation of a sale of the Company. In connection with this offering, we intend to amend the terms of the Class H Common Units so that they vest upon the earlier to occur of a sale of the Company and the achievement of a multiple of investment return threshold by Vestar and its affiliates. Once vested, the holders of Class H Common Units are entitled to receive between 0.0% and 5.0% of the common equity value distributed by NMH Investments to its unitholders depending upon the multiple of investment achieved by Vestar and its affiliates.

In the aggregate, the Class B, Class C, Class D and Class F Common Units represent the right to receive 10.0% of the increase in value of the common equity interests in NMH Investment. The Class G Common Units will share with the Class A Common Units the increase in value of the common equity interests in NMH Investment that was formerly allocated solely to the Class A Common Units. The Class H Common Units were issued only to certain executive officers and as such their terms are described in Executive Compensation Compensation Discussion and Analysis Equity-Based Compensation .

NMH Investment may be required to purchase a certain percentage of an executive officer's Preferred, Class A, Class B, Class C, Class D and Class F Common Units in the event of such investor's disability, death or retirement. In addition, NMH Investment has the right to purchase all or a portion of a management investor's units upon the termination of such investor's active employment with the Company or its affiliates. The price at which the units will be purchased will vary depending on a number of factors, including (i) the circumstances of such termination of employment and whether the management investor engages in certain proscribed competitive activities following employment, (ii) the length of time such units were held and (iii) the financial performance of NMH Investment over a certain specified time period. However, NMH Investment shall not be obligated to purchase any units at any time to the extent that the purchase of such units, or a payment to NMH Investment by one of its subsidiaries in order to fund such purchase, would result in a violation of law, a financing default or adverse accounting consequences, or if a financing default exists which prohibits such purchase or payment. From time to time, NMH Investment may enter into additional management subscription agreements with the management investors or additional members of management pursuant to which it may issue additional units.

### **Director Unit Subscription Agreements**

In connection with her election to our board of directors in December 2008, Pamela F. Lenehan entered into a Director Unit Subscription Agreement with NMH Investment. Ms. Lenehan subscribed for specified amounts of Preferred Units, Class A Common Units and Class E Common Units of NMH Investment for an aggregate of \$125,159. These units were issued to Ms. Lenehan in January 2009. In connection with his election to our board of directors in December 2009, Guy Sansone was offered the opportunity to subscribe for 3,187 Class E Common Units of NMH Investment for an aggregate of \$159.35. These units were issued to Mr. Sansone in September 2010.

### **Securityholders Agreement**

In connection with this offering, NMH Investment intends to enter into an Amended and Restated Securityholders Agreement (the Securityholders Agreement ) among NMH Investment, Vestar, an affiliate of Vestar, the management and director investors and any future parties to such agreement as amended (collectively, the Securityholders ), which will replace the existing securityholders agreement of NMH Investment in its entirety.

The Securityholders Agreement provides that the Securityholders will vote all of their units to elect and continue in office a management committee of NMH Investment composed of:

- (a) up to three designees of Vestar; and
- (b) one designee of the employee investors.

In addition, each Securityholder has agreed, subject to certain limited exceptions, that he or she will vote all of his units as directed by Vestar in connection with amendments to NMH Investment's organizational

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documents, mergers or other business combinations, the disposition of all or substantially all of NMH Investment's property and assets, reorganizations, recapitalizations or the liquidation, dissolution or winding up of NMH Investment.

The Securityholders Agreement provides (i) NMH Investment has a right of first refusal with respect to proposed transfers of securities of NMH Investment by the employee investors, (ii) the management with tag-along rights with respect to transfers of securities beneficially owned by Vestar, its partners or their transferees, (iii) Vestar with take-along rights with respect to securities owned by the investors in a sale of a majority of the equity or voting interests of NMH Investment, NMH Holdings, LLC or certain of their holding company subsidiaries, or in a sale of all or substantially all of the assets of NMH Investment and its subsidiaries and (iv) the employee investors who own Preferred Units or Class A Common Units with certain participation rights in issuances of new Preferred Units or Common Units by NMH Investment to Vestar and its affiliates. In addition, Vestar has certain rights to require NMH Investment (or its successors) to register securities held by the Securityholders under the Securities Act up to eight times, and Vestar and the other Securityholders have certain rights to participate in publicly registered offerings of NMH Investment's common equity initiated by NMH Investment or other third parties; provided that Vestar and the other Securityholders will not have registration rights with respect to registrable securities under the Securityholder Agreement if such Securityholder has registration rights under the registration rights agreement described below under Registration Rights Agreement with respect to such securities.

**Director Nominating Agreement**

In connection with this offering, we intend to enter into a director nominating agreement with NMH Investment, which will contain provisions relating to nominations for the election of directors. The director nominating agreement will provide that NMH Investment or affiliates of Vestar will have the right to nominate: (i) eight of nine directors so long as NMH Investment and affiliates of Vestar collectively own at least 40% of the total voting power of the Company; (ii) seven of nine directors so long as NMH Investment and affiliates of Vestar collectively own at least 35% of the total voting power of the Company; (iii) six of nine directors so long as NMH Investment and affiliates of Vestar collectively own at least 30% of the total voting power of the Company; (iv) five of nine directors so long as NMH Investment and affiliates of Vestar collectively own at least 25% of the total voting power of the Company; (v) four of nine directors so long as NMH Investment and affiliates of Vestar collectively own at least 20% of the total voting power of the Company; (vi) three of nine directors so long as NMH Investment and affiliates of Vestar collectively own at least 15% of the total voting power of the Company; (vii) two of nine directors so long as NMH Investment and affiliates of Vestar collectively own at least 10% of the total voting power of the Company; (viii) one of nine directors so long as NMH Investment and affiliates of Vestar collectively own at least 5% of the total voting power of the Company. In each case we will agree to take certain actions to support those nominees for election and include the nominees in the proxy statements for the stockholders meetings at which directors are to be elected.

**Registration Rights Agreement**

In connection with this offering, we intend to enter into a registration rights agreement with NMH Investment. Pursuant to the registration rights agreement, NMH Investment will be entitled to request that we register the shares of our common stock held by NMH Investment on a long-form or short-form registration statement on one or more occasions in the future, which registrations may be shelf registrations. NMH Investment will also be entitled to participate in certain registered offerings by us, subject to the terms and conditions in the registration rights agreement. We will pay NMH Investment's expenses in connection with NMH Investment's exercise of these rights. The registration rights described in this paragraph apply to (i) shares of our common stock held by NMH Investment as of the closing of this offering, (ii) any of our capital stock (or that of our subsidiaries) issued or issuable with respect to the common stock described in clause (i) with respect to any dividend, distribution, recapitalization, reorganization, or certain other corporate transactions, and (iii) any of our common stock held by Vestar Capital Partners V, L.P. or its affiliates (Registrable Securities). These registration rights are also for the benefit of any subsequent holder of Registrable Securities. However, any

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particular securities will cease to be Registrable Securities when they have been sold in a registered public offering, sold in compliance with Rule 144 of the Securities Act or repurchased by us or our subsidiaries. In addition, with our consent and the consent of the holders of a majority of Registrable Securities, any Registrable Securities held by a person other than Vestar Capital Partners V, L.P. and its affiliates will cease to be Registrable Securities if they can be sold without limitation under Rule 144 of the Securities Act.

### **Management Agreement**

Vestar and NMHI are parties to a management agreement relating to certain advisory and consulting services rendered by Vestar. In consideration of those services, NMHI has agreed to pay to Vestar an aggregate per annum management fee equal to the greater of (i) \$850,000 or (ii) an amount per annum equal to 1.00% of NMHI's consolidated earnings before depreciation, amortization, interest and taxes for each fiscal year before deduction of Vestar's fee, determined as set forth in NMHI's senior credit agreement. NMHI also agreed to indemnify Vestar and its affiliates from and against all losses, claims, damages and liabilities arising out of the performance by Vestar of its services pursuant to the management agreement. The management agreement will terminate at such time as Vestar and its partners and their respective affiliates hold, directly or indirectly in the aggregate, less than 20% of the voting power of NMHI's outstanding voting stock, upon a sale of NMHI or upon the completion of an initial public offering. This agreement also provides for the payment of reasonable and customary fees to Vestar for services in connection with a sale of NMHI, an initial public offering by or involving NMHI Investment or any of its subsidiaries or any extraordinary acquisition by or involving NMHI Investment or any of its subsidiaries; provided that such fees shall be paid only with the consent of the directors of NMHI who are not affiliated with or employed by Vestar.

Pursuant to the management agreement, NMHI paid \$1.3 million, \$1.3 million and \$1.4 million of management fees to Vestar in the fiscal years ended September 30, 2011, 2012 and 2013, respectively. During the nine months ended June 30, 2014, NMHI paid \$0.8 million of management fees to Vestar and as of June 30, 2014 has accrued \$0.2 million of management fees to Vestar. In connection with this offering, we will pay Vestar a transaction advisory fee of \$8.0 million, which has been approved by a majority of our directors who are not affiliated with or employed by Vestar. The management agreement will terminate upon completion of this offering.

### **Indemnification Agreements**

NMHI and Civitas are parties to an indemnification agreement with each of NMHI's directors and executive officers. Under the form of indemnification agreement, directors and executive officers are indemnified against certain expenses, judgments and other losses resulting from involvement in legal proceedings arising from service as a director or executive officer. Civitas will advance expenses incurred by directors or executive officers in defending against such proceedings, and indemnification is generally not available for proceedings brought by an indemnified person (other than to enforce his or her rights under the indemnification agreement). If an indemnified person elects or is required to pay all or any portion of any judgment or settlement for which Civitas is jointly liable, Civitas will contribute to the expenses, judgments, fines and amounts paid in settlement incurred by the indemnified person in proportion to the relative benefits received by Civitas (and its officers, directors and employees other than the indemnified person) and the indemnified person, as may, to the extent necessary to conform to law, be further adjusted by reference to the relative fault of NMHI (and its officers, directors and employees other than the indemnified person) and the indemnified person in connection with the events that resulted in such losses, as well as any other equitable considerations which the law may require to be considered. NMHI is a guarantor of Civitas' obligations under this agreement.

### **Policies and Procedures for Related Party Transactions**

Historically, our related party transactions with executive officers and directors were generally reviewed by our board of directors or Audit Committee, and we did not have formal policies and procedures regarding the review and approval of related party transactions.

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Upon the completion of this offering, we intend to adopt policies and procedures whereby our Audit Committee will be responsible for reviewing and approving or ratifying related party transactions. For purposes of the policy, a related party transaction means a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which the Company was, is or will be a participant and the amount involved will or may be expected to exceed \$120,000, and in which our executive officers, directors, director nominees or any stockholder beneficially owning in excess of five percent of our stock (each, a related party ) had, has or will have a direct or indirect material interest (including any transactions requiring disclosure under Item 404 of Regulation S-K). Any related party who intends to enter into a related party transaction shall promptly disclose that intention and all material facts with respect to such transaction to our Chief Legal Officer. The Chief Legal Officer will then promptly communicate that information to the Audit Committee of the Board. The Audit Committee will review all related party transactions and approve such transactions (subject to a delegation of authority as provided in the policy). In determining whether to approve or ratify a related party transaction, the Audit Committee will take into account, among other factors it deems appropriate, whether the related party transaction is on terms no less favorable than the terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related party's interest in the transaction. It is our policy that directors interested in a related person transaction will recuse themselves from any such vote.

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**DESCRIPTION OF CERTAIN INDEBTEDNESS**

**Senior Secured Credit Facilities**

On January 31, 2014, NMHI and NMH Holdings, LLC entered into the senior credit agreement with Barclays Bank PLC, as administrative agent, and the other agents and lenders named therein, for the senior secured credit facilities, consisting of a \$600.0 million term loan facility, of which \$50.0 million was deposited in a cash collateral account in support of issuance of letters of credit under an institutional letter of credit facility, and a \$100.0 million senior secured revolving credit facility. The term loan facility has a seven-year maturity and the senior revolver has a five-year maturity; provided, that if NMHI's senior notes are not refinanced in full on or prior to the date that is three months prior to February 15, 2018, such maturity dates will spring forward to November 15, 2017. 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.

All of NMHI's obligations under the senior secured credit facilities are guaranteed by NMH Holdings, LLC and the Subsidiary Guarantors. Pursuant to the guarantee and security agreement, among NMH Holdings, LLC, as parent guarantor, NMHI, certain of NMHI's subsidiaries, as subsidiary guarantors and Barclays Bank, PLC, as administrative agent, subject to certain exceptions, the obligations under the senior secured credit facilities are secured by a pledge of 100% of NMHI's capital stock and the capital stock of domestic subsidiaries owned by NMHI and any other domestic Subsidiary Guarantor and 65% of the capital stock of any first tier foreign subsidiaries, and a security interest in substantially all of NMHI's tangible and intangible assets and the tangible and intangible assets of NMH Holdings, LLC and each Subsidiary Guarantor.

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 making of a swingline loan will reduce the amount available under the senior revolver. As of June 30, 2014, NMHI had no borrowings under the senior revolver and approximately \$44.7 million of letters of credit issued under the institutional letter of credit facility.

At NMHI's option, NMHI may add one or more term loan facilities or increase the commitments under the senior revolver in an aggregate amount of up to \$125.0 million plus any additional amounts so long as certain conditions, including a consolidated first lien leverage ratio (as defined in the senior credit agreement) of not more than 4.50 to 1.00 on a pro forma basis, are satisfied. The covenants in NMHI's indenture governing the senior notes effectively limit the amount of incremental borrowings that NMHI may incur.

Borrowings under the senior secured credit facilities bear interest, at NMHI's option, at: (i) an ABR 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 beginning on such day plus 100 basis points, plus a margin of 2.75% (provided that the ABR rate applicable to the term loan facility will not be less than 2.00% per annum); or (ii) the Eurodollar rate (provided that the Eurodollar rate applicable to the term loan facility shall not be less than 1.00% per annum), plus a margin of 3.75%. Following the completion of this offering, the applicable margin will be decreased by 0.50% per annum if our consolidated leverage ratio is less than or equal to 5.00 to 1.00. This decrease will become effective as of the first business day immediately following the first date on which NMHI delivers a quarterly compliance certificate setting forth such calculation. 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, with: (i) beginning in fiscal year 2015, 50% (which percentage will be reduced upon NMHI's achievement of



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certain first lien leverage ratios) of NMHI's annual excess cash flow; (ii) 100% of net cash proceeds of all non-ordinary course assets sales or other dispositions of property, subject to certain exceptions and thresholds; and (iii) 100% of the net cash proceeds of any debt incurrence, other than debt permitted under the senior credit agreement. Excess cash flow is defined in our senior credit agreement&nbsp;