
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

or

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

For the transition period from _____ to _____

Commission File Number: 001-35331

Acadia Healthcare Company, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

45-2492228
(I.R.S. Employer
Identification No.)

6100 Tower Circle, Suite 1000
Franklin, Tennessee 37067
(Address, including zip code, of principal executive offices)

(615) 861-6000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$.01 par value	ACHC	NASDAQ Global Select Market

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

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

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

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

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

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

At November 2, 2022, there were 90,976,713 shares of the registrant's common stock outstanding.

ACADIA HEALTHCARE COMPANY, INC.
QUARTERLY REPORT ON FORM 10-Q
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Acadia Healthcare Company, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

	September 30, 2022	December 31, 2021
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 93,419	\$ 133,813
Accounts receivable, net	315,999	281,332
Other current assets	112,238	79,886
Total current assets	521,656	495,031
Property and equipment, net	1,908,993	1,771,159
Goodwill	2,207,912	2,199,937
Intangible assets, net	75,920	70,145
Deferred tax assets	2,983	3,080
Operating lease right-of-use assets	135,627	133,761
Other assets	90,014	94,965
Total assets	<u>\$ 4,943,105</u>	<u>\$ 4,768,078</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 21,250	\$ 18,594
Accounts payable	116,045	98,575
Accrued salaries and benefits	109,654	137,845
Current portion of operating lease liabilities	25,770	23,348
Other accrued liabilities	128,294	126,499
Total current liabilities	401,013	404,861
Long-term debt	1,379,306	1,478,626
Deferred tax liabilities	94,446	74,368
Operating lease liabilities	117,473	116,841
Other liabilities	118,923	110,505
Total liabilities	2,111,161	2,185,201
Redeemable noncontrolling interests	88,236	65,388
Equity:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, no shares issued	—	—
Common stock, \$0.01 par value; 180,000,000 shares authorized; 89,874,643 and 89,028,158 issued and outstanding at September 30, 2022 and December 31, 2021, respectively	899	890
Additional paid-in capital	2,650,545	2,636,350
Retained earnings (accumulated deficit)	92,264	(119,751)
Total equity	2,743,708	2,517,489
Total liabilities and equity	<u>\$ 4,943,105</u>	<u>\$ 4,768,078</u>

See accompanying notes.

Acadia Healthcare Company, Inc.
Condensed Consolidated Statements of Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands, except per share amounts)			
Revenue	\$ 666,732	\$ 587,559	\$ 1,935,104	\$ 1,720,914
Salaries, wages and benefits (including equity-based compensation expense of \$7,240, \$8,923, \$21,745 and \$24,988, respectively)	352,582	309,118	1,027,732	922,684
Professional fees	40,367	35,602	117,718	101,915
Supplies	25,570	23,743	74,291	67,698
Rents and leases	11,339	9,658	33,780	28,690
Other operating expenses	88,993	76,502	255,355	222,263
Income from provider relief fund	(7,656)	—	(16,206)	—
Depreciation and amortization	29,573	27,805	87,627	78,349
Interest expense, net	18,003	15,706	50,355	61,420
Debt extinguishment costs	—	—	—	24,650
Loss on impairment	—	1,079	—	24,293
Transaction-related expenses	10,859	3,035	18,381	9,320
Total expenses	569,630	502,248	1,649,033	1,541,282
Income from continuing operations before income taxes	97,102	85,311	286,071	179,632
Provision for income taxes	24,056	17,411	69,183	42,948
Income from continuing operations	73,046	67,900	216,888	136,684
Loss from discontinued operations, net of taxes	—	—	—	(12,641)
Net income	73,046	67,900	216,888	124,043
Net income attributable to noncontrolling interests	(1,947)	(1,774)	(4,873)	(3,686)
Net income attributable to Acadia Healthcare Company, Inc.	\$ 71,099	\$ 66,126	\$ 212,015	\$ 120,357
Basic earnings per share attributable to Acadia Healthcare Company, Inc. stockholders:				
Income from continuing operations attributable to Acadia Healthcare Company, Inc.	\$ 0.79	\$ 0.74	\$ 2.37	\$ 1.50
Loss from discontinued operations	—	—	—	(0.14)
Net income attributable to Acadia Healthcare Company, Inc.	\$ 0.79	\$ 0.74	\$ 2.37	\$ 1.36
Diluted earnings per share attributable to Acadia Healthcare Company, Inc. stockholders:				
Income from continuing operations attributable to Acadia Healthcare Company, Inc.	\$ 0.78	\$ 0.73	\$ 2.31	\$ 1.47
Loss from discontinued operations	—	—	—	(0.14)
Net income attributable to Acadia Healthcare Company, Inc.	\$ 0.78	\$ 0.73	\$ 2.31	\$ 1.33
Weighted-average shares outstanding:				
Basic	89,833	88,962	89,607	88,684
Diluted	91,723	90,889	91,668	90,604

See accompanying notes.

Acadia Healthcare Company, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands)			
Net income	\$ 73,046	\$ 67,900	\$ 216,888	\$ 124,043
Other comprehensive income:				
Foreign currency translation loss	—	—	—	(4,260)
Gain on derivative instruments, net of tax of \$0.1 million	—	—	—	19
U.K. Sale	—	—	—	375,606
Other comprehensive income	—	—	—	371,365
Comprehensive income	73,046	67,900	216,888	495,408
Comprehensive income attributable to noncontrolling interests	(1,947)	(1,774)	(4,873)	(3,686)
Comprehensive income attributable to Acadia Healthcare Company, Inc.	<u>\$ 71,099</u>	<u>\$ 66,126</u>	<u>\$ 212,015</u>	<u>\$ 491,722</u>

See accompanying notes.

Acadia Healthcare Company, Inc.
Condensed Consolidated Statements of Equity
(Unaudited)
(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount				
Balance at December 31, 2020	88,024	\$ 880	\$ 2,580,327	\$ (371,365)	\$ (310,386)	\$ 1,899,456
Common stock issued under stock incentive plans	705	7	12,733	—	—	12,740
Repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises	—	—	(4,521)	—	—	(4,521)
Equity-based compensation expense	—	—	7,034	—	—	7,034
Other	—	—	2,208	—	—	2,208
Other comprehensive income	—	—	—	371,365	—	371,365
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	—	9,717	9,717
Balance at March 31, 2021	88,729	887	2,597,781	—	(300,669)	2,297,999
Common stock issued under stock incentive plans	188	2	5,620	—	—	5,622
Repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises	—	—	(580)	—	—	(580)
Equity-based compensation expense	—	—	9,031	—	—	9,031
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	—	44,514	44,514
Balance at June 30, 2021	88,917	889	2,611,852	—	(256,155)	2,356,586
Common stock issued under stock incentive plans	89	1	3,254	—	—	3,255
Repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises	—	—	(444)	—	—	(444)
Equity-based compensation expense	—	—	8,923	—	—	8,923
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	—	66,126	66,126
Balance at September 30, 2021	89,006	890	2,623,585	—	(190,029)	2,434,446
Common stock issued under stock incentive plans	22	—	412	—	—	412
Repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises	—	—	(189)	—	—	(189)
Equity-based compensation expense	—	—	12,542	—	—	12,542
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	—	70,278	70,278
Balance at December 31, 2021	89,028	890	2,636,350	—	(119,751)	2,517,489
Common stock issued under stock incentive plans	633	7	3,742	—	—	3,749
Repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises	—	—	(15,490)	—	—	(15,490)
Equity-based compensation expense	—	—	7,925	—	—	7,925
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	—	60,837	60,837
Balance at March 31, 2022	89,661	897	2,632,527	—	(58,914)	2,574,510
Common stock issued under stock incentive plans	113	1	3,147	—	—	3,148
Repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises	—	—	(1,275)	—	—	(1,275)
Equity-based compensation expense	—	—	6,580	—	—	6,580
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	—	80,079	80,079
Balance at June 30, 2022	89,774	898	2,640,979	—	21,165	2,663,042
Common stock issued under stock incentive plans	101	1	3,066	—	—	3,067
Repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises	—	—	(740)	—	—	(740)
Equity-based compensation expense	—	—	7,240	—	—	7,240
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	—	71,099	71,099
Balance at September 30, 2022	<u>89,875</u>	<u>\$ 899</u>	<u>\$ 2,650,545</u>	<u>\$ —</u>	<u>\$ 92,264</u>	<u>\$ 2,743,708</u>

See accompanying notes.

Acadia Healthcare Company, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2022	2021
	(In thousands)	
Operating activities:		
Net income	\$ 216,888	\$ 124,043
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Depreciation and amortization	87,627	78,349
Amortization of debt issuance costs	2,440	3,265
Equity-based compensation expense	21,745	24,988
Deferred income taxes	20,176	8,995
Loss from discontinued operations, net of taxes	—	12,641
Debt extinguishment costs	—	24,650
Loss on impairment	—	24,293
Other	2,422	881
Change in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	(35,538)	(8,610)
Other current assets	(28,692)	(2,758)
Other assets	3,373	(15,846)
Accounts payable and other accrued liabilities	7,729	6,358
Accrued salaries and benefits	(8,831)	18,820
Other liabilities	10,303	(11,633)
Government relief funds	(32,617)	(12,058)
Net cash provided by continuing operating activities	267,025	276,378
Net cash provided by discontinued operating activities	—	253
Net cash provided by operating activities	267,025	276,631
Investing activities:		
Cash paid for capital expenditures	(208,792)	(156,624)
Proceeds from U.K. Sale	—	1,511,020
Settlement of foreign currency derivatives	—	(84,795)
Proceeds from sale of property and equipment	1,784	1,792
Cash paid for purchase of finance lease	—	(31,401)
Other	(6,802)	3,106
Net cash (used in) provided by investing activities	(213,810)	1,243,098
Financing activities:		
Borrowings on long-term debt	—	425,000
Borrowings on revolving credit facility	—	430,000
Principal payments on revolving credit facility	(85,000)	(330,000)
Principal payments on long-term debt	(13,281)	(5,313)
Repayment of long-term debt	—	(2,227,935)
Payment of debt issuance costs	—	(7,964)
Repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises	(7,541)	16,072
Contributions from noncontrolling partners in joint ventures	13,178	1,800
Distributions to noncontrolling partners in joint ventures	(1,004)	(926)
Other	39	(6,914)
Net cash used in financing activities	(93,609)	(1,706,180)
Effect of exchange rate changes on cash	—	4,067
Net decrease in cash and cash equivalents	(40,394)	(182,384)
Cash and cash equivalents at beginning of the period	133,813	378,697
Cash and cash equivalents at end of the period	\$ 93,419	\$ 196,313

See accompanying notes.

Acadia Healthcare Company, Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2022
(Unaudited)

1. Description of Business and Basis of Presentation

Description of Business

Acadia Healthcare Company, Inc. (the “Company”) develops and operates inpatient psychiatric facilities, residential treatment centers, group homes, substance abuse facilities and facilities providing outpatient behavioral healthcare services to serve the behavioral health and recovery needs of communities throughout the United States (“U.S.”) and Puerto Rico. At September 30, 2022, the Company operated 242 behavioral healthcare facilities with approximately 10,800 beds in 39 states and Puerto Rico.

On January 19, 2021, the Company completed the sale of its operations in the United Kingdom (“U.K.”) to RemedcoUK Limited, a company organized under the laws of England and Wales and owned by funds managed or advised by Waterland Private Equity Fund VII (the “U.K. Sale”). The U.K. Sale allowed the Company to reduce its indebtedness and focus on the Company’s U.S. operations. As a result of the U.K. Sale, the Company reported, for all periods presented, results of operations and cash flows of the U.K. operations as discontinued operations in the accompanying financial statements. See Note 9 – U.K. Sale.

Basis of Presentation

The business of the Company is conducted through limited liability companies, partnerships and C-corporations. The Company’s consolidated financial statements include the accounts of the Company and all subsidiaries controlled by the Company through its direct or indirect ownership of majority interests and exclusive rights granted to the Company as the controlling member of an entity. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation of the Company’s financial position and results of operations have been included. The Company’s fiscal year ends on December 31 and interim results are not necessarily indicative of results for a full year or any other interim period. The condensed consolidated balance sheet at December 31, 2021 has been derived from the audited financial statements as of that date. The information contained in these condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto for the fiscal year ended December 31, 2021 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on March 1, 2022. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

During March 2020, the global pandemic of the novel coronavirus known as COVID-19 (“COVID-19”) began to affect the Company’s facilities, employees, patients, communities, business operations and financial performance, as well as the broader U.S. and U.K. economies and financial markets. At many of the Company’s facilities, employees and/or patients have tested positive for COVID-19. The Company is committed to protecting the health of its communities and continues to respond to the evolving COVID-19 situation while taking steps to provide quality care and protect the health and safety of patients and employees. Nevertheless, the Company could continue to be impacted by COVID-19 if new strains of the virus cause additional disruptions. The COVID-19 pandemic could have a material adverse effect on the Company’s results of operations, financial condition, cash flows and ability to service its indebtedness and may affect the amounts reported in the consolidated financial statements including those related to collectability of accounts receivable as well as professional and general liability reserves, tax assets and liabilities and may result in a potential impairment of goodwill and long-lived assets.

Certain reclassifications have been made to the prior year to conform to the current year presentation.

2. Recently Issued Accounting Standards

In November 2021, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2021-10, “Government Assistance (Topic 832)” (“ASU 2021-10”). ASU 2021-10 provides guidance to increase the transparency of government assistance including the disclosure of (1) the types of assistance, (2) an entity’s accounting for the assistance, and (3) the effect of the assistance on an entity’s financial statements. ASU 2021-10 applies to all business entities except for not-for-profit entities within the scope of Topic 958, Not-for-Profit Entities, and employee benefit plans within the scope of Topic 960, Plan Accounting—Defined Benefit Pension Plans, Topic 962, Plan Accounting—Defined Contribution Pension Plans, and Topic 965, Plan

Accounting—Health and Welfare Benefit Plans that account for a transaction with a government by applying a grant or contribution accounting model by analogy to other accounting guidance (for example, a grant model within IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, or Subtopic 958-605, Not-For-Profit Entities—Revenue Recognition). ASU 2021-10 is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Company continues to evaluate the impact of ASU 2021-10 and does not expect a significant impact on the Company’s consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform (*Topic 848*): Facilitation of the Effects of Reference Rate Reform on Financial Reporting” (“ASU 2020-04”). ASU 2020-04 provides optional guidance for a limited period of time to ease the potential burden in accounting for or recognizing the effects of reference rate reform on financial reporting and applies only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-04 is effective as of March 12, 2020 through December 31, 2022. Entities may adopt ASU 2020-04 as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020 or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. The Company continues to evaluate the impact of ASU 2021-10 and does not expect a significant impact on the Company’s consolidated financial statements.

3. Revenue

Revenue is primarily derived from services rendered to patients for inpatient psychiatric and substance abuse care, outpatient psychiatric care and residential treatment. The services provided by the Company have no fixed duration and can be terminated by the patient or the facility at any time, and therefore, each treatment is its own stand-alone contract.

As the Company’s performance obligations relate to contracts with a duration of one year or less, the Company elected the optional exemption in Accounting Standards Codification (“ASC”) 606-10-50-14(a). Therefore, the Company is not required to disclose the transaction price for the remaining performance obligations at the end of the reporting period or when the Company expects to recognize the revenue. The Company has minimal unsatisfied performance obligations at the end of the reporting period as its patients typically are under no obligation to remain admitted in the Company’s facilities.

The Company disaggregates revenue from contracts with customers by service type and by payor.

The Company’s facilities and services provided by the facilities can generally be classified into the following categories: acute inpatient psychiatric facilities; specialty treatment facilities; and residential treatment centers.

Acute inpatient psychiatric facilities. Acute inpatient psychiatric facilities provide a high level of care in order to stabilize patients that are either a threat to themselves or to others. The acute setting provides 24-hour observation, daily intervention and monitoring by psychiatrists.

Specialty treatment facilities. Specialty treatment facilities include residential recovery facilities, eating disorder facilities and comprehensive treatment centers. The Company provides a comprehensive continuum of care for adults with addictive disorders and co-occurring mental disorders. Inpatient, including detoxification and rehabilitation, partial hospitalization and outpatient treatment programs give patients access to the least restrictive level of care.

Residential treatment centers. Residential treatment centers treat patients with behavioral disorders in a non-hospital setting, including outdoor programs. The facilities balance therapy activities with social, academic and other activities.

The table below presents total revenue attributed to each category (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Acute inpatient psychiatric facilities	\$ 340,929	\$ 284,143	\$ 984,224	\$ 832,692
Specialty treatment facilities	252,478	230,753	729,844	669,552
Residential treatment centers	73,325	71,006	221,036	211,377
Other	—	1,657	—	7,293
Revenue	<u>\$ 666,732</u>	<u>\$ 587,559</u>	<u>\$ 1,935,104</u>	<u>\$ 1,720,914</u>

The Company receives payments from the following sources for services rendered in its facilities: (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers; (iii) the federal government under the Medicare program administered by the Centers for Medicare and Medicaid Services (“CMS”); and (iv) individual patients and clients.

The Company determines the transaction price based on established billing rates reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients and implicit price concessions. Contractual adjustments and discounts are based on contractual agreements, discount policies and historical experience. Implicit price concessions are based on historical collection experience. Most of the Company's facilities have contracts containing variable consideration. However, it is unlikely a significant reversal of revenue will occur when the uncertainty is resolved, and therefore, the Company has included the variable consideration in the estimated transaction price. Subsequent changes resulting from a patient's ability to pay are recorded as bad debt expense, which is included as a component of other operating expenses in the condensed consolidated statements of operations. Bad debt expense for the three and nine months ended September 30, 2022 and 2021 was not significant.

The following table presents the Company's revenue by payor type and as a percentage of revenue (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
Commercial	\$ 193,186	29.0%	\$ 170,427	29.0%	\$ 589,553	30.5%	\$ 511,975	29.8%
Medicare	100,869	15.1%	97,529	16.6%	292,242	15.1%	274,208	15.9%
Medicaid	342,475	51.4%	288,092	49.0%	968,666	50.1%	845,128	49.1%
Self-Pay	20,046	3.0%	25,998	4.4%	58,532	3.0%	71,875	4.2%
Other	10,156	1.5%	5,513	1.0%	26,111	1.3%	17,728	1.0%
Revenue	<u>\$ 666,732</u>	<u>100.0%</u>	<u>\$ 587,559</u>	<u>100.0%</u>	<u>\$ 1,935,104</u>	<u>100.0%</u>	<u>\$ 1,720,914</u>	<u>100.0%</u>

Contract liabilities consisted of advances from payors and unearned revenue from CMS' Accelerated and Advance Payment Program. In April 2020, the Company received approximately \$45.2 million from CMS' Accelerated and Advance Payment Program for Medicare providers. Of the \$45.2 million of advance payments received in 2020, the Company repaid approximately \$25.1 million of advance payments during 2021 and made additional repayments of approximately \$18.9 million during the nine month period ended September 30, 2022. The Company will pay off the remaining balance of \$1.2 million in the fourth quarter of 2022. Contract liabilities of \$9.5 million and \$30.4 million are included in other accrued liabilities at September 30, 2022 and December 31, 2021, respectively, on the condensed consolidated balance sheets. A summary of the activity in contract liabilities is as follows (in thousands):

Balance at December 31, 2021	\$ 30,371
Payments received	15,564
Revenue recognized	(16,311)
Medicare advance repayments	(18,927)
Other	(1,208)
Balance at September 30, 2022	<u>\$ 9,489</u>

4. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2022 and 2021 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Numerator:				
Income from continuing operations attributable to Acadia Healthcare Company, Inc.	\$ 71,099	\$ 66,126	\$ 212,015	\$ 132,998
Loss from discontinued operations	—	—	—	(12,641)
Net income attributable to Acadia Healthcare Company, Inc.	<u>\$ 71,099</u>	<u>\$ 66,126</u>	<u>\$ 212,015</u>	<u>\$ 120,357</u>
Denominator:				
Weighted average shares outstanding for basic earnings per share	89,833	88,962	89,607	88,684
Effects of dilutive instruments	<u>1,890</u>	<u>1,927</u>	<u>2,061</u>	<u>1,920</u>
Shares used in computing diluted earnings per common share	<u>91,723</u>	<u>90,889</u>	<u>91,668</u>	<u>90,604</u>
Basic earnings per share attributable to Acadia Healthcare Company, Inc. stockholders:				
Income from continuing operations attributable to Acadia Healthcare Company, Inc.	\$ 0.79	\$ 0.74	\$ 2.37	\$ 1.50
Loss from discontinued operations	—	—	—	(0.14)
Net income attributable to Acadia Healthcare Company, Inc.	<u>\$ 0.79</u>	<u>\$ 0.74</u>	<u>\$ 2.37</u>	<u>\$ 1.36</u>
Diluted earnings per share attributable to Acadia Healthcare Company, Inc. stockholders:				
Income from continuing operations attributable to Acadia Healthcare Company, Inc.	\$ 0.78	\$ 0.73	\$ 2.31	\$ 1.47
Loss from discontinued operations	—	—	—	(0.14)
Net income attributable to Acadia Healthcare Company, Inc.	<u>\$ 0.78</u>	<u>\$ 0.73</u>	<u>\$ 2.31</u>	<u>\$ 1.33</u>

Approximately 0.1 million and 0.3 million shares of common stock issuable upon exercise of outstanding stock option awards were excluded from the calculation of diluted earnings per share for the three months ended September 30, 2022 and 2021, respectively, because their effect would have been anti-dilutive. Approximately 0.6 million and 0.4 million shares of common stock issuable upon exercise of outstanding stock option awards were excluded from the calculation of diluted earnings per share for the nine months ended September 30, 2022 and 2021, respectively, because their effect would have been anti-dilutive.

5. Acquisitions

The Company's strategy is to acquire and develop behavioral healthcare facilities and improve operating results within its facilities and its other behavioral healthcare operations.

On December 31, 2021, the Company acquired the equity of CenterPointe Behavioral Health System, LLC and certain related entities ("CenterPointe") for cash consideration of approximately \$140 million. The acquisition was funded through a combination of cash on hand and a \$70.0 million draw on the Company's revolving credit facility. CenterPointe operates four acute inpatient hospitals with 306 beds and ten outpatient locations primarily in Missouri.

The preliminary fair values of assets acquired and liabilities assumed in the CenterPointe acquisition were as follows (in thousands):

Cash	\$	5,640
Accounts receivable, net		9,358
Other current assets		2,032
Property and equipment		35,670
Goodwill		100,478
Intangible assets		825
Deferred tax assets		1,573
Operating lease right-of-use assets		29,245
Total assets acquired		<u>184,821</u>
Accounts payable		3,819
Accrued salaries and benefits		3,585
Current portion of operating lease liabilities		2,625
Other accrued liabilities		1,416
Operating lease liabilities		27,850
Total liabilities assumed		<u>39,295</u>
Net assets acquired	\$	<u>145,526</u>

The fair values assigned to certain assets acquired and liabilities assumed by the Company have been estimated on a preliminary basis and are subject to change as new facts and circumstances emerge that were present at the date of acquisition. Specifically, the Company is further assessing certain tax matters as well as certain assets and assumed liabilities of CenterPointe. The qualitative factors comprising the goodwill acquired in the CenterPointe acquisition include the value of the business and efficiencies derived through synergies expected by the elimination of certain redundant corporate functions and expenses, coordination of services provided across the combined network of facilities, achievement of operating efficiencies by benchmarking performance and applying best practices.

Transaction-related expenses

Transaction-related expenses represent costs primarily related to legal, accounting, termination, restructuring, management transition, acquisition and other similar costs. Transaction-related expenses comprised the following costs for the three and nine months ended September 30, 2022 and 2021 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Management transition costs	\$ 5,626	\$ —	\$ 7,826	\$ —
Termination and restructuring costs	3,213	660	5,859	3,853
Legal, accounting and other acquisition-related costs	2,020	2,375	4,696	5,467
	<u>\$ 10,859</u>	<u>\$ 3,035</u>	<u>\$ 18,381</u>	<u>\$ 9,320</u>

6. Other Current Assets

Other current assets consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Prepaid expenses	\$ 32,554	\$ 22,292
Other receivables	19,029	10,786
Income taxes receivable	16,465	1,523
Assets held for sale	14,047	15,808
Workers' compensation deposits – current portion	12,000	12,000
Insurance receivable – current portion	9,016	10,807
Inventory	4,854	4,786
Other	4,273	1,884
Other current assets	<u>\$ 112,238</u>	<u>\$ 79,886</u>

7. Property and Equipment

Property and equipment consisted of the following at September 30, 2022 and December 31, 2021 (in thousands):

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Land	\$ 164,661	\$ 154,376
Building and improvements	1,771,470	1,683,560
Equipment	279,912	253,100
Construction in progress	319,547	221,249
	<u>2,535,590</u>	<u>2,312,285</u>
Less: accumulated depreciation	(626,597)	(541,126)
Property and equipment, net	<u>\$ 1,908,993</u>	<u>\$ 1,771,159</u>

The Company has recorded assets held for sale within other current assets on the condensed consolidated balance sheets for closed properties actively marketed of \$14.0 million and \$15.8 million as of September 30, 2022 and December 31, 2021, respectively. During the second quarter of 2021, the Company opened a 260-bed replacement facility in Pennsylvania and recorded a non-cash property impairment charge of \$23.2 million for the existing facility. Additionally, during the three months ended September 30, 2021, the Company recorded a \$1.1 million non-cash property impairment charge for one facility in Louisiana resulting from hurricane damage.

8. Goodwill and Other Intangible Assets

Other identifiable intangible assets and related accumulated amortization consisted of the following at September 30, 2022 and December 31, 2021 (in thousands):

	<u>Gross Carrying Amount</u>		<u>Accumulated Amortization</u>	
	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Intangible assets subject to amortization:				
Non-compete agreements	\$ 1,131	\$ 1,131	\$ (1,131)	\$ (1,131)
Intangible assets not subject to amortization:				
Licenses and accreditations	11,496	11,600	—	—
Trade names	45,935	40,435	—	—
Certificates of need	18,489	18,110	—	—
	<u>75,920</u>	<u>70,145</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 77,051</u>	<u>\$ 71,276</u>	<u>\$ (1,131)</u>	<u>\$ (1,131)</u>

All of the Company's definite-lived intangible assets are fully amortized. The Company's licenses and accreditations, trade names and certificate of need intangible assets have indefinite lives and are, therefore, not subject to amortization.

The following table summarizes changes in goodwill for 2022 (in thousands):

Balance at December 31, 2021	\$ 2,199,937
Adjustments related to 2021 acquisition	3,356
Increase from contribution of redeemable noncontrolling interests	4,619
Balance at September 30, 2022	<u>\$ 2,207,912</u>

9. U.K. Sale

On January 19, 2021, the Company completed the U.K. Sale pursuant to a Share Purchase Agreement in which it sold all of the securities of AHC-WW Jersey Limited, a private limited liability company incorporated in Jersey and a subsidiary of the Company, which constituted the entirety of the Company's U.K. business operations. The U.K. Sale resulted in approximately \$1,525 million of gross proceeds before deducting the settlement of existing foreign currency hedging liabilities of \$85 million based on the current British Pounds ("GBP") to U.S. Dollars ("USD") exchange rate, cash retained by the buyer and transaction costs. The Company used the net proceeds of approximately \$1,425 million (excluding cash retained by the buyer) along with cash from the balance sheet to reduce debt by \$1,640 million during the first quarter of 2021 as described in Note 12 – Long-Term Debt.

As a result of the U.K. Sale, the Company reported, for all periods presented, results of operations and cash flows of the U.K. operations as discontinued operations in the accompanying financial statements.

For the nine months ended September 30, 2021, results of operations of the U.K. operations were as follows (in thousands):

	<u>September 30, 2021</u>
Revenue	\$ 62,520
Salaries, wages and benefits	35,937
Professional fees	6,815
Supplies	2,217
Rents and leases	2,509
Other operating expenses	6,682
Interest expense, net	10
Loss on sale	13,490
Transaction-related expenses	6,265
Total expenses	<u>73,925</u>
Loss from discontinued operations before income taxes	(11,405)
Benefit from income taxes	1,236
Loss from discontinued operations, net of taxes	<u>\$ (12,641)</u>

10. The CARES Act

As part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), the U.S. government announced it would offer \$100 billion of relief to eligible healthcare providers. On April 24, 2020, then President Trump signed into law the Paycheck Protection Program and Health Care Enhancement Act (the "PPP Act"). Among other things, the PPP Act allocated \$75 billion to eligible healthcare providers to help offset COVID-19 related losses and expenses. The \$75 billion allocated under the PPP Act is in addition to the \$100 billion allocated to healthcare providers for the same purposes in the CARES Act and has been disbursed to providers under terms and conditions similar to the CARES Act funds.

During 2020, the Company participated in certain relief programs offered through the CARES Act, including receipt of approximately \$34.9 million relating to the Public Health and Social Services Emergency Fund (the "PHSSE Fund"), also known as the Provider Relief Fund. During the fourth quarter of 2020, the Company recorded approximately \$32.8 million of income from provider relief fund related to PHSSE funds received in 2020.

In 2021, the Company received \$24.2 million of additional funds from the PHSSE Fund. During the fourth quarter of 2021, the Company recorded \$17.9 million of income from provider relief fund related to PHSSE funds received. During the nine months ended September 30, 2022, the Company received \$7.7 million of additional funds from the PHSSE Fund and \$14.2 million from the American Rescue Plan ("ARP") Rural Payments for Hospitals. During the nine months ended September 30, 2022, the Company recorded \$16.2 million of income from provider relief fund related to PHSSE funds received. The remaining unrecognized funds are included in other accrued liabilities on the consolidated balance sheets at September 30, 2022 and December 31, 2021.

During 2020, the Company applied for and received approximately \$45.2 million of payments from the CMS Accelerated and Advance Payment Program. Of the \$45.2 million of advance payments received in 2020, the Company repaid approximately \$25.1 million of advance payments during 2021 and made additional repayments of approximately \$18.9 million during the nine months ended September 30, 2022. The Company will pay off the remaining balance of \$1.2 million in the fourth quarter of 2022.

In addition, the Company received a 2% increase in facilities' Medicare reimbursement rate as a result of the temporary suspension of Medicare sequestration from May 1, 2020 to March 31, 2022, which was reduced to 1% on April 1, 2022 and was eliminated effective July 1, 2022.

The CARES Act also provides for certain federal income and other tax changes. The Company received a cash benefit of approximately \$39.3 million for 2020 relating to the delay of payment of the employer portion of Social Security payroll taxes. The Company repaid half of the \$39.3 million of payroll tax deferrals during the third quarter of 2021 and repaid the remaining portion in the third quarter of 2022 to eliminate the liability. The payroll tax deferral at December 31, 2021 was included in accrued salaries and benefits on the consolidated balance sheet.

11. Other Accrued Liabilities

Other accrued liabilities consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Accrued expenses	\$ 35,937	\$ 26,791
Accrued interest	17,288	17,418
Government relief funds	14,221	8,550
Cost report payable	12,608	6,487
Accrued property taxes	12,424	8,375
Insurance liability – current portion	11,923	11,923
Contract liabilities	9,489	30,371
Finance lease liabilities	990	990
Income taxes payable	331	5,540
Other	13,083	10,054
Other accrued liabilities	<u>\$ 128,294</u>	<u>\$ 126,499</u>

12. Long-Term Debt

Long-term debt consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
New Credit Facility:		
Term Loan A	\$ 403,750	\$ 417,031
Revolving Line of Credit	85,000	170,000
5.500% Senior Notes due 2028	450,000	450,000
5.000% Senior Notes due 2029	475,000	475,000
Less: unamortized debt issuance costs, discount and premium	(13,194)	(14,811)
	<u>1,400,556</u>	<u>1,497,220</u>
Less: current portion	(21,250)	(18,594)
Long-term debt	<u>\$ 1,379,306</u>	<u>\$ 1,478,626</u>

New Credit Facility

The Company entered into a new senior credit facility (the “New Credit Facility”) on March 17, 2021. This New Credit Facility provides for a \$600.0 million senior secured revolving credit facility (the “Revolving Facility”) and a \$425.0 million senior secured term loan facility (the “Term Loan Facility”) and, together with the Revolving Facility, the “Senior Facilities”), each maturing on March 17, 2026 unless extended in accordance with the terms of the New Credit Facility. The Revolving Facility further provides for (i) up to \$20.0 million to be utilized for the issuance of letters of credit and (ii) the availability of a swingline facility under which the Company may borrow up to \$20.0 million.

As a part of the closing of the New Credit Facility on March 17, 2021, the Company (i) refinanced and terminated the Company’s prior credit facilities under the Amended and Restated Credit Agreement, dated as of December 31, 2012 (the “Prior Credit Facility”) and (ii) financed the redemption of all of the Company’s outstanding 5.625% Senior Notes due 2023 (the “5.625% Senior Notes”).

During the nine months ended September 30, 2022, the Company repaid \$85.0 million of the balance outstanding on the Revolving Facility. The Company had \$511.6 million of availability under the Revolving Facility and had standby letters of credit outstanding of \$3.4 million related to security for the payment of claims required by its workers’ compensation insurance program at September 30, 2022.

The New Credit Facility requires quarterly term loan principal repayments for the Term Loan Facility of \$5.3 million for December 31, 2022 to March 31, 2024, \$8.0 million for June 30, 2024 to March 31, 2025, \$10.6 million for June 30, 2025 to December 31, 2025, with the remaining principal balance of the Term Loan Facility due on the maturity date of March 17, 2026.

The Company has the ability to increase the amount of the Senior Facilities, which may take the form of increases to the Revolving Facility or the Term Loan Facility or the issuance of one or more incremental term loan facilities (collectively, the “Incremental Facilities”), upon obtaining additional commitments from new or existing lenders and the satisfaction of customary conditions precedent for such Incremental Facilities. Such Incremental Facilities may not exceed the sum of (i) the greater of \$480.0 million and an amount equal to 100% of Consolidated EBITDA (as defined in the New Credit Facility) of the Company and its Restricted Subsidiaries (as defined in the New Credit Facility) (as determined for the four fiscal quarter period most recently ended for which financial statements are available), and (ii) additional amounts so long as, after giving effect thereto, the Consolidated Senior Secured Net Leverage Ratio (as defined in the New Credit Facility) does not exceed 3.5 to 1.0.

Subject to certain exceptions, substantially all of the Company’s existing and subsequently acquired or organized direct or indirect wholly-owned U.S. subsidiaries are required to guarantee the repayment of the Company’s obligations under the New Credit Facility. Borrowings under the Senior Facilities bear interest at a floating rate, which will initially be, at the Company’s option, either (i) adjusted LIBOR plus 1.375% or (ii) an alternative base rate plus 0.375% (in each case, subject to adjustment based on the Company’s consolidated total net leverage ratio). An unused fee initially set at 0.20% per annum (subject to adjustment based on the Company’s consolidated total net leverage ratio) is payable quarterly in arrears based on the actual daily undrawn portion of the commitments in respect of the Revolving Facility.

The New Credit Facility contains customary representations and affirmative and negative covenants, including limitations on the Company’s and its subsidiaries’ ability to incur additional debt, grant or permit additional liens, make investments and acquisitions, merge or consolidate with others, dispose of assets, pay dividends and distributions, pay junior indebtedness and enter into affiliate transactions, in each case, subject to customary exceptions. In addition, the New Credit Facility contains financial covenants requiring the Company on a consolidated basis to maintain, as of the last day of any consecutive four fiscal quarter period, a consolidated total net leverage ratio of not more than 5.0 to 1.0 and an interest coverage ratio of at least 3.0 to 1.0. The New Credit Facility also includes events of default customary for facilities of this type and upon the occurrence of such events of default, among other things, all outstanding loans under the Senior Facilities may be accelerated and/or the lenders’ commitments terminated. At September 30, 2022, the Company was in compliance with such covenants.

Prior Credit Facility

The Company entered into a senior secured credit facility (the “Senior Secured Credit Facility”) on April 1, 2011. On December 31, 2012, the Company entered into the Prior Credit Facility which amended and restated the Senior Secured Credit Facility. The Company amended the Prior Credit Facility from time to time as described in the Company’s prior filings with the SEC.

On January 5, 2021, the Company made a voluntary payment of \$105.0 million on the Term Loan B Facility Tranche B-4 (“Tranche B-4 Facility”). On January 19, 2021, the Company used a portion of the net proceeds from the U.K. Sale to repay the outstanding balances of \$311.7 million of its TLA Facility and \$767.9 million of its Tranche B-4 Facility of the Prior Credit Facility. In connection with the termination of the Prior Credit Facility, the Company recorded a debt extinguishment charge of \$10.9 million, including the write-off of discount and deferred financing costs, which was recorded in debt extinguishment costs in the condensed consolidated statement of operations for the nine months ended September 30, 2021.

Senior Notes

5.500% Senior Notes due 2028

On June 24, 2020, the Company issued \$450.0 million of 5.500% Senior Notes due 2028 (the “5.500% Senior Notes”). The 5.500% Senior Notes mature on July 1, 2028 and bear interest at a rate of 5.500% per annum, payable semi-annually in arrears on January 1 and July 1 of each year, commencing on January 1, 2021.

5.000% Senior Notes due 2029

On October 14, 2020, the Company issued \$

475.0 million of 5.000% Senior Notes due 2029 (the “5.000% Senior Notes”). The 5.000% Senior Notes mature on April 15, 2029 and bear interest at a rate of 5.000% per annum, payable semi-annually in arrears on April 15 and October 15 of each year, commencing on April 15, 2021.

The indentures governing the 5.500% Senior Notes and the 5.000% Senior Notes (together, the “Senior Notes”) contain covenants that, among other things, limit the Company’s ability and the ability of its restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of the Company’s assets; and (vii) create liens on assets.

The Senior Notes issued by the Company are guaranteed by each of the Company’s subsidiaries that guarantee the Company’s obligations under the New Credit Facility. The guarantees are full and unconditional and joint and several.

The Company may redeem the Senior Notes at its option, in whole or part, at the dates and amounts set forth in the indentures.

5.625% Senior Notes due 2023

On February 11, 2015, the Company issued \$375.0 million of 5.625% Senior Notes. On September 21, 2015, the Company issued \$275.0 million of additional 5.625% Senior Notes. The additional notes formed a single class of debt securities with the 5.625% Senior Notes issued in February 2015. Giving effect to this issuance, the Company had outstanding an aggregate of \$650.0 million of 5.625% Senior Notes. The 5.625% Senior Notes were to mature on February 15, 2023 and bear interest at a rate of 5.625% per annum, payable semi-annually in arrears on February 15 and August 15 of each year. On March 17, 2021, the Company redeemed the 5.625% Senior Notes.

6.500% Senior Notes due 2024

On February 16, 2016, the Company issued \$390.0 million of 6.500% Senior Notes due 2024 (the “6.500% Senior Notes”). The 6.500% Senior Notes were to mature on March 1, 2024 and bear interest at a rate of 6.500% per annum, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2016. On March 1, 2021, the Company redeemed the 6.500% Senior Notes.

Redemption of 5.625% Senior Notes and 6.500% Senior Notes

On January 29, 2021, the Company issued conditional notices of full redemption providing for the redemption in full of \$650 million of 5.625% Senior Notes and \$390 million of 6.500% Senior Notes to the holders of such notes.

On March 1, 2021, the Company satisfied and discharged the indentures governing the 6.500% Senior Notes. In connection with the redemption of the 6.500% Senior Notes, the Company recorded debt extinguishment costs of \$10.5 million, including \$6.3 million cash paid for breakage costs and the write-off of deferred financing costs of \$4.2 million in the condensed consolidated statement of operations for the nine months ended September 30, 2021.

On March 17, 2021, the Company satisfied and discharged the indentures governing the 5.625% Senior Notes. In connection with the redemption of the 5.625% Senior Notes, the Company recorded debt extinguishment costs of \$3.3 million, including the write-off of deferred financing and premiums costs in the condensed consolidated statement of operations for the nine months ended September 30, 2021.

13. Noncontrolling Interests

Noncontrolling interests in the consolidated financial statements represents the portion of equity held by noncontrolling partners in the Company’s non-wholly owned subsidiaries. At September 30, 2022, the Company operated seven facilities through non-wholly owned subsidiaries. The Company owns between 60% and 86% of the equity interests of these entities, and noncontrolling partners own the remaining equity interests. The initial value of the noncontrolling interests is based on the fair value of contributions. The Company consolidates the operations of each facility based on its status as primary beneficiary, as further discussed in Note 14 – Variable Interest Entities. The noncontrolling interests are reflected as redeemable noncontrolling interests on the accompanying condensed consolidated balance sheets based on put rights that could require the Company to purchase the noncontrolling interests upon the occurrence of a change in control.

The components of redeemable noncontrolling interests are as follows (in thousands):

Balance at December 31, 2021	\$	65,388
Contributions from noncontrolling partners in joint ventures		18,979
Net income attributable to noncontrolling interests		4,873
Distributions to noncontrolling partners in joint ventures		(1,004)
Balance at September 30, 2022	\$	<u>88,236</u>

14. Variable Interest Entities

For legal entities where the Company has a financial relationship, the Company evaluates whether it has a variable interest and determines if the entity is considered a variable interest entity (“VIE”). If the Company concludes an entity is a VIE and the Company is the primary beneficiary, the entity is consolidated. The primary beneficiary analysis is a qualitative analysis based on power and benefits. A reporting entity has a controlling financial interest in a VIE and must consolidate the VIE if it has both power and benefits. It must have the power to direct the activities that most significantly impact the VIE’s economic performance and the obligation to absorb losses of the VIE that potentially could be significant to the VIE or the right to receive benefits from the VIE that potentially could be significant to the VIE.

At September 30, 2022, the Company operated seven facilities through non-wholly owned subsidiaries. The Company owns between 60% and 86% of the equity interests of these entities, and noncontrolling partners own the remaining equity interests. The Company manages each of these facilities, is responsible for the day to day operations and, therefore, has the power to direct the activities that most significantly impact the VIE’s economic performance and the obligation to absorb losses or receive benefits from the VIE that could potentially be significant to the VIE. These activities include, but are not limited to, behavioral healthcare services, human resource and employment-related decisions, marketing and finance. The terms of the agreements governing each of the Company’s VIEs prohibit the Company from using the assets of each VIE to satisfy the obligations of other entities. Consolidated assets at September 30, 2022 and December 31, 2021 include total assets of variable interest entities of \$397.9 million and \$320.6 million, respectively, which cannot be used to settle the obligations of other entities. Consolidated liabilities at September 30, 2022 and December 31, 2021 include total liabilities of variable interest entities of \$21.9 million and \$24.1 million, respectively.

The consolidated VIEs assets and liabilities in the Company’s condensed consolidated balance sheets are shown below (in thousands):

	September 30, 2022	December 31, 2021
Cash and cash equivalents	\$ 26,696	\$ 26,360
Accounts receivable, net	22,605	20,144
Other current assets	2,651	1,304
Total current assets	51,952	47,808
Property and equipment, net	283,917	220,793
Goodwill	39,564	34,945
Intangible assets, net	16,139	10,490
Operating lease right-of-use assets	6,365	6,603
Total assets	\$ 397,937	\$ 320,639
Accounts payable	\$ 4,194	\$ 3,690
Accrued salaries and benefits	4,251	5,656
Current portion of operating lease liabilities	224	197
Other accrued liabilities	6,709	6,818
Total current liabilities	15,378	16,361
Operating lease liabilities	6,494	6,666
Other liabilities	—	1,083
Total liabilities	\$ 21,872	\$ 24,110

15. Equity-Based Compensation***Equity Incentive Plans***

The Company issues stock-based awards, including stock options, restricted stock and restricted stock units, to certain officers, employees and non-employee directors under the Acadia Healthcare Company, Inc. Incentive Compensation Plan (the “Equity Incentive Plan”). At September 30, 2022, a maximum of 12,700,000 shares of the Company’s common stock were authorized for issuance as stock options, restricted stock and restricted stock units or other share-based compensation under the Equity Incentive Plan, of which 3,074,551 were available for future grant. Stock options may be granted for terms of up to 10 years. The Company recognizes expense on all share-based awards on a straight-line basis over the requisite service period of the entire award. Grants to employees generally vest in annual increments of 25% each year, commencing one year after the date of grant. The exercise prices of stock options are equal to the most recent closing price of the Company’s common stock on the most recent trading date prior to the date of grant.

The Company recognized \$7.2 million and \$8.9 million in equity-based compensation expense for the three months ended September 30, 2022 and 2021 and \$21.7 million and \$25.0 million for the nine months ended September 30, 2022 and 2021, respectively. At September 30, 2022, there was \$70.4 million of unrecognized compensation expense related to unvested options, restricted stock and restricted stock units, which is expected to be recognized over the remaining weighted average vesting period of 1.6 years.

The Company recognized a deferred income tax benefit of \$2.0 million and \$2.3 million for the three months ended September 30, 2022 and 2021, respectively, related to equity-based compensation expense. The Company recognized a deferred income tax benefit of \$5.9 million and \$6.4 million for the nine months ended September 30, 2022 and 2021.

Stock Options

Stock option activity during 2021 and 2022 was as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at January 1, 2021	1,510,306	\$ 37.56	7.35	\$ 1,414
Options granted	324,320	57.53	9.31	851
Options exercised	(558,322)	39.45	N/A	11,118
Options cancelled	(170,235)	40.08	N/A	N/A
Options outstanding at December 31, 2021	1,106,069	42.07	7.49	19,988
Options granted	334,260	55.73	9.46	4,815
Options exercised	(259,097)	40.32	N/A	7,779
Options cancelled	(140,975)	46.54	N/A	N/A
Options outstanding at September 30, 2022	1,040,257	\$ 46.29	7.67	\$ 24,269
Options exercisable at December 31, 2021	324,409	\$ 43.24	5.48	\$ 5,575
Options exercisable at September 30, 2022	323,137	\$ 41.48	5.89	\$ 9,020

Fair values are estimated using the Black-Scholes option pricing model. The following table summarizes the grant-date fair value of options and the assumptions used to develop the fair value estimates for options granted during the nine months ended September 30, 2022 and year ended December 31, 2021:

	September 30, 2022	December 31, 2021
Weighted average grant-date fair value of options	\$ 20.72	\$ 20.64
Risk-free interest rate	2.0%	0.9%
Expected volatility	39%	40%
Expected life (in years)	5.0	5.0

The Company's estimate of expected volatility for stock options is based upon the volatility of its stock price over the expected life of the award. The risk-free interest rate is the approximate yield on U.S. Treasury Strips having a life equal to the expected option life on the date of grant. The expected life is an estimate of the number of years an option will be held before it is exercised.

Other Stock-Based Awards

Restricted stock activity during 2021 and 2022 was as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value
Unvested at January 1, 2021	1,022,996	\$ 28.41
Granted	352,430	58.32
Cancelled	(82,751)	39.63
Vested	(366,048)	30.81
Unvested at December 31, 2021	926,627	\$ 37.84
Granted	643,396	64.48
Cancelled	(113,445)	46.81
Vested	(370,427)	32.15
Unvested at September 30, 2022	<u>1,086,151</u>	<u>\$ 54.62</u>

Restricted stock unit activity during 2021 and 2022 was as follows:

	Number of Units	Weighted Average Grant-Date Fair Value
Unvested at January 1, 2021	1,073,062	\$ 20.15
Granted	149,416	61.52
Performance adjustment	465,993	25.49
Cancelled	—	—
Vested	(184,051)	42.30
Unvested at December 31, 2021	1,504,420	\$ 23.20
Granted	105,311	73.96
Performance adjustment	159,831	29.00
Cancelled	—	—
Vested	(518,474)	43.16
Unvested at September 30, 2022	<u>1,251,088</u>	<u>\$ 19.95</u>

Restricted stock awards are time-based vesting awards that vest over a period of three or four years and are subject to continuing service of the employee or non-employee director over the ratable vesting periods. The fair values of the restricted stock awards were determined based on the closing price of the Company's common stock on the trading date immediately prior to the grant date.

Restricted stock units are granted to employees and are subject to Company performance compared to pre-established targets. In addition to Company performance, these performance-based restricted stock units are subject to the continuing service of the employee during the three-year period covered by the awards. The performance condition for the restricted stock units is based on the Company's achievement of annually established targets for diluted earnings per share. The number of shares issuable at the end of the applicable vesting period of restricted stock units ranges from 0% to 200% of the targeted units based on the Company's actual performance compared to the targets.

The fair values of restricted stock units were determined based on the closing price of the Company's common stock on the trading date immediately prior to the grant date for units subject to performance conditions.

16. Income Taxes

The provision for income taxes for the three months ended September 30, 2022 and 2021 reflects effective tax rates of 24.8% and 20.4%, and 24.2% and 23.9% for the nine months ended September 30, 2022 and 2021, respectively. The increase in the effective tax rate for the three and nine months ended September 30, 2022 was primarily attributable to impacts of employee equity compensation awards in relation to income before income taxes.

As the Company continues to monitor the implications of potential tax legislation in each of its jurisdictions, the Company may adjust its estimates and record additional amounts for tax assets and liabilities. Any adjustments to the Company's tax assets and liabilities could materially impact its provision for income taxes and its effective tax rate in the periods in which they are made.

17. Fair Value Measurements

The carrying amounts reported for cash and cash equivalents, accounts receivable, other current assets, accounts payable and other current liabilities approximate fair value because of the short-term maturity of these instruments.

The carrying amounts and fair values of the Company's New Credit Facility, 5.500% Senior Notes and 5.000% Senior Notes at September 30, 2022 and December 31, 2021 were as follows (in thousands):

	Carrying Amount		Fair Value	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
New Credit Facility	\$ 486,636	\$ 584,418	\$ 486,636	\$ 584,418
5.500% Senior Notes due 2028	\$ 444,491	\$ 443,894	\$ 405,598	\$ 466,577
5.000% Senior Notes due 2029	\$ 469,429	\$ 468,907	\$ 415,727	\$ 481,802

The Company's New Credit Facility, 5.500% Senior Notes and 5.000% Senior Notes were categorized as Level 2 in the GAAP fair value hierarchy. Fair values were based on trading activity among the Company's lenders and the average bid and ask price as determined using published rates.

18. Commitments and Contingencies

Professional and General Liability

A portion of the Company's professional liability risks are insured through a wholly-owned insurance subsidiary. The Company is self-insured for professional liability claims up to \$10.0 million per claim through August 31, 2022 and \$5.0 million and \$10.0 million for certain other claims thereafter, and has obtained reinsurance coverage from a third party to cover claims in excess of the retention limit. The reinsurance policy has a coverage limit of \$70.0 million in the aggregate. The Company's reinsurance receivables are recognized consistent with the related liabilities and include known claims and any incurred but not reported claims that are covered by current insurance policies in place.

Legal Proceedings

The Company is, from time to time, subject to various claims, lawsuits, governmental investigations and regulatory actions, including claims for damages for personal injuries, medical malpractice, overpayments, breach of contract, securities law violations, tort and employment related claims. In these actions, plaintiffs request a variety of damages, including, in some instances, punitive and other types of damages that may not be covered by insurance. In addition, healthcare companies are subject to numerous investigations by various governmental agencies. Certain of the Company's individual facilities have received, and from time to time, other facilities may receive, subpoenas, civil investigative demands, audit requests and other inquiries from, and may be subject to investigation by, federal and state agencies. These investigations can result in repayment obligations, and violations of the False Claims Act can result in substantial monetary penalties and fines, the imposition of a corporate integrity agreement and exclusion from participation in governmental health programs. In addition, the federal False Claims Act permits private parties to bring qui tam, or "whistleblower," suits against companies that submit false claims for payments to, or improperly retain overpayments from, the government. Some states have adopted similar state whistleblower and false claims provisions.

On April 1, 2019, a consolidated complaint was filed against the Company and certain former and current officers in the lawsuit styled St. Clair County Employees' Retirement System v. Acadia Healthcare Company, Inc., et al., Case No. 3:19-cv-00988, which is pending in the United States District Court for the Middle District of Tennessee. The complaint purports to be brought on behalf of a class consisting of all persons (other than defendants) who purchased securities of the Company between April 30, 2014 and November 15, 2018, and alleges that defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder. On September 30, 2022, the court entered an order certifying a class consisting of all persons who purchased or otherwise acquired the common stock of the Company between April 30, 2014 and November 15, 2018. At this time, the Company is not able to quantify any potential liability in connection with this litigation because the case is in its early stages.

On February 21, 2019, a purported stockholder filed a related derivative action on behalf of the Company against certain former and current officers and directors in the lawsuit styled Davydov v. Joey A. Jacobs, et al., Case No. 3:19-cv-00167, which is pending in the United States District Court for the Middle District of Tennessee. The complaint alleges claims for violations of Section 10(b) and

14(a) of the Exchange Act, breach of fiduciary duty, waste of corporate assets, and unjust enrichment. On May 23, 2019, a purported stockholder filed a second related derivative action on behalf of the Company against certain former and current officers and directors in the lawsuit styled *Beard v. Jacobs, et al.*, Case No. 3:19-cv-0441, which is pending in the United States District Court for the Middle District of Tennessee. The complaint alleges claims for violations of Sections 10(b), 14(a), and 21D of the Exchange Act, breach of fiduciary duty, waste of corporate assets, unjust enrichment, and insider selling. On June 11, 2019, the *Davydov and Beard* actions were consolidated. On February 22, 2021, the court entered an order staying the case. On October 23, 2020, a purported stockholder filed a third related derivative action on behalf of the Company against former and current officers and directors in the lawsuit styled *Pfenning v. Jacobs, et al.*, Case No. 2020-0915-JRS, which is pending in the Court of Chancery of the State of Delaware. The complaint alleges claims for breach of fiduciary duty. On February 17, 2021, the court entered an order staying the case. On February 24, 2021, a purported stockholder filed a fourth derivative action on behalf of the Company against former and current officers and directors in the lawsuit styled *Solak v. Jacobs, et al.*, Case No. 2021-0163, which is pending in the Court of Chancery of the State of Delaware. The complaint alleges claims for breach of fiduciary duty, unjust enrichment, waste of corporate assets, and insider selling. At this time, the Company is not able to quantify any potential liability in connection with this litigation because the cases are in their early stages.

In the fall of 2017, the Office of Inspector General (“OIG”) issued subpoenas to three of the Company’s facilities requesting certain documents from January 2013 to the date of the subpoenas. The U.S. Attorney’s Office for the Middle District of Florida issued a civil investigative demand to one of the Company’s facilities in December 2017 requesting certain documents from November 2012 to the date of the demand. In April 2019, the OIG issued subpoenas relating to six additional facilities requesting certain documents and information from January 2013 to the date of the subpoenas. The government’s investigation of each of these facilities is focused on claims not eligible for payment because of alleged violations of certain regulatory requirements relating to, among other things, medical necessity, admission eligibility, discharge decisions, length of stay and patient care issues. The Company is cooperating with the government’s investigation but is not able to quantify any potential liability in connection with these investigations.

19. Derivatives

The Company entered into foreign currency forward contracts during the year ended December 31, 2020 in connection with certain transfers of cash between the U.S. and U.K. under the Company’s cash management and foreign currency risk management programs. Foreign currency forward contracts limit the economic risk of changes in the exchange rate between USD and GBP associated with cash transfers.

In August 2019, the Company also entered into multiple cross currency swap agreements with an aggregate notional amount of \$650.0 million to manage foreign currency risk by effectively converting a portion of its fixed-rate USD-denominated senior notes, including the semi-annual interest payments thereunder, to fixed-rate GBP-denominated debt of £538.1 million. During the term of the swap agreements, the Company received semi-annual interest payments in USD from the counterparties at fixed interest rates, and the Company made semi-annual interest payments in GBP to the counterparties at fixed interest rates. The interest payments under the cross-currency swap agreements resulted in £25.4 million of annual cash flows from the Company’s U.K. business being converted to \$35.8 million.

In conjunction with the U.K. Sale in January 2021, the Company settled its cross currency swap liability and outstanding forward contracts as shown in investing activities in the condensed consolidated statements of cash flows.

20. Financial Information for the Company and Its Subsidiaries

The Company conducts substantially all of its business through its subsidiaries. The 5.500% Senior Notes and 5.000% Senior Notes are jointly and severally guaranteed on an unsecured senior basis by all of the Company's subsidiaries that guarantee the Company's obligations under the New Credit Facility. Summarized financial information is presented below is consistent with the condensed consolidated financial statements of the Company, except transactions between combining entities have been eliminated. Financial information for the combined non-guarantor entities has been excluded. Presented below is condensed financial information for the combined wholly-owned subsidiary guarantors at September 30, 2022 and December 31, 2021, and for the nine months ended September 30, 2022. The summarized balance sheet information has been adjusted to reclassify certain wholly-owned subsidiaries as non-guarantor entities.

Summarized balance sheet information (in thousands):

	September 30, 2022	December 31, 2021
Current assets	\$ 356,013	\$ 349,250
Property and equipment, net	1,227,849	1,166,409
Goodwill	2,090,334	2,086,978
Total noncurrent assets	3,567,803	3,509,120
Current liabilities	334,574	340,514
Long-term debt	1,362,923	1,460,046
Total noncurrent liabilities	1,587,879	1,669,746
Redeemable noncontrolling interests	—	—
Total equity	2,001,363	1,848,110

Summarized operating results information (in thousands):

	Nine Months Ended September 30, 2022
Revenue	\$ 1,543,674
Income before income taxes	230,106
Net income	175,456
Net income attributable to Acadia Healthcare Company, Inc.	175,456

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statements that address future results or occurrences. In some cases you can identify forward-looking statements by terminology such as “may,” “might,” “will,” “would,” “should,” “could” or the negative thereof. Generally, the words “anticipate,” “believe,” “continue,” “expect,” “intend,” “estimate,” “project,” “plan” and similar expressions identify forward-looking statements. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are forward-looking statements.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks, uncertainties and other factors, many of which are outside of our control, which could cause our actual results, performance or achievements to differ materially from any results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to:

- the impact of the COVID-19 pandemic on our inpatient and outpatient volumes, or disruptions caused by other pandemics, epidemics or outbreaks of infectious diseases;
- the impact of vaccine and other pandemic-related mandates imposed by local, state and federal authorities on our business;
- costs of providing care to our patients, including increased staffing, equipment and supply expenses resulting from the COVID-19 pandemic;
- our ability to integrate Christopher H. Hunter, our new chief executive officer;
- the impact of competition for staffing on our labor costs and profitability;
- the impact of increases to our labor costs;
- the impact of general economic and employment conditions, including increased construction and other costs due to inflation, on our business and future results of operations;
- the occurrence of patient incidents, which could result in negative media coverage, adversely affect the price of our securities and result in incremental regulatory burdens and governmental investigations;
- our significant indebtedness, our ability to meet our debt obligations, and our ability to incur substantially more debt;
- our ability to implement our business strategies, especially in light of the COVID-19 pandemic;
- the impact of payments received from the government and third-party payors on our revenue and results of operations;
- difficulties in successfully integrating the operations of acquired facilities or realizing the potential benefits and synergies of our acquisitions and joint ventures;
- our ability to recruit and retain quality psychiatrists and other physicians, nurses, counselors and other medical support personnel;
- our future cash flow and earnings;
- our restrictive covenants, which may restrict our business and financing activities;
- the impact of adverse weather conditions, including the effects of hurricanes and wildfires;
- compliance with laws and government regulations;
- the impact of claims brought against us or our facilities including claims for damages for personal injuries, medical malpractice, overpayments, breach of contract, securities law violations, tort and employee related claims;
- the impact of governmental investigations, regulatory actions and whistleblower lawsuits;
- any failure to comply with the terms of our corporate integrity agreement with the OIG;
- the impact of healthcare reform in the U.S.;

- the risk of a cyber-security incident and any resulting adverse impact on our operations or violation of laws and regulations regarding information privacy;
- the impact of our highly competitive industry on patient volumes;
- our dependence on key management personnel, key executives and local facility management personnel;
- our acquisition, joint venture and wholly-owned de novo strategies, which expose us to a variety of operational and financial risks, as well as legal and regulatory risks;
- the impact of state efforts to regulate the construction or expansion of healthcare facilities on our ability to operate and expand our operations;
- our potential inability to extend leases at expiration;
- the impact of controls designed to reduce inpatient services on our revenue;
- the impact of different interpretations of accounting principles on our results of operations or financial condition;
- the impact of environmental, health and safety laws and regulations, especially in locations where we have concentrated operations;
- the impact of laws and regulations relating to privacy and security of patient health information and standards for electronic transactions;
- our ability to cultivate and maintain relationships with referral sources;
- the impact of a change in the mix of our earnings, adverse changes in our effective tax rate and adverse developments in tax laws generally;
- changes in interpretations, assumptions and expectations regarding recent tax legislation, including provisions of the CARES Act and additional guidance that may be issued by federal and state taxing authorities;
- failure to maintain effective internal control over financial reporting;
- the impact of fluctuations in our operating results, quarter to quarter earnings and other factors on the price of our securities;
- the impact of the trend for insurance companies and managed care organizations to enter into sole source contracts on our ability to obtain patients;
- the impact of value-based purchasing programs on our revenue; and
- those risks and uncertainties described from time to time in our filings with the SEC.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. These risks and uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. These forward-looking statements are made only as of the date of this Quarterly Report on Form 10-Q. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments.

Overview

Our business strategy is to acquire and develop behavioral healthcare facilities and improve our operating results within our facilities and our other behavioral healthcare operations. We strive to improve the operating results of our facilities by providing high-quality services, expanding referral networks and marketing initiatives while meeting the increased demand for behavioral healthcare services through expansion of our current locations as well as developing new services within existing locations. At September 30, 2022, we operated 242 behavioral healthcare facilities with approximately 10,800 beds in 39 states and Puerto Rico. During the nine months ended September 30, 2022, we added 360 beds in the U.S., consisting of 210 added to existing facilities and 150 added through the opening of one wholly-owned facility and one joint venture facility, and opened four CTCs. For the year ending December 31, 2022, we expect to (i) add approximately 300 beds to existing facilities, (ii) add 270 beds through the opening of one wholly-owned facility and two joint venture facilities, and (iii) open at least six CTCs.

We are the leading publicly traded pure-play provider of behavioral healthcare services in the United States. Management believes that we are positioned as a leading platform in a highly fragmented industry under the direction of an experienced management team that has significant industry expertise. Management expects to take advantage of several strategies that are more

accessible as a result of our increased size and geographic scale, including continuing a national marketing strategy to attract new patients and referral sources, increasing our volume of out-of-state referrals, providing a broader range of services to new and existing patients and clients and selectively pursuing opportunities to expand our facility and bed count in the U.S. through acquisitions, wholly-owned de novo facilities, joint ventures and bed additions in existing facilities.

On January 19, 2021, we completed the U.K. Sale pursuant to a Share Purchase Agreement in which we sold all of the securities of AHC-WW Jersey Limited, a private limited liability company incorporated in Jersey and a subsidiary of the Company, which constituted the entirety of our U.K. business operations. The U.K. Sale resulted in approximately \$1,525 million of gross proceeds before deducting the settlement of existing foreign currency hedging liabilities of \$85 million based on the current GBP to USD exchange rate, cash retained by the buyer and transaction costs. We used the net proceeds of approximately \$1,425 million (excluding cash retained by the buyer) along with cash from the balance sheet to reduce debt by \$1,640 million during the first quarter of 2021. As a result of the U.K. Sale, we reported, for all periods presented, results of operations and cash flows of the U.K. operations as discontinued operations in the accompanying financial statements.

COVID-19

During March 2020, the global pandemic of COVID-19 began to affect our facilities, employees, patients, communities, business operations and financial performance, as well as the broader U.S. and U.K. economies and financial markets. At many of our facilities, employees and/or patients have tested positive for COVID-19. We are committed to protecting the health of our communities and have been responding to the evolving COVID-19 situation while taking steps to provide quality care and protect the health and safety of our patients and employees. Over the last two years, all of our facilities have closely followed infectious disease protocols, as well as recommendations by the CDC and local health officials.

We have taken numerous steps to help minimize the impact of the virus on our patients and employees. For example, we:

- established an internal COVID-19 taskforce;
- instituted social distancing practices and protective measures throughout our facilities, which included restricting or suspending visitor access, screening patients and staff who enter our facilities based on criteria established by the CDC and local health officials, and testing and isolating patients when warranted;
- implemented plans to vaccinate all eligible employees at our facilities that participate in CMS reimbursement programs;
- secured contracts with additional distributors for supplies;
- expanded telehealth capabilities;
- implemented emergency planning in directly impacted markets; and
- limited all non-essential business travel and suspended in-person trainings and conferences.

We have developed additional supply chain management processes, which includes extensive tracking and delivery of key personal protective equipment (“PPE”) and supplies and sharing resources across all facilities. We could experience supply chain disruptions and significant price increases in equipment, pharmaceuticals and medical supplies, particularly PPE. Pandemic-related staffing difficulties and equipment, pharmaceutical and medical supplies shortages may impact our ability to treat patients at our facilities. Such shortages could lead to us paying higher prices for supplies, equipment and labor and an increase in overtime hours paid to our employees.

CARES Act and Other Regulatory Developments

On March 27, 2020, the CARES Act was signed into law. The CARES Act is intended to provide over \$2 trillion in stimulus benefits for the U.S. economy. Among other things, the CARES Act includes additional support for small businesses, expands unemployment benefits, makes forgivable loans available to small businesses, provides for certain federal income tax changes, and provides \$500 billion for loans, loan guarantees, and other investments for or in U.S. businesses.

In addition, the CARES Act contains a number of provisions that are intended to assist healthcare providers as they combat the effects of the COVID-19 pandemic. Those provisions include, among others:

- an appropriation to the PHSSE Fund to reimburse, through grants or other mechanisms, eligible healthcare providers and other approved entities for COVID-19-related expenses or lost revenue;
- the expansion of CMS’ Accelerated and Advance Payment Program;

- the temporary suspension of Medicare sequestration; and
- waivers or temporary suspension of certain regulatory requirements.

The U.S. government initially announced it would offer \$100 billion of relief to eligible healthcare providers through the PHSSE Fund. On April 24, 2020, then President Trump signed into law the PPP Act. Among other things, the PPP Act allocated \$75 billion to eligible healthcare providers to help offset COVID-19 related losses and expenses. The \$75 billion allocated under the PPP Act is in addition to the \$100 billion allocated to healthcare providers for the same purposes in the CARES Act and has been disbursed to providers under terms and conditions similar to the CARES Act funds. In 2020, we received approximately \$34.9 million of the funds distributed from the PHSSE Fund. During the fourth quarter of 2020, the Company recorded approximately \$32.8 million of income from provider relief fund related to PHSSE funds received in 2020.

In 2021, we received \$24.2 million of additional funds from the PHSSE Fund. During the fourth quarter of 2021, we recorded \$17.9 million of income from provider relief fund related to the PHSSE funds received. During the nine months ended September 30, 2022, we received \$7.7 million of additional funds from the PHSSE Fund and \$14.2 million from the ARP Rural Payments for Hospitals. During the nine months ended September 30, 2022, we recorded \$16.2 million of income from provider relief fund related to PHSSE funds received. We continue to evaluate our compliance with the terms and conditions to, and the financial impact of, these additional funds received.

Using existing authority and certain expanded authority under the CARES Act, the U.S. Department of Health & Human Services (“HHS”) expanded CMS’ Accelerated and Advance Payment Program to a broader group of Medicare Part A and Part B providers for the duration of the COVID-19 pandemic. Under the program, certain of our facilities were eligible to request up to 100% of their Medicare payment amount for a three-month period. Under the original terms of the program, the repayment of these accelerated/advanced payments would have begun 120 days after the date of the issuance of the payment and the amounts advanced to our facilities would have been recouped from new Medicare claims as a 100% offset. Our facilities would have had 210 days from the date the accelerated or advance payment was made to repay the amounts that they owe.

On October 1, 2020, Congress amended the terms of the Accelerated and Advance Payment Program to extend the term of the loan and adjust the repayment process. Under the new terms of the program, all providers will have 29 months from the date of their first program payment to repay the full amount of the accelerated or advance payments they have received. The revised terms extend the period before repayment begins from 210 days to one year from the date that payment under the program was received. Once the repayment period begins, the offset is limited to 25% of new claims during the first 11 months of repayment and 50% of new claims during the final 6 months. The revised program terms also lower the interest rate on outstanding amounts due at the end of the repayment period from 10% to 4%. We applied for and received approximately \$45.2 million in 2020 from this program. Of the \$45.2 million of advance payments received in 2020, we repaid approximately \$25.1 million of advance payments during 2021 and made additional repayments of approximately \$18.9 million during the nine months ended September 30, 2022. We will pay off the remaining balance of \$1.2 million in the fourth quarter of 2022.

Under the CARES Act, we also received a 2% increase in our facilities’ Medicare reimbursement rate as a result of the temporary suspension of Medicare sequestration from May 1, 2020 to March 31, 2022, which was reduced to 1% on April 1, 2022 and was eliminated effective July 1, 2022.

The CARES Act also provides for certain federal income and other tax changes. We received a cash benefit of approximately \$39.3 million for 2020 relating to the delay of payment of the employer portion of Social Security payroll taxes. We repaid half of the \$39.3 million of payroll tax deferrals during the third quarter of 2021 and repaid the remaining portion in the third quarter of 2022 to eliminate the liability.

In addition to the financial and other relief that has been provided by the federal government through the CARES Act and other legislation passed by Congress, CMS and many state governments have also issued waivers and temporary suspensions of healthcare facility licensure, certification, and reimbursement requirements in order to provide hospitals, physicians, and other healthcare providers with increased flexibility to meet the challenges presented by the COVID-19 pandemic. For example, CMS and many state governments have temporarily eased regulatory requirements and burdens for delivering and being reimbursed for healthcare services provided remotely through telemedicine. CMS has also temporarily waived many provisions of the Stark law, including many of the provisions affecting our relationships with physicians. Many states have also suspended the enforcement of certain regulatory requirements to ensure that healthcare providers have sufficient capacity to treat COVID-19 patients. These regulatory changes are temporary, with most slated to expire at the end of the declared COVID-19 public health emergency.

We are continuing to evaluate the terms and conditions and financial impact of funds received under the CARES Act and other government relief programs.

Results of Operations

The following table illustrates our consolidated results of operations for the respective periods shown (dollars in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
Revenue	\$ 666,732	100.0%	\$ 587,559	100.0%	\$ 1,935,104	100.0%	\$ 1,720,914	100.0%
Salaries, wages and benefits	352,582	52.9%	309,118	52.6%	1,027,732	53.1%	922,684	53.6%
Professional fees	40,367	6.1%	35,602	6.1%	117,718	6.1%	101,915	5.9%
Supplies	25,570	3.8%	23,743	4.0%	74,291	3.8%	67,698	3.9%
Rents and leases	11,339	1.7%	9,658	1.6%	33,780	1.7%	28,690	1.7%
Other operating expenses	88,993	13.3%	76,502	13.0%	255,355	13.2%	222,263	12.9%
Income from provider relief fund	(7,656)	-1.1%	—	0.0%	(16,206)	-0.8%	—	0.0%
Depreciation and amortization	29,573	4.4%	27,805	4.7%	87,627	4.5%	78,349	4.6%
Interest expense	18,003	2.7%	15,706	2.7%	50,355	2.6%	61,420	3.6%
Debt extinguishment costs	—	0.0%	—	0.0%	—	0.0%	24,650	1.4%
Loss on impairment	—	0.0%	1,079	0.2%	—	0.0%	24,293	1.4%
Transaction-related expenses	10,859	1.6%	3,035	0.5%	18,381	0.9%	9,320	0.5%
Total expenses	<u>569,630</u>	<u>85.4%</u>	<u>502,248</u>	<u>85.4%</u>	<u>1,649,033</u>	<u>85.1%</u>	<u>1,541,282</u>	<u>89.5%</u>
Income from continuing operations before income taxes	97,102	14.6%	85,311	14.6%	286,071	14.9%	179,632	10.5%
Provision for income taxes	24,056	3.6%	17,411	3.0%	69,183	3.6%	42,948	2.5%
Income from continuing operations	73,046	11.0%	67,900	11.6%	216,888	11.3%	136,684	8.0%
Loss from discontinued operations, net of taxes	—	0.0%	—	0.0%	—	0.0%	(12,641)	-0.8%
Net income	73,046	11.0%	67,900	11.6%	216,888	11.3%	124,043	7.2%
Net income attributable to noncontrolling interests	(1,947)	-0.3%	(1,774)	-0.3%	(4,873)	-0.3%	(3,686)	-0.2%
Net income attributable to Acadia Healthcare Company, Inc.	<u>\$ 71,099</u>	<u>10.7%</u>	<u>\$ 66,126</u>	<u>11.3%</u>	<u>\$ 212,015</u>	<u>11.0%</u>	<u>\$ 120,357</u>	<u>7.0%</u>

At September 30, 2022, we operated 242 behavioral healthcare facilities with approximately 10,800 beds in 39 states and Puerto Rico. For all periods presented, results of operations and cash flows of the U.K. operations are reported as discontinued operations in the accompanying financial statements.

We are encouraged by the favorable trends in our business and believe we are well positioned to capitalize on the expected growth in demand for behavioral health services. As with many other healthcare providers and other industries across the country, we are currently dealing with a tight labor market. However, we believe the diversity of our markets and service lines and our proactive focus helps us manage through this environment. We remain focused on ensuring that we have the level of staff to meet the demand in our markets.

The following table sets forth percent changes in same facility operating data for the three and nine months ended September 30, 2022 compared to the same period in 2021:

	<u>Three Months Ended</u>	<u>Nine Months Ended</u>
U.S. Same Facility Results (a)		
Revenue growth	10.2%	9.1%
Patient days growth	3.1%	2.0%
Admissions growth	0.6%	-2.2%
Average length of stay change (b)	2.5%	4.3%
Revenue per patient day growth	6.9%	7.0%
Adjusted EBITDA margin change (c)	150 bps	190 bps
Adjusted EBITDA margin excluding income from provider relief fund (d)	30 bps	100 bps

- (a) Results for the periods presented include facilities we have operated more than one year and exclude certain closed services.
- (b) Average length of stay is defined as patient days divided by admissions.
- (c) Adjusted EBITDA is defined as income before provision for income taxes, equity-based compensation expense, debt extinguishment costs, loss on impairment, transaction-related expenses, interest expense and depreciation and amortization. Management uses Adjusted EBITDA as an analytical indicator to measure performance and to develop strategic objectives and operating plans. Adjusted EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. Adjusted EBITDA should not be considered as a measure of financial performance under GAAP, and the items excluded from Adjusted EBITDA are significant components in understanding and assessing financial performance. Because Adjusted EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Adjusted EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.
- (d) For the three and nine months ended September 30, 2022, excludes income from provider relief fund of \$7.7 million and \$16.2 million, respectively.

Three months ended September 30, 2022 compared to the three months ended September 30, 2021

Revenue. Revenue increased \$79.2 million, or 13.5%, to \$666.7 million for the three months ended September 30, 2022 from \$587.6 million for the three months ended September 30, 2021. The increase includes revenue generated from our acquisition of CenterPointe on December 31, 2021. Same facility revenue increased \$59.4 million, or 10.2%, for the three months ended September 30, 2022 compared to the three months ended September 30, 2021, resulting from an increase in same facility revenue per day of 6.9% and same facility growth in patient days of 3.1%. Consistent with same facility revenue growth in 2021, the growth in same facility patient days for the three months ended September 30, 2022 compared to the three months ended September 30, 2021 resulted from the addition of beds to our existing facilities and ongoing demand for our services.

Salaries, wages and benefits. Salaries, wages and benefits (“SWB”) expense was \$352.6 million for the three months ended September 30, 2022 compared to \$309.1 million for the three months ended September 30, 2021, an increase of \$43.5 million. SWB expense included \$7.2 million and \$8.9 million of equity-based compensation expense for the three months ended September 30, 2022 and 2021, respectively. Excluding equity-based compensation expense, SWB expense was \$345.4 million, or 51.8% of revenue, for the three months ended September 30, 2022, compared to \$300.2 million, or 51.1% of revenue, for the three months ended September 30, 2021. The increase in SWB expense relates to SWB expense incurred by facilities acquired in the CenterPointe acquisition and incremental staff to support volume growth as well as wage inflation. Same facility SWB expense was \$306.2 million for the three months ended September 30, 2022, or 47.8% of revenue, compared to \$276.1 million for the three months ended September 30, 2021, or 47.5% of revenue.

Professional fees. Professional fees were \$40.4 million for the three months ended September 30, 2022, or 6.1% of revenue, compared to \$35.6 million for the three months ended September 30, 2021, or 6.1% of revenue. Same facility professional fees were \$33.4 million for the three months ended September 30, 2022, or 5.2% of revenue, compared to \$32.4 million for the three months ended September 30, 2021, or 5.6% of revenue.

Supplies. Supplies expense was \$25.6 million for the three months ended September 30, 2022, or 3.8% of revenue, compared to \$23.7 million for the three months ended September 30, 2021, or 4.0% of revenue. Same facility supplies expense was \$24.1 million for the three months ended September 30, 2022, or 3.8% of revenue, compared to \$23.3 million for the three months ended September 30, 2021, or 4.0% of revenue.

Rents and leases. Rents and leases were \$11.3 million for the three months ended September 30, 2022, or 1.7% of revenue, compared to \$9.7 million for the three months ended September 30, 2021, or 1.6% of revenue. Same facility rents and leases were \$9.2 million for the three months ended September 30, 2022, or 1.4% of revenue, compared to \$8.8 million for the three months ended September 30, 2021, or 1.5% of revenue.

Other operating expenses. Other operating expenses consisted primarily of purchased services, utilities, insurance, travel and repairs and maintenance expenses. Other operating expenses were \$89.0 million for the three months ended September 30, 2022, or 13.3% of revenue, compared to \$76.5 million for the three months ended September 30, 2021, or 13.0% of revenue. Same facility other operating expenses were \$79.5 million for the three months ended September 30, 2022, or 12.4% of revenue, compared to \$71.9 million for the three months ended September 30, 2021, or 12.4% of revenue.

Income from provider relief fund. For the three months ended September 30, 2022, we recorded \$7.7 million in income from provider relief fund related to PHSSE funds received in 2022.

Depreciation and amortization. Depreciation and amortization expense was \$29.6 million for the three months ended September 30, 2022, or 4.4% of revenue, compared to \$27.8 million for the three months ended September 30, 2021, or 4.7% of revenue.

Interest expense. Interest expense was \$18.0 million for the three months ended September 30, 2022 compared to \$15.7 million for the three months ended September 30, 2021.

Loss on impairment. During the three months ended September 30, 2021, we recorded a \$1.1 million non-cash property impairment charge for one facility in Louisiana resulting from hurricane damage.

Transaction-related expenses. Transaction-related expenses were \$10.9 million for the three months ended September 30, 2022, compared to \$3.0 million for the three months ended September 30, 2021. Transaction-related expenses represent legal, accounting, termination, restructuring, management transition, acquisition and other similar costs incurred in the respective period, as summarized below (in thousands).

	Three Months Ended September 30,	
	2022	2021
Management transition costs	\$ 5,626	\$ —
Termination and restructuring costs	3,213	660
Legal, accounting and other acquisition-related costs	2,020	2,375
	<u>\$ 10,859</u>	<u>\$ 3,035</u>

Provision for income taxes. For the three months ended September 30, 2022, the provision for income taxes was \$24.1 million, reflecting an effective tax rate of 24.8%, compared to \$17.4 million, reflecting an effective tax rate of 20.4%, for the three months ended September 30, 2021. The increase in the effective tax rate for the three months ended September 30, 2022 was primarily attributable to impacts of employee equity compensation awards in relation to income before income taxes.

As we continue to monitor the implications of potential tax legislation in each of our jurisdictions, we may adjust our estimates and record additional amounts for tax assets and liabilities. Any adjustments to our tax assets and liabilities could materially impact our provision for income taxes and our effective tax rate in the periods in which they are made.

Nine months ended September 30, 2022 compared to the nine months ended September 30, 2021

Revenue. Revenue increased \$214.2 million, or 12.4%, to \$1,935.1 million for the nine months ended September 30, 2022 from \$1,720.9 million for the nine months ended September 30, 2021. The increase includes revenue generated from our acquisition of CenterPointe on December 31, 2021. Same facility revenue increased \$155.3 million, or 9.1%, for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021, resulting from an increase in same facility revenue per day of 7.0% and same facility growth in patient days of 2.0%. Consistent with same facility revenue growth in 2021, the growth in

same facility patient days for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021 resulted from the addition of beds to our existing facilities and ongoing demand for our services.

Salaries, wages and benefits. SWB expense was \$1,027.7 million for the nine months ended September 30, 2022 compared to \$922.7 million for the nine months ended September 30, 2021, an increase of \$105.0 million. SWB expense included \$21.7 million and \$25.0 million of equity-based compensation expense for the nine months ended September 30, 2022 and 2021, respectively. Excluding equity-based compensation expense, SWB expense was \$1,006.0 million, or 52.0% of revenue, for the nine months ended September 30, 2022, compared to \$897.7 million, or 52.2% of revenue, for the nine months ended September 30, 2021. The increase in SWB expense relates to SWB expense incurred by facilities acquired in the CenterPointe acquisition and incremental staff to support volume growth as well as wage inflation. Same facility SWB expense was \$892.5 million for the nine months ended September 30, 2022, or 48.0% of revenue, compared to \$827.7 million for the nine months ended September 30, 2021, or 48.6% of revenue.

Professional fees. Professional fees were \$117.7 million for the nine months ended September 30, 2022, or 6.1% of revenue, compared to \$101.9 million for the nine months ended September 30, 2021, or 5.9% of revenue. Same facility professional fees were \$99.3 million for the nine months ended September 30, 2022, or 5.3% of revenue, compared to \$92.1 million, for the nine months ended September 30, 2021, or 5.4% of revenue.

Supplies. Supplies expense was \$74.3 million for the nine months ended September 30, 2022, or 3.8% of revenue, compared to \$67.7 million for the nine months ended September 30, 2021, or 3.9% of revenue. Same facility supplies expense was \$70.3 million for the nine months ended September 30, 2022, or 3.8% of revenue, compared to \$67.0 million for the nine months ended September 30, 2021, or 3.9% of revenue.

Rents and leases. Rents and leases were \$33.8 million for the nine months ended September 30, 2022, or 1.7% of revenue, compared to \$28.7 million for the nine months ended September 30, 2021, or 1.7% of revenue. Same facility rents and leases were \$27.4 million for the nine months ended September 30, 2022, or 1.5% of revenue, compared to \$26.0 million for the nine months ended September 30, 2021, or 1.5% of revenue.

Other operating expenses. Other operating expenses consisted primarily of purchased services, utilities, insurance, travel and repairs and maintenance expenses. Other operating expenses were \$255.4 million for the nine months ended September 30, 2022, or 13.2% of revenue, compared to \$222.3 million for the nine months ended September 30, 2021, or 12.9% of revenue. Same facility other operating expenses were \$229.9 million for the nine months ended September 30, 2022, or 12.4% of revenue, compared to \$214.1 million for the nine months ended September 30, 2021, or 12.6% of revenue.

Income from provider relief fund. For the nine months ended September 30, 2022, we recorded \$16.2 million in income from provider relief fund related to PHSSE funds received in 2021 and 2022.

Depreciation and amortization. Depreciation and amortization expense was \$87.6 million for the nine months ended September 30, 2022, or 4.5% of revenue, compared to \$78.3 million for the nine months ended September 30, 2021, or 4.6% of revenue.

Interest expense. Interest expense was \$50.4 million for the nine months ended September 30, 2022 compared to \$61.4 million for the nine months ended September 30, 2021. The decrease in interest expense was primarily due to debt repayments in connection with the U.K. Sale.

Debt extinguishment costs. Debt extinguishment costs were \$24.7 million for the nine months ended September 30, 2021 and represented \$6.3 million of cash charges and \$18.4 million of non-cash charges in connection with the redemption of the 5.625% Senior Notes and the 6.500% Senior Notes and the termination of the Prior Credit Facility.

Loss on impairment. Loss on impairment was \$24.3 million for the nine months ended September 30, 2021. During the second quarter of 2021, we opened a 260-bed replacement facility in Pennsylvania and recorded a non-cash property impairment charge of \$23.2 million for the existing facility. Additionally, during the third quarter of 2021, we recorded a \$1.1 million non-cash property impairment charge for one facility in Louisiana resulting from hurricane damage.

Transaction-related expenses. Transaction-related expenses were \$18.4 million for the nine months ended September 30, 2022, compared to \$9.3 million for the nine months ended September 30, 2021. Transaction-related expenses represent legal, accounting, termination, restructuring, management transition, acquisition and other similar costs incurred in the respective period, as summarized below (in thousands).

	Nine Months Ended September 30,	
	2022	2021
Management transition costs	\$ 7,826	\$ —
Termination and restructuring costs	5,859	3,853
Legal, accounting and other acquisition-related costs	4,696	5,467
	<u>\$ 18,381</u>	<u>\$ 9,320</u>

Provision for income taxes. For the nine months ended September 30, 2022, the provision for income taxes was \$69.2 million, reflecting an effective tax rate of 24.2%, compared to \$42.9 million, reflecting an effective tax rate of 23.9%, for the nine months ended September 30, 2021. The increase in the effective tax rate for the three months ended September 30, 2022 was primarily attributable to impacts of employee equity compensation awards in relation to income before income taxes.

As we continue to monitor the implications of potential tax legislation in each of our jurisdictions, we may adjust our estimates and record additional amounts for tax assets and liabilities. Any adjustments to our tax assets and liabilities could materially impact our provision for income taxes and our effective tax rate in the periods in which they are made.

Revenue

Our revenue is primarily derived from services rendered to patients for inpatient psychiatric and substance abuse care, outpatient psychiatric care and adolescent residential treatment. We receive payments from the following sources for services rendered in our facilities: (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers; (iii) the federal government under the Medicare program administered by CMS; and (iv) individual patients and clients. We determine the transaction price based on established billing rates reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients and implicit price concessions. Contractual adjustments and discounts are based on contractual agreements, discount policies and historical experience. Implicit price concessions are based on historical collection experience.

The following table presents revenue by payor type and as a percentage of revenue for the three and nine months ended September 30, 2022 and 2021 (dollars in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
Commercial	\$ 193,186	29.0%	\$ 170,427	29.0%	\$ 589,553	30.5%	\$ 511,975	29.8%
Medicare	100,869	15.1%	97,529	16.6%	292,242	15.1%	274,208	15.9%
Medicaid	342,475	51.4%	288,092	49.0%	968,666	50.1%	845,128	49.1%
Self-Pay	20,046	3.0%	25,998	4.4%	58,532	3.0%	71,875	4.2%
Other	10,156	1.5%	5,513	1.0%	26,111	1.3%	17,728	1.0%
Revenue	<u>\$ 666,732</u>	<u>100.0%</u>	<u>\$ 587,559</u>	<u>100.0%</u>	<u>\$ 1,935,104</u>	<u>100.0%</u>	<u>\$ 1,720,914</u>	<u>100.0%</u>

The following tables present a summary of our aging of accounts receivable at September 30, 2022 and December 31, 2021:

September 30, 2022

	Current	30-90	90-150	>150	Total
Commercial	19.5%	4.7%	3.0%	8.2%	35.4%
Medicare	10.9%	1.5%	0.6%	1.4%	14.4%
Medicaid	33.2%	3.6%	1.6%	4.6%	43.0%
Self-Pay	1.4%	1.4%	1.3%	2.6%	6.7%
Other	0.2%	0.2%	0.0%	0.1%	0.5%
Total	65.2%	11.4%	6.5%	16.9%	100.0%

December 31, 2021

	Current	30-90	90-150	>150	Total
Commercial	20.1%	6.2%	2.6%	8.2%	37.1%
Medicare	11.3%	1.7%	0.5%	2.0%	15.5%
Medicaid	28.6%	3.5%	2.0%	5.6%	39.7%
Self-Pay	1.3%	1.4%	1.4%	3.0%	7.1%
Other	0.1%	0.1%	0.2%	0.2%	0.6%
Total	61.4%	12.9%	6.7%	19.0%	100.0%

Liquidity and Capital Resources

Cash provided by continuing operating activities for the nine months ended September 30, 2022 was \$267.0 million compared to \$276.4 million for the nine months ended September 30, 2021. Operating cash flows included net government relief funds paid of approximately \$32.6 million for the nine months ended September 30, 2022 compared to net government relief funds paid of approximately \$12.1 million for the nine months ended September 30, 2021. Operating cash flows were impacted by an increase in earnings, a reduction in cash paid for interest and an increase in tax payments during the nine months ended September 30, 2022. Days sales outstanding were 44 days at September 30, 2022 compared to 42 days at December 31, 2021.

Cash used in investing activities for the nine months ended September 30, 2022 was \$213.8 million compared to cash provided by investing activities of \$1,243.1 million for the nine months ended September 30, 2021. Cash used in investing activities for the nine months ended September 30, 2022 primarily consisted of \$208.8 million of cash paid for capital expenditures and \$6.8 million of other, offset by \$1.8 million of proceeds from sales of property and equipment. Cash paid for capital expenditures for the nine months ended September 30, 2022 consisted of \$47.0 million of routine capital expenditures and \$161.8 million of expansion capital expenditures. We define expansion capital expenditures as those that increase the capacity of our facilities or otherwise enhance revenue. Routine or maintenance capital expenditures were approximately 2.4% of revenue for the nine months ended September 30, 2022. Cash provided by investing activities for the nine months ended September 30, 2021 primarily consisted of \$1,511.0 million of proceeds from the U.K. Sale, \$3.1 million of other and \$1.8 million of proceeds from the sale of property and equipment, offset by \$156.6 million of cash paid for capital expenditures, \$84.8 million for settlement of foreign currency derivatives and \$31.4 million of cash paid for the purchase of a finance lease. Cash paid for capital expenditures for the nine months ended September 30, 2021 consisted of \$31.0 million of routine capital expenditures and \$125.6 million of expansion capital expenditures.

Cash used in financing activities for the nine months ended September 30, 2022 was \$93.6 million compared to \$1,706.2 million for the nine months ended September 30, 2021. Cash used in financing activities for the nine months ended September 30, 2022 consisted of principal payments on revolving credit facility of \$85.0 million, principal payments on long-term debt of \$13.3 million, repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises of \$7.5 million and distributions to noncontrolling partners in joint ventures of \$1.0 million, offset by \$13.2 million of contributions from noncontrolling partners in joint ventures. Cash used in financing activities for the nine months ended September 30, 2021 primarily consisted of repayment of long-term debt of \$2,227.9 million, principal payments on revolving credit facility of \$330.0 million, payment of debt issuance costs of \$8.0 million, other of \$6.9 million and principal payments on long-term debt of \$5.3 million, offset by borrowings on revolving credit facility of \$430.0 million, borrowings on long-term debt of \$425.0 million, repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises of \$16.1 million and \$1.8 million of contributions from noncontrolling partners in joint ventures.

We had total available cash and cash equivalents of \$93.4 million and \$133.8 million at September 30, 2022 and December 31, 2021, respectively, of which approximately \$20.5 million and \$20.1 million was held by our foreign subsidiaries, respectively. Our strategic plan does not require the repatriation of foreign cash in order to fund our operations in the U.S.

We believe existing cash on hand, cash flows from operations, the availability under our revolving line of credit and cash from additional financing will be sufficient to meet our expected liquidity needs during the next 12 months.

New Credit Facility

We entered into a New Credit Facility on March 17, 2021. The New Credit Facility provides for a \$600.0 million Revolving Facility and a \$425.0 million Term Loan Facility with each maturing on March 17, 2026 unless extended in accordance with the terms of the New Credit Facility. The Revolving Facility further provides for (i) up to \$20.0 million to be utilized for the issuance of letters of credit and (ii) the availability of a swingline facility under which we may borrow up to \$20.0 million.

As a part of the closing of the New Credit Facility on March 17, 2021, we (i) refinanced and terminated our Prior Credit Facility and (ii) financed the redemption of all of our outstanding 5.625% Senior Notes.

During the nine months ended September 30, 2022, we repaid \$85.0 million of the balance outstanding on the Revolving Facility. We had \$511.6 million of availability under the Revolving Facility and had standby letters of credit outstanding of \$3.4 million related to security for the payment of claims required by our workers' compensation insurance program at September 30, 2022.

The New Credit Facility requires quarterly term loan principal repayments for our Term Loan Facility of \$5.3 million for December 31, 2022 to March 31, 2024, \$8.0 million for June 30, 2024 to March 31, 2025, \$10.6 million for June 30, 2025 to December 31, 2025, with the remaining principal balance of the Term Loan Facility due on the maturity date of March 17, 2026.

We have the ability to increase the amount of the Senior Facilities, which may take the form of increases to the Revolving Facility or the Term Loan Facility or the issuance of one or more Incremental Facilities, upon obtaining additional commitments from new or existing lenders and the satisfaction of customary conditions precedent for such Incremental Facilities. Such Incremental Facilities may not exceed the sum of (i) the greater of \$480.0 million and an amount equal to 100% of our Consolidated EBITDA (as defined in the New Credit Facility) and its Restricted Subsidiaries (as defined in the New Credit Facility) (as determined for the four fiscal quarter period most recently ended for which financial statements are available), and (ii) additional amounts so long as, after giving effect thereto, the Consolidated Senior Secured Net Leverage Ratio (as defined in the New Credit Facility) does not exceed 3.5 to 1.0.

Subject to certain exceptions, substantially all of our existing and subsequently acquired or organized direct or indirect wholly-owned U.S. subsidiaries are required to guarantee the repayment of obligations under the New Credit Facility. Borrowings under the Senior Facilities bear interest at a floating rate, which will initially be, at our option, either (i) adjusted LIBOR plus 1.375% or (ii) an alternative base rate plus 0.375% (in each case, subject to adjustment based on our consolidated total net leverage ratio). An unused fee initially set at 0.20% per annum (subject to adjustment based on our consolidated total net leverage ratio) is payable quarterly in arrears based on the actual daily undrawn portion of the commitments in respect of the Revolving Facility.

The interest rates and the unused line fee on unused commitments related to the Senior Facilities are based upon the following pricing tiers:

Pricing Tier	Consolidated Total Net Leverage Ratio	Eurodollar Rate Loans and Letter of Credit Fees	Base Rate and Swing Line Loans	Commitment Fee
1	≥ 4.50:1.0	2.250%	1.250%	0.350%
2	<4.50:1.0 but ≥ 3.75:1.0	2.000%	1.000%	0.300%
3	<3.75:1.0 but ≥ 3.00:1.0	1.750%	0.750%	0.250%
4	<3.00:1.0 but ≥ 2.25:1.0	1.500%	0.500%	0.200%
5	<2.25:1.0	1.375%	0.375%	0.200%

The New Credit Facility contains customary representations and affirmative and negative covenants, including limitations on the Company's and its subsidiaries' ability to incur additional debt, grant or permit additional liens, make investments and acquisitions, merge or consolidate with others, dispose of assets, pay dividends and distributions, pay junior indebtedness and enter into affiliate transactions, in each case, subject to customary exceptions. In addition, the New Credit Facility contains financial covenants requiring us on a consolidated basis to maintain, as of the last day of any consecutive four fiscal quarter period, a consolidated total net leverage ratio of not more than 5.0 to 1.0 and an interest coverage ratio of at least 3.0 to 1.0. The New Credit Facility also includes events of default customary for facilities of this type and upon the occurrence of such events of default, among other things, all outstanding loans under the Senior Facilities may be accelerated and/or the lenders' commitments terminated. At September 30, 2022, we were in compliance with such covenants.

Prior Credit Facility

We entered into the Senior Secured Credit Facility on April 1, 2011. On December 31, 2012, we entered into the Prior Credit Facility which amended and restated the Senior Secured Credit Facility. We amended the Prior Credit Facility from time to time as described in our prior filings with the SEC.

On January 5, 2021, we made a voluntary payment of \$105.0 million on the Tranche B-4 Facility. On January 19, 2021, we used a portion of the net proceeds from the U.K. Sale to repay the outstanding balances of \$311.7 million of our TLA Facility and \$767.9 million of our Tranche B-4 Facility of the Prior Credit Facility. In connection with the termination of the Prior Credit Facility, we recorded a debt extinguishment charge of \$10.9 million, including the write-off of discount and deferred financing costs, which was recorded in debt extinguishment costs in the condensed consolidated statement of operations for the nine months ended September 30, 2021.

Senior Notes

5.500% Senior Notes due 2028

On June 24, 2020, we issued \$450.0 million of 5.500% Senior Notes due 2028. The 5.500% Senior Notes mature on July 1, 2028 and bear interest at a rate of 5.500% per annum, payable semi-annually in arrears on January 1 and July 1 of each year, commencing on January 1, 2021.

5.000% Senior Notes due 2029

On October 14, 2020, we issued \$475.0 million of 5.000% Senior Notes. The 5.000% Senior Notes mature on April 15, 2029 and bear interest at a rate of 5.000% per annum, payable semi-annually in arrears on April 15 and October 15 of each year, commencing on April 15, 2021.

The indentures governing the Senior Notes contain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of our assets; and (vii) create liens on assets.

The Senior Notes issued by us are guaranteed by each of our subsidiaries that guaranteed our obligations under the New Credit Facility. The guarantees are full and unconditional and joint and several.

We may redeem the Senior Notes at our option, in whole or part, at the dates and amounts set forth in the indentures.

5.625% Senior Notes due 2023

On February 11, 2015, we issued \$375.0 million of 5.625% Senior Notes due 2023. On September 21, 2015, we issued \$275.0 million of additional 5.625% Senior Notes. The additional notes formed a single class of debt securities with the 5.625% Senior Notes issued in February 2015. Giving effect to this issuance, we had outstanding an aggregate of \$650.0 million of 5.625% Senior Notes. The 5.625% Senior Notes were to mature on February 15, 2023 and bear interest at a rate of 5.625% per annum, payable semi-annually in arrears on February 15 and August 15 of each year. On March 17, 2021, we redeemed the 5.625% Senior Notes.

6.500% Senior Notes due 2024

On February 16, 2016, we issued \$390.0 million of 6.500% Senior Notes due 2024. The 6.500% Senior Notes were to mature on March 1, 2024 and bear interest at a rate of 6.500% per annum, payable semi-annually in arrears on March 1 and September 1 of each year, beginning on September 1, 2016. On March 1, 2021, we redeemed the 6.500% Senior Notes.

Redemption of 5.625% Senior Notes and 6.500% Senior Notes

On January 29, 2021, we issued conditional notices of full redemption providing for the redemption in full of \$650 million of 5.625% Senior Notes and \$390 million of 6.500% Senior Notes to the holders of such notes.

On March 1, 2021, we satisfied and discharged the indentures governing the 6.500% Senior Notes. In connection with the redemption of the 6.500% Senior Notes, we recorded debt extinguishment costs of \$10.5 million, including \$6.3 million cash paid for breakage costs and the write-off of deferred financing costs of \$4.2 million in the condensed consolidated statement of operations for the nine months ended September 30, 2021.

On March 17, 2021, we satisfied and discharged the indentures governing the 5.625% Senior Notes. In connection with the redemption of the 5.625% Senior Notes, we recorded debt extinguishment costs of \$3.3 million, including the write-off of deferred financing and premiums costs in the condensed consolidated statement of operations for the nine months ended September 30, 2021.

Contractual Obligations

The following table presents a summary of contractual obligations at September 30, 2022 (in thousands):

	Payments Due by Period				
	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	Total
Long-term debt (a)	\$ 89,233	\$ 196,634	\$ 505,919	\$ 985,125	\$ 1,776,911
Operating lease liabilities (b)	32,081	53,989	32,847	64,032	182,949
Finance lease liabilities	990	2,071	2,178	22,094	27,333
Total obligations and commitments	<u>\$ 122,304</u>	<u>\$ 252,694</u>	<u>\$ 540,944</u>	<u>\$ 1,071,251</u>	<u>\$ 1,987,193</u>

(a) Amounts include required principal and interest payments. The projected interest payments reflect the interest rates in place on our variable-rate debt at September 30, 2022.

(b) Amounts exclude variable components of lease payments.

Critical Accounting Policies

Our goodwill and other indefinite-lived intangible assets, which consist of licenses and accreditations, trade names and certificates of need intangible assets that are not amortized, are evaluated for impairment annually during the fourth quarter or more frequently if events indicate the carrying value of a reporting unit may not be recoverable.

Subsequent to the U.K. Sale, as of our impairment test on October 1, 2021, we had one reporting unit, behavioral health services. The fair value of our behavioral health services reporting unit substantially exceeded its carrying value, and therefore no impairment was recorded.

There have been no material changes in our critical accounting policies at September 30, 2022 from those described in our Annual Report on Form 10-K for the year ended December 31, 2021.

Item 3. Quantitative and Qualitative Disclosures About Market Risk**Interest Rate Risk**

Our interest expense is sensitive to changes in market interest rates. Our long-term debt outstanding at September 30, 2022 was composed of \$913.9 million of fixed-rate debt and \$486.6 million of variable-rate debt with interest based on LIBOR plus an applicable margin. Based on our borrowing level at September 30, 2022, a hypothetical 1% increase in interest rates would decrease our pretax income on an annual basis by approximately \$4.9 million.

Item 4. Controls and Procedures**Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, our management conducted an evaluation, with the participation of our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended September 30, 2022 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II – OTHER INFORMATION**Item 1. Legal Proceedings**

Information with respect to this item may be found in Note 18 – Commitments and Contingencies in the accompanying notes to our consolidated financial statements of this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the other information set forth in this report, an investor should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021. The risks described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, are not the only risks facing the Company. Additional risks and uncertainties not currently known to management or that management currently deems immaterial also may materially, adversely affect the Company’s business, financial condition, operating results or cash flows.

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

During the three months ended September 30, 2022, the Company withheld shares of Company common stock to satisfy employee minimum statutory tax withholding obligations payable upon the vesting of restricted stock, as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 – July 31	5,753	\$ 78.69	—	—
August 1 – August 31	2,463	82.52	—	—
September 1 – September 30	752	86.73	—	—
Total	8,968			

Item 6. Exhibits

Exhibit No.	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation, as amended. (1)
3.2	Amended and Restated Bylaws of the Company, as amended. (1)
22	List of Subsidiary Guarantors and Issuers of Guaranteed Securities. (2)
31.1*	Certification of the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of Chief Executive Officer and Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document.
101.SCH**	Inline XBRL Taxonomy Extension Schema Document.
101.CAL**	Inline XBRL Taxonomy Calculation Linkbase Document.
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	Inline XBRL Taxonomy Label Linkbase Document.
101.PRE**	Inline XBRL Taxonomy Presentation Linkbase Document.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, has been formatted in Inline XBRL.

(1) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed May 25, 2017 (File No. 001-35331).

(2) Incorporated by reference to exhibits filed with the Company's Annual Report on Form 10-K for year ended December 31, 2021 (File No. 001-35331).

* Filed herewith.

** The XBRL related information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

SIGNATURES

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

Acadia Healthcare Company, Inc.

By: /s/ David M. Duckworth

David M. Duckworth

Chief Financial Officer

Dated: November 2, 2022

**CERTIFICATION OF CEO PURSUANT TO
RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher H. Hunter, certify that:

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

Date: November 2, 2022

/s/ Christopher H. Hunter

Christopher H. Hunter

Chief Executive Officer and Director

**CERTIFICATION OF CFO PURSUANT TO
RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David M. Duckworth, certify that:

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

Date: November 2, 2022

/s/ David M. Duckworth
David M. Duckworth
Chief Financial Officer

**CERTIFICATIONS OF CEO AND CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Acadia Healthcare Company, Inc. (the "Company") for the quarterly period ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher H. Hunter, Chief Executive Officer of the Company, and I, David M. Duckworth, Chief Financial Officer of the Company, each certify, for the purpose of complying with 18 U.S.C. Section 1350 and Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Date: November 2, 2022

/s/ Christopher H. Hunter
Christopher H. Hunter
Chief Executive Officer and Director

/s/ David M. Duckworth
David M. Duckworth
Chief Financial Officer