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

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**FORM 10-Q**

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(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, 2020

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 registrant's principal executive offices)

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

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

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.01 par value	ACHC	NASDAQ Global Select Market

At October 30, 2020, there were 88,991,252 shares of the registrant's common stock outstanding.

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ACADIA HEALTHCARE COMPANY, INC.  
QUARTERLY REPORT ON FORM 10-Q  
TABLE OF CONTENTS

**PART I – FINANCIAL INFORMATION**

Item 1.	<a href="#">Financial Statements</a>	1
	<a href="#">Condensed Consolidated Balance Sheets (Unaudited)</a>	1
	<a href="#">Condensed Consolidated Statements of Income (Unaudited)</a>	2
	<a href="#">Condensed Consolidated Statements of Comprehensive Income (Loss)(Unaudited)</a>	3
	<a href="#">Condensed Consolidated Statements of Equity (Unaudited)</a>	4
	<a href="#">Condensed Consolidated Statements of Cash Flows (Unaudited)</a>	5
	<a href="#">Notes to Condensed Consolidated Financial Statements (Unaudited)</a>	6
Item 2.	<a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	26
Item 3.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	41
Item 4.	<a href="#">Controls and Procedures</a>	41

**PART II – OTHER INFORMATION**

Item 1.	<a href="#">Legal Proceedings</a>	42
Item 1A.	<a href="#">Risk Factors</a>	43
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	45
Item 6.	<a href="#">Exhibits</a>	46

<b><u>SIGNATURES</u></b>		47
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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	September 30, 2020	December 31, 2019
	(In thousands, except share and per share amounts)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 338,702	\$ 124,192
Accounts receivable, net	333,231	339,775
Other current assets	84,477	78,244
Total current assets	756,410	542,211
Property and equipment, net	3,253,720	3,224,034
Goodwill	2,460,722	2,449,131
Intangible assets, net	90,023	90,357
Deferred tax assets	3,242	3,339
Operating lease right-of-use assets	464,596	501,837
Other assets	76,432	68,233
Total assets	<u>\$ 7,105,145</u>	<u>\$ 6,879,142</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 50,858	\$ 43,679
Accounts payable	130,395	127,045
Accrued salaries and benefits	138,476	122,552
Current portion of operating lease liabilities	30,433	29,140
Other accrued liabilities	251,177	141,160
Total current liabilities	601,339	463,576
Long-term debt	3,067,243	3,105,420
Deferred tax liabilities	104,351	71,860
Operating lease liabilities	477,355	502,252
Derivative instrument liabilities	39,859	68,915
Other liabilities	153,812	128,587
Total liabilities	4,443,959	4,340,610
Redeemable noncontrolling interests	54,547	33,151
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; 87,919,601 and 87,715,591 issued and outstanding at September 30, 2020 and December 31, 2019, respectively	879	877
Additional paid-in capital	2,572,587	2,557,642
Accumulated other comprehensive loss	(440,113)	(414,884)
Retained earnings	473,286	361,746
Total equity	2,606,639	2,505,381
Total liabilities and equity	<u>\$ 7,105,145</u>	<u>\$ 6,879,142</u>

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands, except per share amounts)			
Revenue	\$ 833,304	\$ 777,251	\$ 2,366,425	\$ 2,327,230
Salaries, wages and benefits (including equity-based compensation expense of \$5,471, \$4,039, \$16,258 and \$14,322, respectively)	450,459	428,601	1,318,378	1,288,399
Professional fees	61,359	62,152	183,273	177,588
Supplies	31,207	30,790	93,302	91,661
Rents and leases	21,182	20,134	62,833	60,860
Other operating expenses	97,093	92,975	288,222	281,517
Other income	18,070	—	—	—
Depreciation and amortization	42,912	40,620	126,037	122,277
Interest expense, net	37,553	46,644	119,064	143,384
Debt extinguishment costs	—	—	3,271	—
Loss on impairment	20,239	—	20,239	—
Transaction-related expenses	8,503	5,775	17,293	15,308
Total expenses	<u>788,577</u>	<u>727,691</u>	<u>2,231,912</u>	<u>2,180,994</u>
Income before income taxes	44,727	49,560	134,513	146,236
Provision for income taxes	7,166	6,837	21,171	25,801
Net income	37,561	42,723	113,342	120,435
Net income attributable to noncontrolling interests	(563)	(157)	(1,802)	(258)
Net income attributable to Acadia Healthcare Company, Inc.	<u>\$ 36,998</u>	<u>\$ 42,566</u>	<u>\$ 111,540</u>	<u>\$ 120,177</u>
Earnings per share attributable to Acadia Healthcare Company, Inc. stockholders:				
Basic	<u>\$ 0.42</u>	<u>\$ 0.49</u>	<u>\$ 1.27</u>	<u>\$ 1.37</u>
Diluted	<u>\$ 0.42</u>	<u>\$ 0.48</u>	<u>\$ 1.26</u>	<u>\$ 1.37</u>
Weighted-average shares outstanding:				
Basic	87,911	87,649	87,849	87,591
Diluted	88,856	87,859	88,449	87,805

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Net income	\$ 37,561	\$ 42,723	\$ 113,342	\$ 120,435
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	82,332	(59,975)	(46,851)	(66,112)
(Loss) gain on derivative instruments, net of tax of \$(8.0) million, \$5.0 million, \$8.0 million and \$10.7 million, respectively	(21,566)	11,598	21,622	20,495
Other comprehensive income (loss)	60,766	(48,377)	(25,229)	(45,617)
Comprehensive income (loss)	98,327	(5,654)	88,113	74,818
Comprehensive income attributable to noncontrolling interests	(563)	(157)	(1,802)	(258)
Comprehensive income (loss) attributable to Acadia Healthcare Company, Inc.	<u>\$ 97,764</u>	<u>\$ (5,811)</u>	<u>\$ 86,311</u>	<u>\$ 74,560</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	Total
	Shares	Amount				
Balance at December 31, 2018	87,444	\$ 874	\$ 2,541,987	\$ (462,377)	\$ 252,823	\$ 2,333,307
Common stock issued under stock incentive plans	149	2	291	—	—	293
Common stock withheld for minimum statutory taxes	—	—	(1,620)	—	—	(1,620)
Equity-based compensation expense	—	—	6,101	—	—	6,101
Other comprehensive income	—	—	—	35,791	—	35,791
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	—	29,471	29,471
Balance at March 31, 2019	87,593	876	2,546,759	(426,586)	282,294	2,403,343
Common stock issued under stock incentive plans	52	—	68	—	—	68
Common stock withheld for minimum statutory taxes	—	—	(356)	—	—	(356)
Equity-based compensation expense	—	—	4,182	—	—	4,182
Other comprehensive loss	—	—	—	(33,031)	—	(33,031)
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	—	48,140	48,140
Balance at June 30, 2019	87,645	876	2,550,653	(459,617)	330,434	2,422,346
Common stock issued under stock incentive plans	10	1	153	—	—	154
Common stock withheld for minimum statutory taxes	—	—	(37)	—	—	(37)
Equity-based compensation expense	—	—	4,039	—	—	4,039
Other comprehensive loss	—	—	—	(48,377)	—	(48,377)
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	—	42,566	42,566
Balance at September 30, 2019	87,655	877	2,554,808	(507,994)	373,000	2,420,691
Common stock issued under stock incentive plans	60	—	54	—	—	54
Common stock withheld for minimum statutory taxes	—	—	(205)	—	—	(205)
Equity-based compensation expense	—	—	2,985	—	—	2,985
Other comprehensive income	—	—	—	93,110	—	93,110
Net loss attributable to Acadia Healthcare Company, Inc.	—	—	—	—	(11,254)	(11,254)
Balance at December 31, 2019	87,715	877	2,557,642	(414,884)	361,746	2,505,381
Common stock issued under stock incentive plans	127	1	(1)	—	—	—
Common stock withheld for minimum statutory taxes	—	—	(1,402)	—	—	(1,402)
Equity-based compensation expense	—	—	4,979	—	—	4,979
Other comprehensive loss	—	—	—	(78,254)	—	(78,254)
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	—	33,463	33,463
Balance at March 31, 2020	87,842	878	2,561,218	(493,138)	395,209	2,464,167
Common stock issued under stock incentive plans	56	1	169	—	—	170
Common stock withheld for minimum statutory taxes	—	—	(145)	—	—	(145)
Equity-based compensation expense	—	—	5,808	—	—	5,808
Other comprehensive loss	—	—	—	(7,741)	—	(7,741)
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	—	41,079	41,079
Balance at June 30, 2020	87,898	879	2,567,050	(500,879)	436,288	2,503,338
Common stock issued under stock incentive plans	22	—	180	—	—	180
Common stock withheld for minimum statutory taxes	—	—	(114)	—	—	(114)
Equity-based compensation expense	—	—	5,471	—	—	5,471
Other comprehensive income	—	—	—	60,766	—	60,766
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	—	36,998	36,998
Balance at September 30, 2020	87,920	\$ 879	\$ 2,572,587	\$ (440,113)	\$ 473,286	\$ 2,606,639

See accompanying notes.

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

	Nine Months Ended September 30,	
	2020	2019
(In thousands)		
<b>Operating activities:</b>		
Net income	\$ 113,342	\$ 120,435
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	126,037	122,277
Amortization of debt issuance costs	9,696	8,926
Equity-based compensation expense	16,258	14,322
Deferred income taxes	41,803	5,150
Debt extinguishment costs	3,271	—
Loss on impairment	20,239	—
Other	810	4,444
<b>Change in operating assets and liabilities:</b>		
Accounts receivable, net	5,392	(32,956)
Other current assets	(3,809)	(3,912)
Other assets	316	530
Accounts payable and other accrued liabilities	90,752	(35,610)
Accrued salaries and benefits	16,477	4,813
Other liabilities	31,656	5,110
Net cash provided by operating activities	472,240	213,529
<b>Investing activities:</b>		
Cash paid for acquisitions, net of cash acquired	—	(44,900)
Cash paid for capital expenditures	(195,834)	(202,722)
Cash paid for real estate acquisitions	(5,595)	(6,976)
Proceeds from sale of property and equipment	2,509	13,470
Settlement of foreign currency derivatives	—	105,008
Other	(10,734)	(1,072)
Net cash used in investing activities	(209,654)	(137,192)
<b>Financing activities:</b>		
Borrowings on long-term debt	450,000	—
Borrowings on revolving credit facility	100,000	76,573
Principal payments on revolving credit facility	(100,000)	(76,573)
Principal payments on long-term debt	(31,863)	(24,738)
Repayment of long-term debt	(450,000)	—
Payment of debt issuance costs	(11,220)	—
Common stock withheld for minimum statutory taxes, net	(1,311)	(1,498)
Distributions to noncontrolling interests	(653)	—
Other	(3,517)	(5,923)
Net cash used in financing activities	(48,564)	(32,159)
Effect of exchange rate changes on cash	488	(1,788)
Net increase in cash and cash equivalents	214,510	42,390
Cash and cash equivalents at beginning of the period	124,192	50,510
Cash and cash equivalents at end of the period	<u>\$ 338,702</u>	<u>\$ 92,900</u>
<b>Effect of acquisitions:</b>		
Assets acquired, excluding cash	\$ 20,300	\$ 48,594
Liabilities assumed	(53)	(3,694)
Redeemable noncontrolling interest resulting from an acquisition	(20,247)	—
Cash paid for acquisitions, net of cash acquired	<u>\$ —</u>	<u>\$ 44,900</u>

See accompanying notes.

**Acadia Healthcare Company, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2020**  
**(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.”), the United Kingdom (“U.K.”) and Puerto Rico. At September 30, 2020, the Company operated 582 behavioral healthcare facilities with approximately 18,300 beds in 40 states, the U.K. and Puerto Rico.

During 2019, the Company commenced a review of strategic alternatives including those related to its U.K. operations and a potential sale of such operations. In January 2020, the Company launched a formal process regarding the sale of its U.K. business. Consistent with market practice for U.K. transactions of this nature, and in conjunction with its advisors, the Company solicited and received initial, non-binding offers to acquire its U.K. business from multiple bidders. During the first quarter of 2020, the Company began the second phase of the sale process, during which interested bidders would receive proposed transaction documents and complete their confirmatory due diligence. However, given evolving market dynamics related to the novel coronavirus (“COVID-19”) pandemic, the Company suspended the sale process in mid-March 2020. In October 2020, the Company relaunched the formal sale process of its U.K. business.

***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 our 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, 2019 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, 2019 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on February 28, 2020. 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 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 a limited number of facilities, employees and/or patients have tested positive for COVID-19. The Company is committed to protecting the health of our communities and has been responding to the evolving COVID-19 situation while taking steps to provide quality care and protect the health and safety of patients and employees. All of the Company’s facilities are closely following infectious disease protocols, as well as recommendations by the Centers for Disease Control and Prevention (“CDC”), the National Health Service (“NHS”) and local health officials. The Company has established an internal COVID-19 taskforce, taken steps to secure its supply chain, expanded telehealth capabilities and implemented emergency planning in directly impacted markets. Nevertheless, COVID-19 may adversely impact the Company’s business and have an impact on its financial results that the Company is not currently able to quantify. Disruptions to the Company’s business as a result of the COVID-19 pandemic could have a material adverse effect on its 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 prior years to conform to the current year presentation.



## 2. Recently Issued Accounting Standards

In March 2020, the SEC adopted final rules that amend Rule 3-10 and Rule 3-16 of Regulation S-X to reduce and simplify the financial disclosure requirements applicable to guarantors and issuers of guaranteed securities, as well as for affiliates whose securities collateralize a registrant's securities. The new rules are effective January 4, 2021. Early adoption is permitted. The Company early adopted the new rules during the second quarter of 2020.

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 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. Management is evaluating the impact of ASU 2020-04 on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, "*Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*" ("ASU 2018-15"). ASU 2018-15 requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-402 to determine which implementation costs to capitalize as assets. ASU 2018-15 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted. The Company adopted ASU 2018-15 on January 1, 2020. There is no significant impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*" ("ASU 2016-13"). ASU 2016-13 replaces the current incurred loss impairment methodology with a new methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted. The Company adopted ASU 2016-13 on January 1, 2020. There is no significant impact on the Company's consolidated financial statements.

## 3. 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, President Trump signed into law the Paycheck Protection Program and Health Care Enhancement Act (the "New PPP Act"). Among other things, the New PPP Act allocates \$75 billion to eligible healthcare providers to help offset COVID-19 related losses and expenses. The \$75 billion allocated under the New 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 the three months ended June 30, 2020, the Company participated in certain relief programs offered through the CARES Act, including receipt of approximately \$19.7 million relating to the initial portions of the Public Health and Social Services Emergency Fund ("PHSSE Fund"), also known as the Provider Relief Fund, and approximately \$45 million of payments from the Centers for Medicare and Medicaid Services' ("CMS") Accelerated and Advance Payment Program. In August 2020, the Company received approximately \$12.8 million of additional funds from the PHSSE Fund. 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 December 31, 2020.

The CARES Act also provides for certain federal income and other tax changes from which the Company has benefited, including an increase in the interest expense tax deduction limitation, the deferral of the employer portion of Social Security payroll taxes, refundable payroll tax credits, net operating loss carryback periods, alternative minimum tax credit refunds and bonus depreciation of qualified improvement property. The Company expects a cash benefit of approximately \$39 million for 2020 relating to the delay of payment of the employer portion of Social Security payroll taxes. Within the CARES Act, the interest expense deduction threshold was increased to 50% of Adjusted Taxable Income for 2019 and 2020 tax years, making our interest expense fully deductible. As a result, the Company received a cash benefit in the form of refunds of \$14 million and expects lower tax payments of \$2.7 million related to our 2019 interest expense and between \$15 million and \$20 million related to our 2020 interest expense. Furthermore, under the CARES Act, (i) for taxable years beginning before 2021, net operating loss ("NOL") carryforwards and carrybacks may offset 100% of taxable income and (ii) NOLs arising in 2018, 2019 and 2020 taxable years may be carried back to each of the preceding five years to generate a refund.

Results for the three months ended September 30, 2020 include a reversal of \$18.1 million of other income recorded during the second quarter of 2020 in the condensed consolidated statements of income related to the \$19.7 million of PHSSE funds received by the Company. The Company's decision to reverse this income was based on additional guidance issued by the U.S. Department of Health and Human Services ("HHS") in September 2020 related to the terms and conditions necessary to retain PHSSE funds. The Company continues to evaluate its compliance with the terms and conditions to, and the financial impact of, funds received under the CARES Act and other government relief programs.

#### 4. 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 our performance obligations relate to contracts with a duration of one year or less, the Company elected the optional exemption in Accounting Standards Codification ("ASC") 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 our patients typically are under no obligation to remain admitted in our facilities.

The Company disaggregates revenue from contracts with customers by service type and by payor within each of the Company's segments.

#### U.S. Facilities

The Company's facilities in the United States (the "U.S. Facilities") and services provided by the U.S. Facilities can generally be classified into the following categories: acute inpatient psychiatric facilities; specialty treatment facilities; residential treatment centers; and outpatient community-based facilities.

*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.

*Outpatient community-based facilities.* Outpatient community-based programs are designed to provide therapeutic treatment to children and adolescents who have a clinically-defined emotional, psychiatric or chemical dependency disorder while enabling the youth to remain at home and within their community.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Acute inpatient psychiatric facilities	\$ 259,353	\$ 233,141	\$ 723,611	\$ 678,866
Specialty treatment facilities	211,796	201,169	597,886	595,473
Residential treatment centers	71,153	69,681	210,432	216,989
Outpatient community-based facilities	5,659	5,392	16,724	15,828
Revenue	\$ 547,961	\$ 509,383	\$ 1,548,653	\$ 1,507,156

The Company receives payments from the following sources for services rendered in our U.S. 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.

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 our U.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 income. Bad debt expense for the three and nine months ended September 30, 2020 and 2019 was not significant.

The following table presents revenue by payor type and as a percentage of revenue in our U.S. Facilities (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
Commercial	\$ 156,741	28.6%	\$ 140,315	27.5%	\$ 439,911	28.4%	\$ 426,659	28.3%
Medicare	96,536	17.6%	76,906	15.1%	244,721	15.9%	223,027	14.8%
Medicaid	261,341	47.7%	256,370	50.3%	767,075	49.4%	750,631	49.8%
Self-Pay	26,060	4.8%	30,626	6.0%	75,570	4.9%	91,982	6.1%
Other	7,283	1.3%	5,166	1.1%	21,376	1.4%	14,857	1.0%
Revenue	<u>\$ 547,961</u>	<u>100.0%</u>	<u>\$ 509,383</u>	<u>100.0%</u>	<u>\$ 1,548,653</u>	<u>100.0%</u>	<u>\$ 1,507,156</u>	<u>100.0%</u>

Contract liabilities in the U.S. Facilities primarily consisted of unearned revenue from CMS' Accelerated and Advance Payment Program. In April 2020, the Company received approximately \$45 million from CMS' Accelerated and Advance Payment Program for Medicare providers, which the Company expects to repay over the 12 month period beginning in April 2021. Once repayment begins, the amount will be recouped from the provider's or supplier's new Medicare claims. Approximately \$24.9 million and \$22.5 million of contract liabilities are included in other accrued liabilities and other liabilities, respectively, on the condensed consolidated balance sheets. A summary of the activity in unearned revenue in the U.S. Facilities is as follows (in thousands):

Balance at December 31, 2019	\$ 1,896
Payments received	50,087
Revenue recognized	(4,593)
Balance at September 30, 2020	<u>\$ 47,390</u>

### U.K. Facilities

The Company's facilities located in the United Kingdom (the "U.K. Facilities") and services provided by the U.K. Facilities can generally be classified into the following categories: healthcare facilities; education and children's services; and adult care facilities.

*Healthcare facilities.* Healthcare facilities provide psychiatric treatment and nursing for sufferers of mental disorders, including for patients whose risk of harm to others and risk of escape from hospitals cannot be managed safely within other mental health settings. In order to manage the risks involved with treating patients, the facility is managed through the application of a range of security measures depending on the level of dependency and risk exhibited by the patient.

*Education and children's services.* Education and children's services provide specialist education for children and young people with special educational needs, including autism, Asperger's Syndrome, social, emotional and mental health, and specific learning difficulties, such as dyslexia. The division also offers standalone children's homes for children that require 52-week residential care to support complex and challenging behavior and fostering services.

*Adult care facilities.* Adult care focuses on care of individuals with a variety of learning difficulties, mental health illnesses and adult autism spectrum disorders. It also includes long-term, short-term and respite nursing care to high-dependency elderly individuals who are physically frail or suffering from dementia. Care is provided in a number of settings, including in residential care homes and through supported living.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Healthcare facilities	\$ 157,277	\$ 148,138	\$ 442,952	\$ 455,399
Education and Children's Services	47,190	43,388	138,486	135,652
Adult Care facilities	80,876	76,342	236,334	229,023
Revenue	<u>\$ 285,343</u>	<u>\$ 267,868</u>	<u>\$ 817,772</u>	<u>\$ 820,074</u>

On an annual basis, the Company receives payments from approximately 500 public funded sources in the U.K. (including the NHS, Clinical Commissioning Groups ("CCGs") and local authorities in England, Scotland and Wales) and individual patients and clients. The Company determines the transaction price based on established billing rates by payor reduced by implicit price concessions. Implicit price concessions are insignificant in the U.K. Facilities.

The following table presents revenue by payor type and as a percentage of revenue in our U.K. Facilities (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
U.K. public funded sources	\$ 258,508	90.6%	\$ 242,747	90.6%	\$ 740,329	90.5%	\$ 740,492	90.3%
Self-Pay	26,147	9.2%	24,430	9.1%	75,618	9.3%	77,895	9.5%
Other	688	0.2%	691	0.3%	1,825	0.2%	1,687	0.2%
Revenue	<u>\$ 285,343</u>	<u>100.0%</u>	<u>\$ 267,868</u>	<u>100.0%</u>	<u>\$ 817,772</u>	<u>100.0%</u>	<u>\$ 820,074</u>	<u>100.0%</u>

Contract liabilities in the U.K. Facilities primarily consist of unearned revenue due to the timing of payments received mainly in our education and children's services and healthcare facilities. Contract liabilities are included in other accrued liabilities on the condensed consolidated balance sheets. A summary of the activity in unearned revenue in the U.K. Facilities is as follows (in thousands):

Balance at December 31, 2019	\$ 36,579
Payments received	124,691
Revenue recognized	(129,790)
Foreign currency translation loss	(850)
Balance at September 30, 2020	<u>\$ 30,630</u>

## 5. 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, 2020 and 2019 (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
<b>Numerator:</b>				
Net income attributable to Acadia Healthcare Company, Inc.	\$ 36,998	\$ 42,566	\$ 111,540	\$ 120,177
<b>Denominator:</b>				
Weighted average shares outstanding for basic earnings per share	87,911	87,649	87,849	87,591
Effect of dilutive instruments	945	210	600	214
Shares used in computing diluted earnings per common share	88,856	87,859	88,449	87,805
<b>Earnings per share attributable to Acadia Healthcare Company, Inc. stockholders:</b>				
Basic	\$ 0.42	\$ 0.49	\$ 1.27	\$ 1.37
Diluted	\$ 0.42	\$ 0.48	\$ 1.26	\$ 1.37

Approximately 2.0 million and 1.9 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, 2020 and 2019, respectively, because their effect would have been anti-dilutive. Approximately 2.1 million and 2.4 million shares of common stock issuable upon exercise of outstanding stock option awards were excluded from the calculation of diluted earnings per share for both the nine months ended September 30, 2020 and 2019, respectively, because their effect would have been anti-dilutive.

## 6. 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 April 1, 2019, the Company completed the acquisition of Bradford Recovery Center ("Bradford"), a specialty treatment facility with 46 beds located in Millerton, Pennsylvania, for cash consideration of approximately \$4.5 million.

On February 15, 2019, the Company completed the acquisition of Whittier Pavilion ("Whittier"), an inpatient psychiatric facility with 71 beds located in Haverhill, Massachusetts, for cash consideration of approximately \$17.9 million. Also on February 15, 2019, the Company completed the acquisition of Mission Treatment ("Mission Treatment") for cash consideration of approximately \$22.5 million. Mission Treatment operates nine comprehensive treatment centers in California, Nevada, Arizona and Oklahoma.

### Transaction-related expenses

Transaction-related expenses primarily relate to termination, restructuring, U.K. sale, strategic review, management transition and other similar costs. Transaction-related expenses for the three and nine months ended September 30, 2020 and 2019 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Termination, restructuring, sale and strategic review costs	\$ 6,891	\$ 5,329	\$ 9,151	\$ 10,941
Legal, accounting and other acquisition-related costs	1,612	235	8,142	1,451
Management transition costs	—	211	—	2,916
	\$ 8,503	\$ 5,775	\$ 17,293	\$ 15,308

## 7. Property and Equipment

Property and equipment consisted of the following at September 30, 2020 and December 31, 2019 (in thousands):

	September 30, 2020	December 31, 2019
Land	\$ 448,342	\$ 448,716
Building and improvements	2,896,202	2,746,111
Equipment	534,665	516,769
Construction in progress	214,155	254,213
	<u>4,093,364</u>	<u>3,965,809</u>
Less: accumulated depreciation	(839,644)	(741,775)
Property and equipment, net	<u>\$ 3,253,720</u>	<u>\$ 3,224,034</u>

The Company has recorded assets held for sale within other assets on the condensed consolidated balance sheets for closed properties being actively marketed of \$28.3 million and \$31.1 million at September 30, 2020 and December 31, 2019, respectively. For the three months ended September 30, 2020, the Company recorded a non-cash asset impairment charge of \$3.8 million relating to property and equipment as part of the decision to close certain U.K. elderly care facilities.

## 8. Other Intangible Assets

Other identifiable intangible assets and related accumulated amortization consisted of the following at September 30, 2020 and December 31, 2019 (in thousands):

	Gross Carrying Amount		Accumulated Amortization	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Intangible assets subject to amortization:				
Contract intangible assets	\$ 2,100	\$ 2,100	\$ (2,100)	\$ (2,100)
Non-compete agreements	1,131	1,131	(1,131)	(1,131)
	<u>3,231</u>	<u>3,231</u>	<u>(3,231)</u>	<u>(3,231)</u>
Intangible assets not subject to amortization:				
Licenses and accreditations	12,445	12,455	—	—
Trade names	60,329	60,831	—	—
Certificates of need	17,249	17,071	—	—
	<u>90,023</u>	<u>90,357</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 93,254</u>	<u>\$ 93,588</u>	<u>\$ (3,231)</u>	<u>\$ (3,231)</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.

## 9. Leases

The Company's lease portfolio primarily consists of finance and operating real estate leases integral for facility operations. The original terms of the leases typically range from five to 30 years with optional renewal periods. A minimal portion of the Company's lease portfolio consists of non-real estate leases, including copiers and equipment, which generally have lease terms of one to three years and have insignificant lease obligations.

The Company has elected the accounting policy practical expedients by class of underlying asset in ASC 842 "Leases" to: (i) combine associated lease and non-lease components into a single lease component; and (ii) exclude recording short-term leases as right-of-use assets and liabilities on the condensed consolidated balance sheets. Non-lease components, which are not significant overall, are combined with lease components.

Operating lease liabilities are recorded at the present value of remaining lease payments not yet paid for the lease term discounted using the incremental borrowing rate associated with each lease. Operating lease right-of-use assets represent operating lease liabilities adjusted for prepayments, accrued lease payments, lease incentives and initial direct costs. Certain of the Company's leases include renewal or termination options. Calculation of operating lease right-of-use assets and liabilities include the initial lease term unless it is reasonably certain a renewal or termination option will be exercised. Variable components of lease payments

fluctuating with a future index or rate, as well as those related to common area maintenance costs, are not included in determining lease payments and are expensed as incurred. Most of the Company's leases do not contain implicit borrowing rates, and therefore, incremental borrowing rates are calculated based on information available at the lease commencement date. Incremental borrowing rates reflect the Company's estimated interest rates for collateralized borrowings over similar lease terms. Additionally, the Company reviews service agreements for embedded lease and right-of-use assets and liabilities as necessary.

### Lease Position

The Company recorded the following at September 30, 2020 and December 31, 2019 on the condensed consolidated balance sheets (in thousands):

Right-of-Use Assets	Balance Sheet Classification	September 30, 2020	December 31, 2019
Finance lease right-of-use assets	Property and equipment, net	\$ 43,663	\$ 44,370
Operating lease right-of-use assets	Operating lease right-of-use assets	464,596	501,837
<b>Total</b>		<b>\$ 508,259</b>	<b>\$ 546,207</b>

Lease Liabilities	Balance Sheet Classification	September 30, 2020	December 31, 2019
<b>Current:</b>			
Finance lease liabilities	Other accrued liabilities	\$ 35,319	\$ 6,819
Operating lease liabilities	Current portion of operating lease liabilities	30,433	29,140
<b>Noncurrent:</b>			
Finance lease liabilities	Other liabilities	14,704	43,662
Operating lease liabilities	Operating lease liabilities	477,355	502,252
<b>Total</b>		<b>\$ 557,811</b>	<b>\$ 581,873</b>

Weighted-average remaining lease terms and discount rates were as follows at September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
<b>Weighted-average remaining lease term (in years):</b>		
Finance	6.3	6.9
Operating	18.7	19.4
<b>Weighted-average discount rate:</b>		
Finance	6.4%	6.4%
Operating	6.3%	6.3%

### Lease Costs

The Company recorded the following lease costs for the three and nine months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Finance lease costs:				
Depreciation of leased assets	1,151	1,036	3,336	3,295
Interest of lease liabilities	995	977	2,977	2,973
Total finance lease costs	\$ 2,146	\$ 2,013	\$ 6,313	\$ 6,268
Operating lease costs:				
Operating lease costs	16,616	15,873	49,436	48,639
Variable lease costs	1,311	1,229	4,181	3,159
Short term lease costs	1,407	1,378	3,725	4,308
Other lease costs	1,848	1,654	5,491	4,754
Total rents and leases	\$ 21,182	\$ 20,134	\$ 62,833	\$ 60,860
Total lease costs	\$ 23,328	\$ 22,147	\$ 69,146	\$ 67,128

For the three months ended September 30, 2020, the Company recorded a non-cash lease impairment charge of \$16.4 million related to the decision to close certain U.K. elderly care facilities.

### Other

Undiscounted cash flows for finance and operating leases recorded on the condensed consolidated balance sheets were as follows at September 30, 2020 (in thousands):

	Finance Leases	Operating Leases
For the three months ending December 31, 2020	\$ 1,963	\$ 15,765
2021	36,384	60,732
2022	3,481	55,565
2023	2,218	50,870
2024	1,340	48,471
Thereafter	25,090	670,965
Total minimum lease payments	70,476	902,368
Less: amount of lease payments representing interest	20,453	394,580
Present value of future minimum lease payments	50,023	507,788
Less: Current portion of lease liabilities	35,319	30,433
Noncurrent lease liabilities	\$ 14,704	\$ 477,355

Supplemental data for the three and nine months ended September 30, 2020 and 2019 was as follows (in thousands):

	Nine Months Ended September 30,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 47,697	\$ 45,576
Operating cash flows for finance leases	\$ 2,977	\$ 2,973
Financing cash flows for finance leases	\$ 3,151	\$ 2,701
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 21,560	\$ 15,623
Finance leases	\$ 2,896	\$ 2,457



**10. Long-Term Debt**

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

	September 30, 2020	December 31, 2019
<b>Amended and Restated Senior Credit Facility:</b>		
Senior Secured Term A Loan	\$ 325,375	\$ 346,750
Senior Secured Term B Loans	1,328,440	1,338,928
Senior Secured Revolving Line of Credit	—	—
6.125% Senior Notes due 2021	—	150,000
5.125% Senior Notes due 2022	—	300,000
5.625% Senior Notes due 2023	650,000	650,000
6.500% Senior Notes due 2024	390,000	390,000
5.500% Senior Notes due 2028	450,000	—
Other long-term debt	3,932	4,821
Less: unamortized debt issuance costs, discount and premium	(29,646)	(31,400)
	3,118,101	3,149,099
Less: current portion	(50,858)	(43,679)
Long-term debt	<u>\$ 3,067,243</u>	<u>\$ 3,105,420</u>

***Amended and Restated Senior 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 an Amended and Restated Credit Agreement (the “Amended and Restated Credit Agreement”) which amended and restated the Senior Secured Credit Facility (the “Amended and Restated Senior Credit Facility”). The Company has amended the Amended and Restated Credit Agreement from time to time as described in the Company’s prior filings with the SEC.

On February 6, 2019, the Company entered into the Eleventh Amendment (the “Eleventh Amendment”) to the Amended and Restated Credit Agreement. The Eleventh Amendment, among other things, amended the definition of “Consolidated EBITDA” to remove the cap on non-cash charges, losses and expenses related to the impairment of goodwill, which in turn provided increased flexibility to the Company in terms of the Company’s financial covenants.

On February 27, 2019, the Company entered into the Twelfth Amendment (the “Twelfth Amendment”) to the Amended and Restated Credit Agreement. The Twelfth Amendment, among other things, modified certain definitions, including “Consolidated EBITDA”, and increased our permitted Maximum Consolidated Leverage Ratio, thereby providing increased flexibility to the Company in terms of the Company’s financial covenants.

On April 21, 2020, the Company entered into the Thirteenth Amendment (the “Thirteenth Amendment”) to the Amended and Restated Credit Agreement. The Thirteenth Amendment amended the Consolidated Leverage Ratio in the existing covenant to increase the leverage ratio for the rest of 2020.

The Company had \$485.9 million of availability under the revolving line of credit and had standby letters of credit outstanding of \$14.1 million related to security for the payment of claims required by its workers’ compensation insurance program at September 30, 2020. In early April 2020, the Company borrowed \$100.0 million on the revolving line of credit to enhance its cash position in response to the potential impact of COVID-19 on the Company’s future liquidity and subsequently repaid this amount in late May 2020. Borrowings under the revolving line of credit are subject to customary conditions precedent to borrowing.

The Amended and Restated Credit Agreement requires quarterly term loan principal repayments of our Term Loan A facility (“TLA Facility”) of \$7.1 million for December 31, 2020, and \$9.5 million for March 31, 2021 to September 30, 2021, with the remaining principal balance of the TLA Facility due on the maturity date of November 30, 2021. The Company is required to repay the Term Loan B facility Tranche B-3 (the “Tranche B-3 Facility”) in equal quarterly installments of \$1.2 million on the last business day of each March, June, September and December, with the outstanding principal balance of the Tranche B-3 Facility of \$447.3 million due on February 11, 2022. The Company is required to repay the Term Loan B facility Tranche B-4 (the “Tranche B-4

Facility”) in equal quarterly installments of approximately \$2.3 million on the last business day of each March, June, September and December, with the outstanding principal balance of the Tranche B-4 Facility of \$854.4 million due on February 16, 2023.

Borrowings under the Amended and Restated Senior Credit Facility are guaranteed by each of the Company’s wholly-owned domestic subsidiaries (other than certain excluded subsidiaries) and are secured by a lien on substantially all of the assets of the Company and such subsidiaries. Borrowings with respect to the TLA Facility and the Company’s revolving credit facility (collectively, “Pro Rata Facilities”) under the Amended and Restated Credit Agreement bear interest at a rate tied to the Company’s Consolidated Leverage Ratio (defined as consolidated funded debt net of up to \$50.0 million of unrestricted and unencumbered cash to consolidated EBITDA). The Applicable Rate for the Pro Rata Facilities was 2.50% for Eurodollar Rate Loans and 1.50% for Base Rate Loans at September 30, 2020. Eurodollar Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the Eurodollar Rate (based upon the LIBOR Rate prior to commencement of the interest rate period). Base Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.00%. At September 30, 2020, the Pro Rata Facilities bore interest at a rate of LIBOR plus 2.50%. In addition, the Company is required to pay a commitment fee on undrawn amounts under the revolving line of credit.

Borrowings with respect to the Tranche B-3 Facility bear interest as follows: Eurodollar Rate loans bear interest at the Tranche B-3 Facility Applicable Rate (as defined below) plus the Eurodollar Rate (based upon the LIBOR Rate prior to commencement of the interest rate period). Base Rate Loans bear interest at the Tranche B-3 Facility Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As used herein, the term “Tranche B-3 Facility Applicable Rate” means, with respect to Eurodollar Rate Loans, 2.50%, and with respect to Base Rate Loans, 1.50%. The Tranche B-4 Facility bears interest as follows: Eurodollar Rate Loans bear interest at the Tranche B-4 Facility Applicable Rate (as defined below) plus the Eurodollar Rate (based upon the LIBOR Rate prior to commencement of the interest rate period) and Base Rate Loans bear interest at the Tranche B-4 Facility Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As used herein, the term “Tranche B-4 Facility Applicable Rate” means, with respect to Eurodollar Rate Loans, 2.50%, and with respect to Base Rate Loans, 1.50%. At September 30, 2020, the Tranche B-3 Facility and the Tranche B-4 Facility bore interest at a rate of LIBOR plus 2.50%.

The Amended and Restated Credit Agreement requires the Company and its subsidiaries to comply with customary affirmative, negative and financial covenants, including a fixed charge coverage ratio, consolidated leverage ratio and senior secured leverage ratio. The Company may be required to pay all of its indebtedness immediately if it defaults on any of the numerous financial or other restrictive covenants contained in any of its material debt agreements. At September 30, 2020, the Company was in compliance with such covenants.

## **Senior Notes**

### **6.125% Senior Notes due 2021**

On March 12, 2013, the Company issued \$150.0 million of 6.125% Senior Notes due 2021 (the “6.125% Senior Notes”). The 6.125% Senior Notes mature on March 15, 2021 and bear interest at a rate of 6.125% per annum, payable semi-annually in arrears on March 15 and September 15 of each year.

### **5.125% Senior Notes due 2022**

On July 1, 2014, the Company issued \$300.0 million of 5.125% Senior Notes due 2022 (the “5.125% Senior Notes”). The 5.125% Senior Notes mature on July 1, 2022 and bear interest at a rate of 5.125% per annum, payable semi-annually in arrears on January 1 and July 1 of each year.

### **Redemption of 6.125% Senior Notes and 5.125% Senior Notes**

On June 10, 2020, the Company issued conditional notices of full redemption providing for the redemption in full of the 6.125% Senior Notes and 5.125% Senior Notes on July 10, 2020 (the “Redemption Date”), in each case at a redemption price equal to 100.0% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including the Redemption Date (the “Redemption Price”). On June 24, 2020, the Company satisfied and discharged the indentures governing the 6.125% Senior Notes and the 5.125% Senior Notes by irrevocably depositing with a trustee sufficient funds equal to the Redemption Price for the 6.125% Senior Notes and the 5.125% Senior Notes and otherwise complying with the terms in the indentures relating to the satisfaction and discharge of the 6.125% Senior Notes and the 5.125% Senior Notes. In connection with the redemption of the 6.125% Senior Notes and the 5.125% Senior Notes, the Company recorded a debt extinguishment charge of \$3.3 million, including the write-off of the deferred financing and other costs in the condensed consolidated statements of income.

### ***5.625% Senior Notes due 2023***

On February 11, 2015, the Company issued \$375.0 million of 5.625% Senior Notes due 2023 (the “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 has outstanding an aggregate of \$650.0 million of 5.625% Senior Notes. The 5.625% Senior Notes 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.

### ***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 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.

### ***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.

The indentures governing the 5.625% Senior Notes, 6.500% Senior Notes and 5.500% 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 Amended and Restated Senior 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.

## **11. 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, 2020, a maximum of 8,200,000 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 1,067,730 were available for future grant. Stock options may be granted for terms of up to ten 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 \$5.5 million and \$4.0 million in equity-based compensation expense for the three months ended September 30, 2020 and 2019, respectively and \$16.3 million and \$14.3 million for the nine months ended September 30, 2020 and 2019, respectively. At September 30, 2020, there was \$41.8 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 1.3 years.

At September 30, 2020, there were no warrants outstanding and exercisable. The Company recognized a deferred income tax benefit of \$1.4 million and \$1.3 million for the three months ended September 30, 2020 and 2019, respectively, related to equity-based compensation expense. The Company recognized a deferred income tax benefit of \$4.3 million and \$4.1 million for the nine months ended September 30, 2020 and 2019, respectively, related to equity-based compensation expense.

### Stock Options

Stock option activity during 2019 and 2020 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, 2019	1,199,540	\$ 44.64	7.26	\$ 2,717
Options granted	605,200	28.50	9.21	1,343
Options exercised	(55,671)	19.05	N/A	658
Options cancelled	(389,001)	40.84	N/A	N/A
Options outstanding at December 31, 2019	1,360,068	39.40	7.57	1,650
Options granted	488,000	33.12	9.45	29
Options exercised	(12,400)	28.25	N/A	34
Options cancelled	(228,537)	40.46	N/A	N/A
Options outstanding at September 30, 2020	1,607,131	\$ 37.42	7.55	\$ 407
Options exercisable at December 31, 2019	513,290	\$ 48.08	5.88	\$ 512
Options exercisable at September 30, 2020	660,031	\$ 44.19	5.85	\$ 382

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, 2020 and year ended December 31, 2019:

	September 30, 2020	December 31, 2019
Weighted average grant-date fair value of options	\$ 12.26	\$ 17.59
Risk-free interest rate	1.6%	2.4%
Expected volatility	40%	38%
Expected life (in years)	5.0	5.0

The Company's estimate of expected volatility for stock options is based upon the volatility of our 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 2019 and 2020 was as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value
Unvested at January 1, 2019	805,057	\$ 42.40
Granted	700,937	28.77
Cancelled	(389,684)	33.50
Vested	(311,174)	44.23
Unvested at December 31, 2019	805,136	\$ 34.14
Granted	601,519	25.40
Cancelled	(103,958)	34.93
Vested	(235,437)	37.02
Unvested at September 30, 2020	1,067,260	\$ 28.50

Restricted stock unit activity during 2019 and 2020 was as follows:

	Number of Units	Weighted Average Grant-Date Fair Value
Unvested at January 1, 2019	484,111	\$ 44.52
Granted	234,408	34.54
Cancelled	(271,162)	45.17
Vested	—	—
Unvested at December 31, 2019	447,357	\$ 38.89
Granted	583,680	10.60
Cancelled	(10,123)	42.09
Vested	(12,691)	42.09
Unvested at September 30, 2020	<u>1,008,223</u>	<u>\$ 22.44</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 and Company performance compared to peers. In addition to Company performance, these performance-based restricted stock units are subject to the continuing service of the employee during the two- or 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. Additionally, the number of shares issuable pursuant to restricted stock units granted during 2020 and 2019 are subject to adjustment based on the Company's three-year annualized total stockholder return relative to a peer group consisting of S&P 1500 companies within the Healthcare Providers & Services 6 digit GICS industry group and selected other companies deemed to be peers. 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 and, for 2020 and 2019 awards, performance compared to peers.

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, or at its Monte-Carlo simulation value for units subject to market conditions.

## 12. Income Taxes

The provision for income taxes for the three months ended September 30, 2020 and 2019 reflects effective tax rates of 16.0% and 13.8%, respectively. The increase in the effective tax rate for the three months ended September 30, 2020 was primarily attributable to the September 30, 2019 taxable gain on the foreign currency derivatives settlement in August 2019, which allowed the Company to deduct more interest and reduce a portion of a valuation allowance on deferred tax assets. The three months ended September 30, 2020 benefits from the CARES Act related to net operating loss carrybacks were partially offset by a statutory rate increase in the U.K.

The provision for income taxes for the nine months ended September 30, 2020 and 2019 reflects effective tax rates of 15.7% and 17.6%, respectively. The decrease in the effective tax rate for the current year is primarily attributable to changes in the Company's valuation allowance related to a decrease in the deferred tax asset on carried forward interest that is deductible as a result of the CARES Act interest deductibility changes and technical corrections to tax depreciation methods for qualified improvement property that resulted in a net operating loss generated during 2019. This net operating loss, per the CARES Act, can be carried back at a 21% tax rate to recover taxes paid at a 35% tax rate.

As we continue to monitor tax implications of the CARES Act and other state, federal and foreign stimulus and tax legislation, we may make adjustments to our estimates and record additional amounts for tax assets and liabilities. Additionally, market disruption due to COVID-19 may affect the Company's ability to realize our deferred tax assets. 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.

## 13. Derivatives

The Company periodically enters into foreign currency forward contracts 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 U.S. Dollars (“USD”) and British Pounds (“GBP”) associated with cash transfers.

In May 2016, the Company 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 thereafter, to fixed-rate GBP-denominated debt of £449.3 million. In August 2019, the Company terminated its existing net investment cross currency swap derivatives of \$105.0 million. Cash received from the termination of the cross currency swap derivatives was included in investing activities in the condensed consolidated statement of cash flows. The related gain from this termination was included in accumulated other comprehensive loss in accordance with ASC 815-30-40-1.

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 will receive semi-annual interest payments in USD from the counterparties at fixed interest rates, and the Company will make semi-annual interest payments in GBP to the counterparties at fixed interest rates. The interest payments under the cross-currency swap agreements result in £25.4 million of annual cash flows from the Company’s U.K. business being converted to \$35.8 million.

The Company has designated the cross currency swap agreements and forward contracts entered into during 2019 and the nine months ended September 30, 2020 as qualifying hedging instruments and is accounting for these derivatives as net investment hedges. The fair values of these derivatives at September 30, 2020 and December 31, 2019 of \$39.9 million and \$68.9 million, respectively, are recorded as derivative instrument liabilities in the condensed consolidated balance sheets. During 2019, the Company elected the spot method for recording its net investment hedges. Gains and losses resulting from the settlement of the excluded components are recorded in interest expense on the condensed consolidated statements of income. Gains and losses resulting from fair value adjustments to the cross currency swap agreements are recorded in accumulated other comprehensive loss as the swaps are effective in hedging the designated risk. Cash flows related to the cross currency swap derivatives are included in operating activities in the condensed consolidated statements of cash flows.

#### 14. 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 Amended and Restated Senior Credit Facility, 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes, 6.500% Senior Notes, 5.500% Senior Notes, other long-term debt and derivative instruments at September 30, 2020 and December 31, 2019 were as follows (in thousands):

	Carrying Amount		Fair Value	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Amended and Restated Senior Credit Facility	\$ 1,640,521	\$ 1,668,062	\$ 1,640,521	\$ 1,668,062
6.125% Senior Notes due 2021	\$ —	\$ 149,254	\$ —	\$ 149,441
5.125% Senior Notes due 2022	\$ —	\$ 297,761	\$ —	\$ 299,994
5.625% Senior Notes due 2023	\$ 645,942	\$ 644,771	\$ 650,011	\$ 655,249
6.500% Senior Notes due 2024	\$ 385,326	\$ 384,430	\$ 395,460	\$ 398,366
5.500% Senior Notes due 2028	\$ 442,380	\$ —	\$ 454,988	\$ —
Other long-term debt	\$ 3,932	\$ 4,821	\$ 3,932	\$ 4,821
Derivative instrument liabilities	\$ 39,859	\$ 68,915	\$ 39,859	\$ 68,915

The Company’s Amended and Restated Senior Credit Facility, 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes, 6.500% Senior Notes, 5.500% Senior Notes and other long-term debt 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.

The fair values of the derivative instruments were categorized as Level 2 in the GAAP fair value hierarchy and were based on observable market inputs including applicable exchange rates and interest rates.

## 15. 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 \$3.0 million per claim 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 \$75.0 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. At this time, we are 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 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 and ordered stayed pending a ruling on the motion to dismiss that was filed in the *St. Clair County v. Acadia Healthcare* case described above. On October 23, 2020, a purported stockholder filed a third related derivation action on behalf of the Company against former and current officers and directors in the lawsuit styled *Pfenning v. Jacobs, et al.*, which is pending in the Court of Chancery of the State of Delaware. The complaint alleges claims for breach of fiduciary duty. At this time, we are not able to quantify any potential liability in connection with this litigation because the cases are in their early stages.

On April 25, 2018, plaintiff filed *Pence v. Sober Living By the Sea, Inc.* - 30-2018-00988742-CU-OE-CXC, Orange County Superior Court (Pence I). On July 13, 2018, plaintiff next filed *Pence v. Sober Living by the Sea, Inc.; Acadia Healthcare Company, Inc.* - 30-2018-01005317-CU-OE-CJC, Orange County Superior Court (Pence II). These cases have now been consolidated before the same judge in the Complex Litigation Department of the Orange County Superior Court. The complaints allege various wage and hour violations under California law on behalf of a putative class of all non-exempt California employees of Acadia and various subsidiaries, going back to April 25, 2014, and on behalf of purportedly aggrieved non-exempt employees under California's Private Attorney General Act ("PAGA"). The claims include (1) failure to provide overtime wages; (2) failure to provide minimum wages; (3) failure to provide meal periods; (4) failure to provide rest periods; (5) failure to pay wages due at termination; (6) failure to provide accurate wage statements; (7) violations of California Business and Professions Code section 17200; and (8) civil penalties under California Labor Code section 2699 (PAGA). During the second quarter of 2020, the Company recorded approximately \$4.0 million to transaction-related expenses in the consolidated statements of income based on the Company's expected settlement and legal fees.

In the fall of 2017, the Office of Inspector General 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 Office of Inspector General 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.

#### 16. 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, 2020, the Company operated six 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, and the Company consolidates the operations of each facility based on its equity ownership and its control of the entity. 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, 2019	\$	33,151
Contribution of redeemable noncontrolling interests		20,247
Net income attributable to noncontrolling interests		1,802
Dividend payments to noncontrolling interests		(653)
Balance at September 30, 2020	\$	<u>54,547</u>

#### 17. Other Current Assets

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

	September 30, 2020	December 31, 2019
Prepaid expenses	\$ 29,785	\$ 23,708
Other receivables	14,020	16,097
Income taxes receivable	12,686	5,579
Workers' compensation deposits – current portion	10,000	10,000
Cost report receivable	9,292	13,723
Inventory	5,092	4,759
Insurance receivable – current portion	1,831	3,030
Other	1,771	1,348
Other current assets	\$ <u>84,477</u>	\$ <u>78,244</u>



## 18. Other Accrued Liabilities

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

	September 30, 2020	December 31, 2019
Accrued expenses	\$ 83,195	\$ 50,614
Unearned revenue	55,520	38,475
Finance lease liabilities	35,319	6,819
Government relief funds	32,492	—
Accrued interest	14,004	33,323
Accrued property taxes	7,656	4,755
Income taxes payable	7,338	—
Insurance liability – current portion	4,731	4,731
Other	10,922	2,443
Other accrued liabilities	<u>\$ 251,177</u>	<u>\$ 141,160</u>

## 19. Segment Information

The Company operates in one line of business, which is operating acute inpatient psychiatric facilities, specialty treatment facilities, residential treatment centers and facilities providing outpatient behavioral healthcare services. As management reviews the operating results of its U.S. Facilities and its U.K. Facilities separately to assess performance and make decisions, the Company's operating segments include our U.S. Facilities and U.K. Facilities. At September 30, 2020, the U.S. Facilities segment included 229 behavioral healthcare facilities with approximately 9,800 beds in 40 states and Puerto Rico, and the U.K. Facilities segment included 353 behavioral healthcare facilities with approximately 8,500 beds in the U.K.

The following tables set forth the financial information by operating segment, including a reconciliation of Segment EBITDA to income before income taxes (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue:				
U.S. Facilities	\$ 547,961	\$ 509,383	\$ 1,548,653	\$ 1,507,156
U.K. Facilities	285,343	267,868	817,772	820,074
Corporate and Other	—	—	—	—
	<u>\$ 833,304</u>	<u>\$ 777,251</u>	<u>\$ 2,366,425</u>	<u>\$ 2,327,230</u>
Segment EBITDA (1):				
U.S. Facilities	\$ 138,401	\$ 127,087	\$ 393,356	\$ 381,491
U.K. Facilities	43,388	40,726	111,195	126,617
Corporate and Other	(22,384)	(21,175)	(67,876)	(66,581)
	<u>\$ 159,405</u>	<u>\$ 146,638</u>	<u>\$ 436,675</u>	<u>\$ 441,527</u>
Segment EBITDA (1)	\$ 159,405	\$ 146,638	\$ 436,675	\$ 441,527
Less:				
Equity-based compensation expense	(5,471)	(4,039)	(16,258)	(14,322)
Transaction-related expenses	(8,503)	(5,775)	(17,293)	(15,308)
Loss on impairment	(20,239)	—	(20,239)	—
Debt extinguishment costs	—	—	(3,271)	—
Interest expense, net	(37,553)	(46,644)	(119,064)	(143,384)
Depreciation and amortization	(42,912)	(40,620)	(126,037)	(122,277)
Income before income taxes	<u>\$ 44,727</u>	<u>\$ 49,560</u>	<u>\$ 134,513</u>	<u>\$ 146,236</u>

	U.S. Facilities	U.K. Facilities	Corporate and Other	Consolidated
<b>Goodwill:</b>				
Balance at January 1, 2020				
Goodwill	\$ 2,085,104	\$ 689,902	\$ —	\$ 2,775,006
Accumulated impairment loss	—	(325,875)	—	(325,875)
Net goodwill at January 1, 2020	2,085,104	364,027	—	2,449,131
Increase from contribution of redeemable noncontrolling interests	20,300	—	—	20,300
Prior period purchase price adjustments	(40)	—	—	(40)
Foreign currency translation loss	—	(8,669)	—	(8,669)
Balance at September 30, 2020				
Goodwill	2,105,364	681,233	—	2,786,597
Accumulated impairment loss	—	(325,875)	—	(325,875)
Net goodwill at September 30, 2020	<u>\$ 2,105,364</u>	<u>\$ 355,358</u>	<u>\$ —</u>	<u>\$ 2,460,722</u>
		<b>September 30, 2020</b>	<b>December 31, 2019</b>	
<b>Assets (2):</b>				
U.S. Facilities		\$ 4,166,001	\$ 4,037,968	
U.K. Facilities		2,521,294	2,610,357	
Corporate and Other		417,850	230,817	
		<u>\$ 7,105,145</u>	<u>\$ 6,879,142</u>	

- (1) Segment EBITDA is defined as income before provision for income taxes, equity-based compensation expense, loss on impairment, debt extinguishment costs, transaction-related expenses, interest expense and depreciation and amortization. The Company uses Segment EBITDA as an analytical indicator to measure the performance of the Company's segments and to develop strategic objectives and operating plans for those segments. Segment 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. Segment EBITDA should not be considered as a measure of financial performance under GAAP, and the items excluded from Segment EBITDA are significant components in understanding and assessing financial performance. Because Segment EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.
- (2) Assets include property and equipment for the U.S. Facilities of \$1.5 billion, U.K. Facilities of \$1.7 billion and corporate and other of \$51.3 million at September 30, 2020. Assets include property and equipment for the U.S. Facilities of \$1.4 billion, U.K. Facilities of \$1.7 billion and corporate and other of \$50.9 million at December 31, 2019.

## 20. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows (in thousands):

	Foreign Currency Translation Adjustments	Change in Fair Value of Derivative Instruments	Pension Plan	Total
Balance at December 31, 2019	\$ (434,633)	\$ 24,958	\$ (5,209)	\$ (414,884)
Foreign currency translation (loss) gain	(46,975)	—	124	(46,851)
Gain on derivative instruments, net of tax of \$8.0 million	—	21,622	—	21,622
Balance at September 30, 2020	<u>\$ (481,608)</u>	<u>\$ 46,580</u>	<u>\$ (5,085)</u>	<u>\$ (440,113)</u>

## 21. Financial Information for the Company and Its Subsidiaries

The Company conducts substantially all of its business through its subsidiaries. The 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes, 6.500% Senior Notes and 5.500% 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 Amended and Restated Senior 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 Acadia Healthcare Company, Inc. and the combined wholly-owned subsidiary guarantors at September 30, 2020 and December 31, 2019, and for the nine months ended September 30, 2020.

Summarized balance sheet information (in thousands):

	September 30, 2020	December 31, 2019
Current assets	\$ 591,762	\$ 427,315
Property and equipment, net	1,398,897	1,313,830
Goodwill	1,992,305	1,992,344
Total noncurrent assets	3,608,625	3,516,967
Current liabilities	400,256	294,289
Long-term debt	2,847,191	2,877,602
Total noncurrent liabilities	3,159,529	3,162,782
Redeemable noncontrolling interests	—	—
Total equity	640,602	487,211

Summarized operating results information (in thousands):

	Nine Months Ended September 30, 2020
Revenue	\$ 1,443,685
Income before income taxes	104,217
Net income	84,162
Net income attributable to Acadia Healthcare Company, Inc.	84,162

## 22. Subsequent Events

On October 14, 2020, the Company issued \$475.0 million of the 5.000% Senior Notes due 2029 (the "5.000% Senior Notes"). The 5.000% Senior Notes mature 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, commencing on April 15, 2021. The Company used the net proceeds of the 5.000% Senior Note to prepay approximately \$453.3 million of the outstanding borrowings on the Tranche B-3 Facility and intends to use the remaining net proceeds for general corporate purposes, which may include additional debt repayment, and to pay related fees and expenses in connection with the offering.

**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 outbreak of the COVID-19 pandemic on our inpatient and outpatient volumes, or disruptions caused by other pandemics, epidemics and highly contagious infectious diseases;
- increases in the amount and risk of collectability of patient accounts receivable, particularly as the unemployment rate and number of underinsured and uninsured patients have increased as a result of the COVID-19 pandemic;
- costs of providing care to our patients, including increased staffing, equipment and supply expenses resulting from the COVID-19 pandemic;
- 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 and our pursuit of a strategic transaction for our U.K. business;
- potential difficulties operating our business in light of political and economic instability in the U.K. and globally relating to the U.K.’s departure from the European Union;
- the impact of fluctuations in foreign exchange rates, including the devaluations of the GBP relative to the USD;
- our ability to enter into and successfully complete a strategic transaction related to our U.K. operations on terms that are favorable to us or at all;
- the impact of payments received from the government and third-party payors on our revenue and results of operations including the significant dependence of our U.K. Facilities on payments received from the NHS;
- 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;
- the impact of competition for staffing on our labor costs and profitability;
- the impact of increases to our labor costs;
- 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 future cash flow and earnings;
- our restrictive covenants, which may restrict our business and financing activities;
- our ability to make payments on our financing arrangements;
- the impact of the economic and employment conditions on our business and future results of operations;
- the impact of adverse weather conditions, including the effects of hurricanes;
- 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;
- the impact of healthcare reform in the U.S. and abroad, including the potential repeal, replacement or modification of the Patient Protection and Affordable Care Act;
- 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 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 risk of a cyber-security incident and any resulting violation of laws and regulations regarding information privacy or other negative impact;
- 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 U.S. and U.K. earnings, adverse changes in our effective tax rate and adverse developments in tax laws generally;
- changes in interpretations, assumptions and expectations regarding recent legislation, including provisions of the CARES Act, and additional guidance that may be issued by federal and state 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, 2020, we operated 582 behavioral healthcare facilities with approximately 18,300 beds in 40 states, the U.K. and Puerto Rico. During the nine months ended September 30, 2020, we added 352 beds, including 208 added to existing facilities and 144 added through the

opening of a de novo facility. For the year ending December 31, 2020, we expect to add approximately 500 total beds exclusive of acquisitions.

We are the leading publicly traded pure-play provider of behavioral healthcare services, with operations in the U.S. and the U.K. 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, de novo facilities, joint ventures and bed additions in existing facilities.

During 2019, we commenced a review of strategic alternatives including those related to our U.K. operations and a potential sale of such operations. In January 2020, we launched a formal process regarding the sale of our U.K. business. Consistent with market practice for U.K. transactions of this nature, and in conjunction with our advisors, we solicited and received initial, non-binding offers to acquire our U.K. business from multiple bidders. During the first quarter of 2020, we began the second phase of the sale process, during which interested bidders would receive proposed transaction documents and complete their confirmatory due diligence. However, given evolving market dynamics related to the COVID-19 pandemic, we suspended the sale process in mid-March 2020. In October 2020, we relaunched the formal sale process of our U.K. business.

### **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 a limited number 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 patients and employees. All of our facilities are closely following infectious disease protocols, as well as recommendations by the CDC, NHS and local health officials. We have established an internal COVID-19 taskforce, developed additional supply chain management processes, expanded telehealth capabilities and implemented emergency planning in directly impacted markets.

We have taken steps to help minimize the impact of the virus. For example, we:

- have instituted social distancing practices and protective measures throughout our facilities, which includes restricting or suspending visitor access, limiting group therapy, and screening patients and staff who enter our facilities based on criteria established by the CDC, NHS and local health officials;
- have limited all non-essential business travel; and
- have implemented work-from-home policies for certain employees, to the extent practicable, and suspended in-person trainings and conferences.

COVID-19 is adversely impacting our business and likely will have an impact on our financial results that we are not currently able to quantify. For example, due in part to local, state and federal guidelines as well as recommendations from medical officials regarding stay-at-home orders, social distancing practices and self-quarantine in response to the COVID-19 pandemic, we have seen a decline in referrals, particularly from emergency rooms and medical professionals. In addition, restrictive measures adopted or encouraged by federal, state and local governments, such as travel bans and stay-at-home orders, have reduced patient volume at our facilities more generally. As a result, many of our facilities experienced significantly lower patient days primarily during late March and April 2020. The impact on our facilities varies based on the market in which the facility operates and the type of facility. During the second quarter of 2020 we saw improvements in patient days which continued into the third quarter. The improved volume trends were driven by a shift in marketing strategy and efforts and the easing of stay-at-home orders and other restrictions. It is difficult to predict the impact of COVID-19 on our patient volume in future periods given the evolving nature of the pandemic.

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. However, we are also experiencing supply chain disruptions and could experience 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.

At September 30, 2020, we had approximately \$338.7 million of cash and cash equivalents and \$485.9 million of available borrowing capacity under our revolving line of credit. In response to the estimated financial impact of the COVID-19 pandemic, we continue to pursue various actions intended to enhance our financial flexibility including, among other things, the benefits described in the “CARES Act and other Regulatory Developments” herein. In addition, we are evaluating and undertaking certain additional steps to mitigate the financial impact, including:

- reducing maintenance and expansion capital expenditures;
- managing corporate and facility-level staffing costs by aligning staffing to patient volumes and implementing a temporary hiring freeze for non-clinical staff;
- limiting all non-essential business travel;
- reducing discretionary expenditures and temporarily reducing marketing spending;
- negotiating with our vendors and lessors for discounts and/or revised payment terms; and
- closely managing our working capital as our facilities continue to bill and collect for services rendered and extend payments on traditional accounts payables.

Although we are reviewing potential liquidity and intend to seek any available benefits under the CARES Act, including those described herein, we cannot predict the manner in which such benefits will be allocated or administered and we cannot assure you we will be able to access such benefits. In addition, procuring these benefits and otherwise responding to the global pandemic is likely to require us to dedicate additional management resources.

For additional information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations— Liquidity and Capital Resources”.

### ***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 of \$100 billion to the PHSSE Fund for a new program 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 from May 1, 2020, to December 31, 2020; and
- waivers or temporary suspension of certain regulatory requirements.

As noted above, 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, President Trump signed into law the New PPP Act. Among other things, the New PPP Act allocates \$75 billion to eligible healthcare providers to help offset COVID-19 related losses and expenses. The \$75 billion allocated under the New 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. We received approximately \$19.7 million of the initial PHSSE funds distributed in April 2020. We received approximately \$12.8 million of additional PHSSE funds in August 2020.

Results for the three months ended September 30, 2020 include a reversal of \$18.1 million of other income recorded during the second quarter of 2020 in the condensed consolidated statements of income related to the \$19.7 million of PHSSE funds received by the Company. The Company’s decision to reverse this income was based on additional guidance issued by HHS in September 2020 related to the terms and conditions necessary to retain PHSSE funds.

Using existing authority and certain expanded authority under the CARES Act, HHS has 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, 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 will be 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 million in April 2020 from this program, which we expect to repay over the 12 month period beginning April 2021.

Also under the CARES Act, we 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 December 31, 2020.

The CARES Act also provides for certain federal income and other tax changes, including an increase in the interest expense tax deduction limitation, the deferral of the employer portion of Social Security payroll taxes, refundable payroll tax credits, net operating loss carryback periods, alternative minimum tax credit refunds and bonus depreciation of qualified improvement property. We expect a cash benefit of approximately \$39 million for 2020 relating to the delay of payment of the employer portion of Social Security payroll taxes. Within the CARES Act, the interest expense deduction threshold was increased to 50% of Adjusted Taxable Income for 2019 and 2020 tax years, making our interest expense fully deductible. As a result, we received a cash benefit in the form of refunds of \$14 million and expect lower tax payments of \$2.7 million related to our 2019 interest expense and between \$15 million and \$20 million related to our 2020 interest expense.

Furthermore, under the CARES Act, (i) for taxable years beginning before 2021, net operating loss ("NOL") carryforwards and carrybacks may offset 100% of taxable income and (ii) NOLs arising in 2018, 2019 and 2020 taxable years may be carried back to each of the preceding five years to generate a refund. As a result, we expect to receive a refund related to our 2019 NOL carryback to 2014 in the amount of \$18 million and expect lower future payments of \$9 million.

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.

### ***Acquisitions***

On April 1, 2019, the Company completed the acquisition of Bradford, a specialty treatment facility with 46 beds located in Millerton, Pennsylvania, for cash consideration of approximately \$4.5 million.

On February 15, 2019, the Company completed the acquisition of Whittier, an inpatient psychiatric facility with 71 beds located in Haverhill, Massachusetts, for cash consideration of approximately \$17.9 million. Also on February 15, 2019, the Company completed the acquisition of Mission Treatment for cash consideration of approximately \$22.5 million. Mission Treatment operates nine comprehensive treatment centers in California, Nevada, Arizona and Oklahoma.



## 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,			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
Revenue	\$ 833,304	100.0%	\$ 777,251	100.0%	\$ 2,366,425	100.0%	\$ 2,327,230	100.0%
Salaries, wages and benefits	450,459	54.1%	428,601	55.1%	1,318,378	55.7%	1,288,399	55.4%
Professional fees	61,359	7.4%	62,152	8.0%	183,273	7.7%	177,588	7.6%
Supplies	31,207	3.7%	30,790	4.0%	93,302	3.9%	91,661	3.9%
Rents and leases	21,182	2.5%	20,134	2.6%	62,833	2.7%	60,860	2.6%
Other operating expenses	97,093	11.7%	92,975	12.0%	288,222	12.2%	281,517	12.1%
Other income	18,070	2.2%	-	0.0%	-	0.0%	-	0.0%
Depreciation and amortization	42,912	5.1%	40,620	5.2%	126,037	5.3%	122,277	5.3%
Interest expense	37,553	4.5%	46,644	6.0%	119,064	5.0%	143,384	6.2%
Debt extinguishment costs	-	0.0%	-	0.0%	3,271	0.1%	-	0.0%
Loss on impairment	20,239	2.4%	-	0.0%	20,239	0.9%	-	0.0%
Transaction-related expenses	8,503	1.0%	5,775	0.7%	17,293	0.7%	15,308	0.7%
Total expenses	<u>788,577</u>	<u>94.6%</u>	<u>727,691</u>	<u>93.6%</u>	<u>2,231,912</u>	<u>94.2%</u>	<u>2,180,994</u>	<u>93.8%</u>
Income before income taxes	44,727	5.4%	49,560	6.4%	134,513	5.8%	146,236	6.2%
Provision for income taxes	7,166	0.9%	6,837	0.9%	21,171	0.9%	25,801	1.1%
Net income	37,561	4.5%	42,723	5.5%	113,342	5.0%	120,435	5.1%
Net income attributable to noncontrolling interests	(563)	-0.1%	(157)	0.0%	(1,802)	-0.1%	(258)	0.0%
Net income attributable to Acadia Healthcare Company, Inc.	<u>\$ 36,998</u>	<u>4.4%</u>	<u>\$ 42,566</u>	<u>5.5%</u>	<u>\$ 111,540</u>	<u>4.9%</u>	<u>\$ 120,177</u>	<u>5.1%</u>

## Segments

At September 30, 2020, the U.S. Facilities segment included 229 behavioral healthcare facilities with approximately 9,800 beds in 40 states and Puerto Rico, and the U.K. Facilities segment included 353 behavioral healthcare facilities with approximately 8,500 beds in the U.K.

The following table sets forth percent changes in same facility operating data for our U.S. Facilities for the three and nine months ended September 30, 2020 compared to the same periods in 2019:

	Three Months Ended	Nine Months Ended
U.S. Same Facility Results (a)		
Revenue growth	7.5%	2.7%
Patient days growth	4.2%	2.2%
Admissions growth	0.5%	-1.1%
Average length of stay change (b)	3.8%	3.3%
Revenue per patient day growth	3.1%	0.6%
EBITDA margin change (c)	50 bps	10 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) Segment 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 Segment EBITDA as an analytical indicator to measure the performance of our segments and to develop strategic objectives and operating plans for those segments. Segment 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. Segment EBITDA should not be considered as a measure of financial performance under GAAP, and the items excluded from Segment EBITDA are significant components in

understanding and assessing financial performance. Because Segment EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.

Results in our U.S. Facilities for the nine months ended September 30, 2020 were affected by COVID-19. Volumes declined in late March 2020 as a result of the impact of the pandemic on traditional referral sources, such as emergency rooms and medical professionals; the stay-at-home orders implemented by many states; and the effects of the travel restrictions on certain facilities with national referral networks. As the country has started to reopen and lift restrictions, patient volumes have shown recent improvement. During the three months ended September 30, 2020, we demonstrated measurable improvement in our EBITDA margin in part due to our continued focus on cost management and operating efficiencies.

The following table sets forth percent changes in same facility operating data for our U.K. Facilities for the three and nine months ended September 30, 2020 compared to the same periods in 2019:

	Three Months Ended	Nine Months Ended
U.K. Same Facility Results (a,c)		
Revenue growth	2.7%	0.3%
Patient days growth	-0.1%	-1.9%
Admissions growth	5.1%	-7.9%
Average length of stay change (b)	-5.0%	6.6%
Revenue per patient day growth	2.8%	2.2%
EBITDA margin change (d)	50 bps	-140 bps

- (a) Results for the periods presented include facilities we have operated more than one year and exclude the elderly care division. While the elderly care division is complementary to our continuum of behavioral healthcare services, it has never been part of our overall growth strategy nor had a meaningful impact on our operations or results.
- (b) Average length of stay is defined as patient days divided by admissions.
- (c) Revenue and revenue per patient day for the three and nine months ended September 30, 2019 is adjusted to reflect the foreign currency exchange rate for the comparable periods of 2020 in order to eliminate the effect of changes in the exchange rate.
- (d) See definition of Segment EBITDA in U.S. Same Facility Results table above.

Results in our U.K. Facilities for the nine months ended September 30, 2020 were affected by COVID-19. Beginning in late March 2020, our U.K. operations faced temporary disruptions from the stay-at-home orders implemented in the U.K. on the referral and commissioning process. As the country has started to reopen and lift restrictions, patient volumes and labor costs have shown recent improvement.

#### **Three months ended September 30, 2020 compared to the three months ended September 30, 2019**

**Revenue.** Revenue increased \$56.1 million, or 7.2%, to \$833.3 million for the three months ended September 30, 2020 from \$777.3 million for the three months ended September 30, 2019 resulting from same facility revenue growth of 5.9% and a \$12.7 million increase in the exchange rate between USD and GBP. During the three months ended September 30, 2020, we generated \$548.0 million of revenue, or 65.8% of our total revenue, from our U.S. Facilities and \$285.3 million of revenue, or 34.2% of our total revenue, from our U.K. Facilities. During the three months ended September 30, 2019, we generated \$509.4 million of revenue, or 65.5% of our total revenue, from our U.S. Facilities and \$267.9 million of revenue, or 34.5% of our total revenue, from our U.K. Facilities.

U.S. same facility revenue increased by \$38.2 million, or 7.5%, for the three months ended September 30, 2020 compared to the three months ended September 30, 2019, resulting from same facility growth in patient days of 4.2% and an increase in same facility revenue per day of 3.1%. U.K. same facility revenue increased by \$6.9 million, or 2.7%, for the three months ended September 30, 2020 compared to the three months ended September 30, 2019, resulting from a decline in same facility patient days of 0.1% offset by an increase in same facility revenue per day of 2.8%.

**Salaries, wages and benefits.** Salaries, wages and benefits (“SWB”) expense was \$450.5 million for the three months ended September 30, 2020 compared to \$428.6 million for the three months ended September 30, 2019, an increase of \$21.9 million. SWB expense included \$5.5 million and \$4.0 million of equity-based compensation expense for the three months ended September 30, 2020 and 2019, respectively. Excluding equity-based compensation expense, SWB expense was \$445.0 million, or 53.4% of revenue, for the three months ended September 30, 2020, compared to \$424.6 million, or 54.6% of revenue, for the three months ended

September 30, 2019. Same facility SWB expense was \$409.9 million for the three months ended September 30, 2020, or 50.7% of revenue, compared to \$399.9 million for the three months ended September 30, 2019, or 52.4% of revenue.

*Professional fees.* Professional fees were \$61.4 million for the three months ended September 30, 2020, or 7.4% of revenue, compared to \$62.2 million for the three months ended September 30, 2019, or 8.0% of revenue. Same facility professional fees were \$55.6 million for the three months ended September 30, 2020, or 6.9% of revenue, compared to \$56.8 million, for the three months ended September 30, 2019, or 7.5% of revenue.

*Supplies.* Supplies expense was \$31.2 million for the three months ended September 30, 2020, or 3.7% of revenue, compared to \$30.8 million for the three months ended September 30, 2019, or 4.0% of revenue. Same facility supplies expense was \$29.8 million for the three months ended September 30, 2020, or 3.7% of revenue, compared to \$29.7 million for the three months ended September 30, 2019, or 3.9% of revenue.

*Rents and leases.* Rents and leases were \$21.2 million for the three months ended September 30, 2020, or 2.5% of revenue compared to \$20.1 million for the three months ended September 30, 2019, or 2.6% of revenue. Same facility rents and leases were \$17.2 million for the three months ended September 30, 2020, or 2.1% of revenue, compared to \$16.9 million for the three months ended September 30, 2019, or 2.2% 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 \$97.1 million for the three months ended September 30, 2020, or 11.7% of revenue, compared to \$93.0 million for the three months ended September 30, 2019, or 12.0% of revenue. Same facility other operating expenses were \$92.6 million for the three months ended September 30, 2020, or 11.4% of revenue, compared to \$89.7 million for the three months ended September 30, 2019, or 11.8% of revenue.

*Other income.* Based on the additional guidance from HHS issued in September 2020 regarding the terms and conditions necessary to retain the PHSSE funds received by the Company, the three months ended September 30, 2020 reflects a reversal of the \$18.1 million of other income recorded during the second quarter of 2020.

*Depreciation and amortization.* Depreciation and amortization expense was \$42.9 million for the three months ended September 30, 2020, or 5.1% of revenue, compared to \$40.6 million for the three months ended September 30, 2019, or 5.2% of revenue.

*Interest expense.* Interest expense was \$37.6 million for the three months ended September 30, 2020 compared to \$46.6 million for the three months ended September 30, 2019. The decrease in interest expense was primarily a result of lower interest rates applicable to our variable rate debt.

*Loss on impairment.* Loss on impairment was \$20.2 million for the three months ended September 30, 2020 and represents a non-cash lease impairment charge of \$16.4 million and a non-cash long-lived asset impairment charge of \$3.8 million related to the decision to close certain U.K. elderly care facilities.

*Transaction-related expenses.* Transaction-related expenses were \$8.5 million for the three months ended September 30, 2020 compared to \$5.8 million the three months ended September 30, 2019. Transaction-related expenses primarily relate to termination, restructuring, U.K. sale, strategic review, management transition and other similar costs incurred in the respective periods, as summarized below (in thousands):

	Three Months Ended September 30,	
	2020	2019
Termination, restructuring, sale and strategic review costs	\$ 6,891	\$ 5,329
Legal, accounting and other acquisition-related costs	1,612	235
Management transition costs	—	211
	<u>\$ 8,503</u>	<u>\$ 5,775</u>

*Provision for income taxes.* For the three months ended September 30, 2020, the provision for income taxes was \$7.2 million, reflecting an effective tax rate of 16.0%, compared to \$6.8 million, reflecting an effective tax rate of 13.8%, for the three months ended September 30, 2019. The increase in the effective tax rate for the three months ended September 30, 2020 was primarily attributable to the September 20, 2019 taxable gain on the foreign currency derivatives settlement in August 2019, which

allowed us to deduct more interest and reduce a portion of a valuation allowance on deferred tax assets. The three months ended September 30, 2020 benefits from the CARES Act related to net operating loss carrybacks were partially offset by a statutory rate increase in the U.K.

As we continue to monitor tax implications of the CARES Act and other state, federal and foreign stimulus and tax legislation, we may make adjustments to our estimates and record additional amounts for tax assets and liabilities. Additionally, market disruption due to COVID-19 may affect the Company's ability to realize our deferred tax assets. 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, 2020 compared to the nine months ended September 30, 2019***

***Revenue.*** Revenue increased \$39.2 million, or 1.7%, to \$2.4 billion for the nine months ended September 30, 2020 from \$2.3 billion for the nine months ended September 30, 2019 resulting from same facility revenue growth of 1.9% and offset by \$1.6 million decrease in the exchange rate between USD and GBP. During the nine months ended September 30, 2020, we generated \$1.5 billion of revenue, or 65.4% of our total revenue, from our U.S. Facilities and \$817.7 million of revenue, or 34.6% of our total revenue, from our U.K. Facilities. During the nine months ended September 30, 2019, we generated \$1.5 billion of revenue, or 64.8% of our total revenue, from our U.S. Facilities and \$820.1 million of revenue, or 35.2% of our total revenue, from our U.K. Facilities.

U.S. same facility revenue increased by \$40.7 million, or 2.7%, for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, resulting from same facility growth in patient days of 2.2% and an increase in same facility revenue per day of 0.6%. U.K. same facility revenue increased by \$2.3 million, or 0.3%, for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, resulting from a decline in same facility patient days of 1.9% offset by an increase in same facility revenue per day of 2.2%.

***Salaries, wages and benefits.*** SWB expense was \$1.3 billion for both the nine months ended September 30, 2020 and 2019, an increase of \$30.0 million. SWB expense included \$16.3 million and \$14.3 million of equity-based compensation expense for the nine months ended September 30, 2020 and 2019, respectively. Excluding equity-based compensation expense, SWB expense was \$1.3 billion, or 55.0% of revenue, for the nine months ended September 30, 2020, compared to \$ 1.3 billion, or 54.7% of revenue, for the nine months ended September 30, 2019. Same facility SWB expense was \$1.2 billion for both the nine months ended September 30, 2020 and 2019, or 52.2% of revenue.

***Professional fees.*** Professional fees were \$183.3 million for the nine months ended September 30, 2020, or 7.7% of revenue, compared to \$177.6 million for the nine months ended September 30, 2019, or 7.6% of revenue. Same facility professional fees were \$163.8 million for the nine months ended September 30, 2020, or 7.2% of revenue, compared to \$158.0 million, for the nine months ended September 30, 2019, or 7.0% of revenue.

***Supplies.*** Supplies expense was \$93.3 million for the nine months ended September 30, 2020, or 3.9% of revenue, compared to \$91.7 million for the nine months ended September 30, 2019, or 3.9% of revenue. Same facility supplies expense was \$88.6 million for the nine months ended September 30, 2020, or 3.9% of revenue, compared to \$87.1 million for the nine months ended September 30, 2019, or 3.9% of revenue.

***Rents and leases.*** Rents and leases were \$62.8 million for the nine months ended September 30, 2020, or 2.7% of revenue compared to \$60.9 million for the nine months ended September 30, 2019, or 2.6% of revenue. Same facility rents and leases were \$51.3 million for the nine months ended September 30, 2020, or 2.2% of revenue, compared to \$49.5 million for the nine months ended September 30, 2019, or 2.2% 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 \$288.2 million for the nine months ended September 30, 2020, or 12.2% of revenue, compared to \$281.5 million for the nine months ended September 30, 2019, or 12.1% of revenue. Same facility other operating expenses were \$275.4 million for the nine months ended September 30, 2020, or 12.0% of revenue, compared to \$267.6 million for the nine months ended September 30, 2019, or 11.8% of revenue.

***Depreciation and amortization.*** Depreciation and amortization expense was \$126.0 million for the nine months ended September 30, 2020, or 5.3% of revenue, compared to \$122.3 million for the nine months ended September 30, 2019, or 5.3% of revenue.

***Interest expense.*** Interest expense was \$119.1 million for the nine months ended September 30, 2020 compared to \$143.4 million for the nine months ended September 30, 2019. The decrease in interest expense was primarily a result of lower interest rates applicable to our variable rate debt.

**Debt extinguishment costs.** Debt extinguishment costs were \$3.3 million for the nine months ended September 30, 2020 and represented \$1.0 million of cash charges and \$2.3 million of non-cash charges recorded in connection with the redemption of the 6.125% Senior Notes and the 5.125% Senior Notes.

**Loss on impairment.** Loss on impairment was \$20.2 million for the nine months ended September 30, 2020 and represents a non-cash lease impairment charge of \$16.4 million and a non-cash long-lived asset impairment charge of \$3.8 million related to the decision to close certain U.K. elderly care facilities.

**Transaction-related expenses.** Transaction-related expenses were \$17.3 million for the nine months ended September 30, 2020 compared to \$15.3 million for the nine months ended September 30, 2019. Transaction-related expenses primarily relate to termination, restructuring, U.K. sale, strategic review, management transition and other similar costs incurred in the respective periods, as summarized below (in thousands):

	Nine Months Ended September 30,	
	2020	2019
Termination, restructuring, sale and strategic review costs	\$ 9,151	\$ 10,941
Legal, accounting and other acquisition-related costs	8,142	1,451
Management transition costs	—	2,916
	<u>\$ 17,293</u>	<u>\$ 15,308</u>

**Provision for income taxes.** For the nine months ended September 30, 2020, the provision for income taxes was \$21.2 million, reflecting an effective tax rate of 15.7%, compared to \$25.8 million, reflecting an effective tax rate of 17.6%, for the nine months ended September 30, 2019. The decrease in the effective tax rate for the current year is primarily attributable to changes in the Company's valuation allowance related to a decrease in the deferred tax asset on carried forward interest that is deductible as a result of the CARES Act interest deductibility changes and technical corrections to tax depreciation methods for qualified improvement property that resulted in a net operating loss generated during 2019. This net operating loss, per the CARES Act, can be carried back at a 21% tax rate to recover taxes paid at a 35% tax rate.

As we continue to monitor tax implications of the CARES Act and other state, federal and foreign stimulus and tax legislation, we may make adjustments to our estimates and record additional amounts for tax assets and liabilities. Additionally, market disruption due to COVID-19 may affect the Company's ability to realize our deferred tax assets. 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; (iv) publicly funded sources in the U.K. (including the NHS, CCGs and local authorities in England, Scotland and Wales) and (v) 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 in our U.S. Facilities for the three and nine months ended September 30, 2020 and 2019 (dollars in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
Commercial	\$ 156,741	28.6%	\$ 140,315	27.5%	\$ 439,911	28.4%	\$ 426,659	28.3%
Medicare	96,536	17.6%	76,906	15.1%	244,721	15.9%	223,027	14.8%
Medicaid	261,341	47.7%	256,370	50.3%	767,075	49.4%	750,631	49.8%
Self-Pay	26,060	4.8%	30,626	6.0%	75,570	4.9%	91,982	6.1%
Other	7,283	1.3%	5,166	1.1%	21,376	1.4%	14,857	1.0%
Revenue	<u>\$ 547,961</u>	<u>100.0%</u>	<u>\$ 509,383</u>	<u>100.0%</u>	<u>\$ 1,548,653</u>	<u>100.0%</u>	<u>\$ 1,507,156</u>	<u>100.0%</u>

The following table presents revenue by payor type and as a percentage of revenue in our U.K. Facilities for the three and nine months ended September 30, 2020 and 2019 (dollars in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
U.K. public funded sources	\$ 258,508	90.6%	\$ 242,747	90.6%	\$ 740,329	90.5%	\$ 740,492	90.3%
Self-Pay	26,147	9.2%	24,430	9.1%	75,618	9.3%	77,895	9.5%
Other	688	0.2%	691	0.3%	1,825	0.2%	1,687	0.2%
Revenue	\$ 285,343	100.0%	\$ 267,868	100.0%	\$ 817,772	100.0%	\$ 820,074	100.0%

The following tables present a summary of our aging of accounts receivable at September 30, 2020 and December 31, 2019:

#### September 30, 2020

	Current	30-90	90-150	>150	Total
Commercial	17.8%	4.7%	1.9%	5.6%	30.0%
Medicare	10.6%	1.2%	0.6%	1.2%	13.6%
Medicaid	24.7%	3.1%	2.1%	8.5%	38.4%
U.K. public funded sources	8.1%	0.9%	0.2%	0.3%	9.5%
Self-Pay	1.7%	1.5%	1.2%	2.3%	6.7%
Other	0.9%	0.3%	0.2%	0.4%	1.8%
Total	63.8%	11.7%	6.2%	18.3%	100.0%

#### December 31, 2019

	Current	30-90	90-150	>150	Total
Commercial	15.2%	6.2%	3.9%	6.3%	31.6%
Medicare	10.3%	1.4%	0.4%	0.9%	13.0%
Medicaid	23.3%	5.9%	3.4%	6.8%	39.4%
U.K. public funded sources	6.3%	1.6%	0.0%	0.0%	7.9%
Self-Pay	1.8%	1.4%	1.4%	2.5%	7.1%
Other	0.6%	0.2%	0.1%	0.1%	1.0%
Total	57.5%	16.7%	9.2%	16.6%	100.0%

#### Liquidity and Capital Resources

Cash provided by operating activities for the nine months ended September 30, 2020 was \$472.2 million compared to \$213.5 million for the nine months ended September 30, 2019. The increase in operating cash flows primarily relates to positive working capital trends and benefits related to the CARES Act. Days sales outstanding were 37 days for September 30, 2020 compared to 40 days at December 31, 2019.

Cash used in investing activities for the nine months ended September 30, 2020 was \$209.7 million compared to \$137.2 million for the nine months ended September 30, 2019. Cash used in investing activities for the nine months ended September 30, 2020 primarily consisted of \$195.8 million of cash paid for capital expenditures, \$5.6 million of cash paid for real estate and other of \$10.7 million, offset by proceeds from sale of property and equipment of \$2.5 million. Cash paid for capital expenditures for the nine months ended September 30, 2020 consisted of \$59.2 million of routine capital expenditures and \$136.6 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 2.5% of revenue for the nine months ended September 30, 2020. Cash used in investing activities for the nine months ended September 30, 2019 primarily consisted of cash paid for acquisitions of \$44.9 million, \$202.7 million of cash paid for capital expenditures, \$7.0 million of cash paid for real estate and other of \$1.1 million offset by proceeds from sale of property and equipment of \$13.5 million and \$105.0 million for settlement of foreign currency derivatives. Cash paid for capital expenditures for the nine months ended September 30, 2019 consisted of \$61.6 million of cash paid for routine capital expenditures and \$141.1 million of expansion capital expenditures.

Cash used in financing activities for the nine months ended September 30, 2020 was \$48.6 million compared \$32.2 million for the nine months ended September 30, 2019. Cash used in financing activities for the nine months ended September 30, 2020 consisted of repayment of long-term debt of \$450.0 million, principal payments of long-term debt of \$31.9 million, principal payments on revolving credit facility of \$100.0 million, payment of debt issuance costs of \$11.2 million, common stock withheld for minimum statutory taxes of \$1.3 million, distributions to noncontrolling interests of \$0.7 million and other of \$3.5 million offset by borrowings of long-term debt of \$450.0 million and borrowings on revolving credit facility of \$100.0 million. Cash used in financing activities for the nine months ended September 30, 2019 primarily consisted of principal payments of long-term debt of \$24.7 million, principal payments on revolving credit facility of \$76.6 million, common stock withheld for minimum statutory taxes of \$1.5 million and other of \$5.9 million offset by borrowings on revolving credit facility of \$76.6 million.

We had total available cash and cash equivalents of \$338.7 million and \$124.2 million at September 30, 2020 and December 31, 2019, respectively, of which approximately \$66.7 million and \$23.2 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., and it is our current intention to permanently reinvest our foreign cash and cash equivalents outside of the U.S.

In the second quarter of 2020, we participated in certain relief programs offered through the CARES Act, including receipt of approximately \$19.7 million relating to the initial portions of the PHSSE funds and approximately \$45 million of payments from the CMS' Accelerated and Advance Payment Program. In addition, we received a 2% increase in our facilities' Medicare reimbursement rate as a result of the temporary suspension of Medicare sequestration provided for in the CARES Act. In August 2020, we received an additional \$12.8 million in PHSSE funds.

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.

### ***Amended and Restated Senior Credit Facility***

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

On February 6, 2019, we entered into the Eleventh Amendment to the Amended and Restated Credit Agreement. The Eleventh Amendment, among other things, amended the definition of "Consolidated EBITDA" to remove the cap on non-cash charges, losses and expenses related to the impairment of goodwill, which in turn provided increased flexibility to us in terms of our financial covenants.

On February 27, 2019, we entered into the Twelfth Amendment to the Amended and Restated Credit Agreement. The Twelfth Amendment, among other things, modified certain definitions, including "Consolidated EBITDA", and increased our permitted Maximum Consolidated Leverage Ratio, thereby providing increased flexibility to us in terms of our financial covenants.

On April 21, 2020, we entered into the Thirteenth Amendment to the Amended and Restated Credit Agreement. The Thirteenth Amendment amended the Consolidated Leverage Ratio in the existing covenant to increase the leverage ratio for the rest of 2020.

We had \$485.9 million of availability under the revolving line of credit and had standby letters of credit outstanding of \$14.1 million related to security for the payment of claims required by our workers' compensation insurance program at September 30, 2020. In early April 2020, we borrowed \$100.0 million on the revolving line of credit to enhance our cash position in response to the potential impact of COVID-19 on our future liquidity and subsequently repaid this amount in late May 2020. Borrowings under the revolving line of credit are subject to customary conditions precedent to borrowing.

The Amended and Restated Credit Agreement requires quarterly term loan principal repayments of our TLA Facility of \$7.1 million for December 31, 2020, and \$9.5 million for March 31, 2021 to September 30, 2021, with the remaining principal balance of the TLA Facility due on the maturity date of November 30, 2021. We are required to repay the Tranche B-3 Facility in equal quarterly installments of \$1.2 million on the last business day of each March, June, September and December, with the outstanding principal balance of the Tranche B-3 Facility of \$447.3 million due on February 11, 2022. We are required to repay the Tranche B-4 Facility in equal quarterly installments of approximately \$2.3 million on the last business day of each March, June, September and December, with the outstanding principal balance of the Tranche B-4 Facility of \$854.4 million due on February 16, 2023.

Borrowings under the Amended and Restated Credit Agreement are guaranteed by each of our wholly-owned domestic subsidiaries (other than certain excluded subsidiaries) and are secured by a lien on substantially all of the assets of the Company and

such subsidiaries. Borrowings with respect to the TLA Facility and our revolving credit facility (collectively, “Pro Rata Facilities”) under the Amended and Restated Credit Agreement bear interest at a rate tied to our Consolidated Leverage Ratio (defined as consolidated funded debt net of up to \$50.0 million of unrestricted and unencumbered cash to consolidated EBITDA). The Applicable Rate for the Pro Rata Facilities was 2.50% for Eurodollar Rate Loans and 1.50% for Base Rate Loans at September 30, 2020. Eurodollar Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the Eurodollar Rate (based upon the LIBOR Rate prior to commencement of the interest rate period). Base Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. At September 30, 2020, the Pro Rata Facilities bore interest at a rate of LIBOR plus 2.50%. In addition, we are required to pay a commitment fee on undrawn amounts under our revolving credit facility.

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

Pricing Tier	Consolidated Leverage Ratio	Eurodollar Rate Loans	Base Rate Loans	Commitment Fee
1	< 3.50:1.0	1.50%	0.50%	0.20%
2	>3.50:1.0 but < 4.00:1.0	1.75%	0.75%	0.25%
3	>4.00:1.0 but < 4.50:1.0	2.00%	1.00%	0.30%
4	>4.50:1.0 but < 5.25:1.0	2.25%	1.25%	0.35%
5	>5.25:1.0	2.50%	1.50%	0.40%

Borrowings with respect to the Tranche B-3 Facility bear interest as follows: Eurodollar Rate loans bear interest at the Tranche B-3 Facility Applicable Rate (as defined below) plus the Eurodollar Rate (based upon the LIBOR Rate prior to commencement of the interest rate period). Base Rate Loans bear interest at the Tranche B-3 Facility Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As used herein, the term “Tranche B-3 Facility Applicable Rate” means, with respect to Eurodollar Rate Loans, 2.50%, and with respect to Base Rate Loans, 1.50%. The Tranche B-4 Facility bears interest as follows: Eurodollar Rate Loans bear interest at the Tranche B-4 Facility Applicable Rate (as defined below) plus the Eurodollar Rate (based upon the LIBOR Rate prior to commencement of the interest rate period) and Base Rate Loans bear interest at the Tranche B-4 Facility Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As used herein, the term “Tranche B-4 Facility Applicable Rate” means, with respect to Eurodollar Rate Loans, 2.50%, and with respect to Base Rate Loans, 1.50%. At September 30, 2020, the Tranche B-3 Facility and the Tranche B-4 Facility bore interest at a rate of LIBOR plus 2.50%.

The lenders who provided the Tranche B-3 Facility and Tranche B-4 Facility are not entitled to benefit from our maintenance of the financial covenants under the Amended and Restated Credit Agreement. Accordingly, if we fail to maintain the financial covenants, such failure shall not constitute an event of default under the Amended and Restated Credit Agreement with respect to the Tranche B-3 Facility or Tranche B-4 Facility until and unless the Amended and Restated Senior Credit Facility is accelerated or the commitment of the lenders to make further loans is terminated.

The Amended and Restated Credit Agreement requires us and our subsidiaries to comply with customary affirmative, negative and financial covenants, including a fixed charge coverage ratio, consolidated leverage ratio and consolidated senior secured leverage ratio. We may be required to pay all of our indebtedness immediately if we default on any of the numerous financial or other restrictive covenants contained in any of our material debt agreements. Set forth below is a brief description of such covenants, all of which are subject to customary exceptions, materiality thresholds and qualifications:

- a) the affirmative covenants include the following: (i) delivery of financial statements and other customary financial information; (ii) notices of events of default and other material events; (iii) maintenance of existence, ability to conduct business, properties, insurance and books and records; (iv) payment of taxes; (v) lender inspection rights; (vi) compliance with laws; (vii) use of proceeds; (viii) further assurances; and (ix) additional collateral and guarantor requirements.
- b) the negative covenants include limitations on the following: (i) liens; (ii) debt (including guaranties); (iii) investments; (iv) fundamental changes (including mergers, consolidations and liquidations); (v) dispositions; (vi) sale leasebacks; (vii) affiliate transactions; (viii) burdensome agreements; (ix) restricted payments; (x) use of proceeds; (xi) ownership of subsidiaries; (xii) changes to line of business; (xiii) changes to organizational documents, legal name, state of formation, form of entity and fiscal year; (xiv) prepayment or redemption of certain senior unsecured debt; and (xv) amendments to certain material agreements. We are generally not permitted to issue dividends or distributions other than with respect to the following: (w) certain tax distributions; (x) the repurchase of equity held by employees, officers or directors upon the occurrence of death, disability or termination subject to cap of \$500,000 in any fiscal year and compliance with certain other conditions; (y) in the form of capital stock; and (z) scheduled payments of deferred purchase price, working capital adjustments and similar payments pursuant to the merger agreement or any permitted acquisition.



- c) The financial covenants include maintenance of the following:
- the fixed charge coverage ratio may not be less than 1.25:1.00 as of the end of any fiscal quarter;
  - the consolidated leverage ratio may not be greater than the following levels as of the end of each fiscal quarter listed below:

	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
2020	5.75x	6.50x	6.50x	6.25x
2021	5.25x	5.25x	5.00x	5.00x

- the consolidated senior secured leverage ratio may not be greater than 3.50x as of the end of each fiscal quarter.

At September 30, 2020, we were in compliance with all of the above covenants.

## **Senior Notes**

### **6.125% Senior Notes Due 2021**

On March 12, 2013, we issued \$150.0 million of 6.125% Senior Notes due 2021. The 6.125% Senior Notes mature on March 15, 2021 and bear interest at a rate of 6.125% per annum, payable semi-annually in arrears on March 15 and September 15 of each year.

### **5.125% Senior Notes due 2022**

On July 1, 2014, we issued \$300.0 million of 5.125% Senior Notes due 2022. The 5.125% Senior Notes mature on July 1, 2022 and bear interest at a rate of 5.125% per annum, payable semi-annually in arrears on January 1 and July 1 of each year.

### **Redemption of 6.125% Senior Notes and 5.125% Senior Notes**

On June 10, 2020, we issued conditional notices of full redemption providing for the redemption in full of the 6.125% Senior Notes and 5.125% Senior Notes on Redemption Date, in each case at the Redemption Price. On June 24, 2020, we satisfied and discharged the indentures governing the 6.125% Senior Notes and the 5.125% Senior Notes by irrevocably depositing with a trustee sufficient funds equal to the Redemption Price for the 6.125% Senior Notes and the 5.125% Senior Notes and otherwise complying with the terms in the indentures relating to the satisfaction and discharge of the 6.125% Senior Notes and the 5.125% Senior Notes. In connection with the redemption of the 6.125% Senior Notes and the 5.125% Senior Notes, we recorded a debt extinguishment charge of \$3.3 million, including the write-off of the deferred financing and other costs in the condensed consolidated statements of income.

### **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 have outstanding an aggregate of \$650.0 million of 5.625% Senior Notes. The 5.625% Senior Notes 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.

### **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 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.

### **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.

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 guarantee our obligations under the Amended and Restated Senior 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.

### Contractual Obligations

The following table presents a summary of contractual obligations at September 30, 2020 (dollars 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)	\$ 182,462	\$ 2,454,481	\$ 439,801	\$ 530,438	\$ 3,607,182
Operating lease liabilities (b)	61,898	108,685	95,746	636,039	902,368
Finance lease liabilities	37,310	6,265	2,629	24,272	70,476
Total obligations and commitments	\$ 281,670	\$ 2,569,431	\$ 538,176	\$ 1,190,749	\$ 4,580,026

(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, 2020.

(b) Amounts exclude variable components of lease payments.

### Off-Balance Sheet Arrangements

At September 30, 2020, we had standby letters of credit outstanding of \$14.1 million related to security for the payment of claims as required by our workers' compensation insurance program.

### 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. We have two operating segments for segment reporting purposes, U.S. Facilities and U.K. Facilities, each of which represents a reporting unit for purposes of the Company's goodwill impairment test. Our annual goodwill impairment and other indefinite-lived intangible assets test performed as of October 1, 2019 resulted in no impairment charges. As of our most recent impairment test on October 1, 2019, the fair value of our U.S Facilities reporting unit substantially exceeded its carrying value, and the fair value of our U.K Facilities exceeded its carrying value by approximately 7%.

During late March 2020, results in our U.S. Facilities and U.K. Facilities were affected by COVID-19. Based on recent financial performance and current forecasts, we believe it is more likely than not that the fair values of each of our reporting units exceeds the carrying values of each reporting unit. Therefore, a quantitative impairment test was not required. We will continue to monitor our business, financial performance and forecasts for indicators of impairment. Continued disruptions to our business as a result of the COVID-19 pandemic could have a material adverse effect on our results of operations, financial condition, cash flows and ability to service our indebtedness and may affect the amounts reported in the consolidated financial statements including those related to the potential impairment of goodwill and long-lived assets.

There have been no material changes in our critical accounting policies at September 30, 2020 from those described in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

### **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, 2020 was composed of \$1.5 billion of fixed-rate debt and \$1.6 billion of variable-rate debt with interest based on LIBOR plus an applicable margin. A hypothetical 10% increase in interest rates (which would equate to a 0.26% higher rate on our variable rate debt) would decrease our net income and cash flows by \$3.6 million on an annual basis based upon our borrowing level at September 30, 2020.

LIBOR and certain other interest “benchmarks” may be subject to regulatory guidance and/or reform that could cause interest rates under our current or future debt agreements to perform differently than in the past or cause other unanticipated consequences. The U.K.’s Financial Conduct Authority, which regulates LIBOR, has announced that it intends to stop encouraging or requiring banks to submit rates for the calculation of LIBOR rates after 2021, and it is unclear if LIBOR will cease to exist or if new methods of calculating LIBOR will evolve. If LIBOR ceases to exist or if the methods of calculating LIBOR change from their current form, interest rates on our current or future debt obligations may be adversely affected. Management continues to evaluate new and existing contracts for the potential impact of the discontinuation of LIBOR.

#### **Foreign Currency Risk**

The functional currency for our U.K. facilities is the British pound or GBP. Our revenue and earnings are sensitive to changes in the GBP to USD exchange rate from the translation of our earnings into USD at exchange rates that may fluctuate. Based upon the level of our U.K. operations relative to the Company as a whole, a hypothetical 10% change in the exchange rate (which would equate to an increase or decrease in the exchange rate of 0.13) would cause a change in our net income of \$6.1 million on an annual basis.

In May 2016, we entered into multiple cross currency swap agreements with an aggregate notional amount of \$650.0 million to manage foreign currency exchange risk by effectively converting a portion of our fixed-rate USD denominated senior notes, including the semi-annual interest payments thereunder, to fixed-rate, GBP-denominated debt of £449.3 million. In August 2019, we terminated our existing net investment cross currency swap derivatives of \$105.0 million. Cash received from the termination of the cross currency swap derivatives is included in investing activities in the condensed consolidated statement of cash flows. The related gain from this termination is included in accumulated other comprehensive loss in accordance with ASC 815-30-40-1.

In August 2019, we 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 our 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, we will receive semi-annual interest payments in USD from the counterparties at fixed interest rates, and we will make semi-annual interest payments in GBP to the counterparties at fixed interest rates. The interest payments under the cross-currency swap agreements result in £25.4 million of annual cash flows from our U.K. business being converted to \$35.8 million. The cross currency swap agreements limit the impact of changes in the exchange rate on our cash flows and leverage.

### **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, 2020 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

We are, 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 our 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 Exchange Act and Rule 10b-5 promulgated thereunder. At this time, we are 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 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 and ordered stayed pending a ruling on the motion to dismiss that was filed in the *St. Clair County v. Acadia Healthcare* case described above. On October 23, 2020, a purported stockholder filed a third related derivation action on behalf of the Company against former and current officers and directors in the lawsuit styled *Pfenning v. Jacobs, et al.*, which is pending in the Court of Chancery of the State of Delaware. The complaint alleges claims for breach of fiduciary duty. At this time, we are not able to quantify any potential liability in connection with this litigation because the cases are in their early stages.

On April 25, 2018, plaintiff filed *Pence v. Sober Living By the Sea, Inc. - 30-2018-00988742-CU-OE-CXC*, Orange County Superior Court (Pence I). On July 13, 2018, plaintiff next filed *Pence v. Sober Living by the Sea, Inc.; Acadia Healthcare Company, Inc. - 30-2018-01005317-CU-OE-CJC*, Orange County Superior Court (Pence II). These cases have now been consolidated before the same judge in the Complex Litigation Department of the Orange County Superior Court. The complaints allege various wage and hour violations under California law on behalf of a putative class of all non-exempt California employees of Acadia and various subsidiaries, going back to April 25, 2014, and on behalf of purportedly aggrieved non-exempt employees under California’s Private Attorney General Act (“PAGA”). The claims include (1) failure to provide overtime wages; (2); failure to provide minimum wages; (3) failure to provide meal periods; (4) failure to provide rest periods; (5); failure to pay wages due at termination; (6) failure to provide accurate wage statements; (7) violations of California Business and Professions Code section 17200; and (8) civil penalties under California Labor Code section 2699 (PAGA). During the second quarter of 2020, we recorded approximately \$4.0 million to transaction-related expenses in the consolidated statements of income based on our expected settlement and legal fees.

In the fall of 2017, Office of Inspector General issued subpoenas to three of our 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 our facilities in December 2017 requesting certain documents from November 2012 to the date of the demand. In April 2019, the Office of Inspector General 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. We are cooperating with the government’s investigation but are not able to quantify any potential liability in connection with these investigations.

## 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, 2019. The Company has updated and supplemented certain risk factors previously disclosed in its periodic reports filed with the Securities and Exchange Commission as set forth below. The risks described herein and those in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, 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.

***The COVID-19 global pandemic is affecting our operations, business and financial condition, and our liquidity could be negatively impacted, particularly if the U.S. and U.K. economies remain unstable for a significant amount of time or if patient volumes decline at our facilities.***

The global pandemic of COVID-19 is affecting our facilities, employees, patients, communities, business operations and financial performance, as well as the broader U.S. and U.K. economies and financial markets. During the second and third quarters of 2020, COVID-19 resulted in fewer referrals to our facilities and lower voluntary admissions as individuals are less inclined to leave their homes and seek treatment. When employees and/or patients at a facility are infected with COVID-19, there is a risk that the virus will spread to others at the facility and impact the operations of such facility. COVID-19 is continuing to evolve and its full impact remains unknown and difficult to predict; however, it has adversely affected our business operations in the second and third quarters of 2020 and could negatively impact our financial performance for the remainder of 2020 or longer.

We are also experiencing supply chain disruptions and could experience 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. We have experienced higher staffing costs in our U.K. Facilities as a result of COVID-19, especially during surges in positive COVID-19 cases in the U.K.

We may need to take additional steps to mitigate the financial impact of COVID-19, which actions could adversely affect our financial condition and results of operations, including:

- postponing or eliminating maintenance capital expenditures and growth capital expenditures, including acquisitions, de novo and joint venture development and facility expansions;
- managing corporate and facility-level staffing costs by aligning staffing to patient volumes and implementing a temporary hiring freeze for non-clinical staff; and
- reducing marketing expenditures and other corporate expenses.

Even after taking into account the actions described above intended to strengthen our financial condition and increase our financial flexibility, we could experience material decreases in Adjusted EBITDA during the fourth quarter of 2020 and for subsequent quarters.

Broad economic factors resulting from COVID-19, including high unemployment rates and reduced consumer spending, could also negatively affect our payor mix, increase the relative proportion of lower margin services we provide and reduce patient volumes, as well as diminish our ability to collect outstanding receivables. Business closings and layoffs in the areas in which we operate may lead to increases in the uninsured and underinsured populations and adversely affect demand for our services, as well as the ability of patients and other payors to pay for services as rendered. Any increase in the amount or deterioration in the collectability of patient accounts receivable will adversely affect our cash flows and results of operations, requiring an increased level of working capital. If general economic conditions continue to deteriorate or remain uncertain for an extended period of time, our liquidity and ability to repay our outstanding debt may be adversely affected.

In addition, our results and financial condition may be further adversely affected by future federal or state laws, regulations, orders, or other governmental or regulatory actions addressing the current COVID-19 pandemic or the U.S. or U.K. healthcare systems, which, if adopted, could result in direct or indirect restrictions to our business. We may also be subject to negative press and/or lawsuits from patients, employees and others exposed to COVID-19 at our facilities. Such actions may involve large demands, as well as substantial costs to resolve. Our professional and general liability insurance may not cover all claims against us.

Furthermore, the COVID-19 pandemic has caused disruption in the financial markets and the businesses of financial institutions. These factors have caused a slowdown in the decision-making of these institutions, which may affect the timing on which we may obtain any additional funding. As a result, there can be no assurance that we will be able to access additional funds on terms acceptable to us, if at all.

As previously disclosed, after suspending our pursuit of a strategic transaction for the sale of our U.K. business because of the negative impact COVID-19 is having on the capital markets, we relaunched the sales process in October 2020. There can be no assurance, however, as to the timing, terms or viability of a potential sale of our U.K. business. In addition, we may not be able to pursue organic growth initiatives and/or acquisition and joint venture opportunities previously planned or expected for our business.

The foregoing and other continued disruptions to our business as a result of the COVID-19 pandemic have had and are likely to continue to have a material adverse effect on our business and could have a material adverse effect on our results of operations, financial condition, cash flows and our ability to service our indebtedness. Additionally, the COVID-19 pandemic (including governmental responses, broad economic impacts and market disruptions) has heightened the materiality of certain other risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2019.

***There is a high degree of uncertainty regarding the implementation and impact of the CARES Act and other existing or future stimulus legislation, if any. There can be no assurance as to the total amount of financial assistance or types of assistance we will receive or that we will be able to comply with the applicable terms and conditions to retain such assistance.***

The CARES Act is a \$2 trillion economic stimulus package signed into law on March 27, 2020, in response to the COVID-19 pandemic. As part of the CARES Act, the U.S. government announced it would offer \$100 billion of relief to eligible healthcare providers. On April 24, 2020, President Trump signed into law the New PPP Act. Among other things, the New PPP Act allocates \$75 billion to eligible healthcare providers to help offset COVID-19 related losses and expenses. The \$75 billion allocated under the New 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. We received approximately \$19.7 million of the initial PHSSE funds distributed in April 2020. We received approximately \$12.8 million of additional PHSSE funds in August 2020.

The CARES Act also makes other forms of financial assistance available to health care providers, including Medicare and Medicaid payments adjustments and an expansion of the CMS Accelerated and Advance Payment Program, which makes available advance payments of Medicare funds in order to increase cash flow to providers. Using existing authority and certain expanded authority under the CARES Act, HHS has 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, our facilities were eligible to request up to 100% of their Medicare payment amount for a three-month period.

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 will be 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 million in April 2020 from this program, which we expect to repay over the 12 month period beginning April 2021.

Also under the CARES Act, we 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 December 31, 2020.

Due to the recent enactment of the CARES Act, the New PPP Act and other enacted legislation, there is still a high degree of uncertainty surrounding their implementation, and the COVID-19 pandemic continues to evolve. Some of the measures allowing for flexibility in delivery of care and various financial supports for health care providers are available only for the duration of the public health emergency ("PHE"), and it is unclear whether or for how long the PHE declaration will be extended. The current PHE determination expires January 21, 2021. The HHS Secretary may choose to renew the PHE declaration for successive 90-day periods for as long as the emergency continues to exist and may terminate the declaration whenever he determines that the PHE no longer exists. The federal government may consider additional stimulus and relief efforts, but we are unable to predict whether additional stimulus measures will be enacted or their impact. There can be no assurance as to the total amount of financial and other types of assistance we will receive under the CARES Act, New PPP Act or future legislation, if any, or whether we shall retain, return or repay any such assistance, and it is difficult to predict the impact of such legislation on our operations. Further, there can be no assurance that the terms and conditions of provider relief funding or other relief programs will not change or be interpreted in ways that affect our ability to comply with such terms and conditions in the future (which could affect our ability or willingness to retain assistance), the amount of total stimulus funding we will receive or our eligibility to participate in such stimulus funding. We are continuing to evaluate the terms and conditions and financial impact of funds received under the CARES Act and other government relief programs.

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

During the three months ended September 30, 2020, 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:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</b>
July 1 – July 31	2,812	\$ 30.92	—	—
August 1 – August 31	739	29.96	—	—
September 1 – September 30	175	29.90	—	—
Total	<u>3,726</u>			

<b>Item 6.</b>	<b>Exhibits</b>
<b><u>Exhibit No.</u></b>	<b><u>Exhibit Description</u></b>
3.1	<a href="#">Amended and Restated Certificate of Incorporation, as amended. (1)</a>
3.2	<a href="#">Amended and Restated Bylaws of the Company, as amended. (1)</a>
4.1	<a href="#">Indenture, dated October 14, 2020, by and among the Company, the guarantors party thereto and U.S. Bank National Association, as Trustee. (2)</a>
4.2	<a href="#">Form of 5.000% Senior Note due 2029 (included as Exhibit A1 in Exhibit 4.1).</a>
22*	<a href="#">List of Subsidiary Guarantors and Issuers of Guaranteed Securities.</a>
31.1*	<a href="#">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.</a>
31.2*	<a href="#">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.</a>
32*	<a href="#">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.</a>
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, 2020, 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 Current Report on Form 8-K filed October 14, 2020 (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 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: October 30, 2020

## List of Guarantor Subsidiaries

The following subsidiaries of the Company were, as of September 30, 2020, guarantors of the Company's 5.625% Senior Notes, 6.500% Senior Notes and 5.500% Senior Notes:

Abilene Holding Company, LLC  
Abilene Legacy Sub, LLC  
Acadia Chattanooga Holdings, LLC  
Acadia Crestwyn Holdings, LLC  
Acadia JV Holdings, LLC  
Acadia LaPlace Holdings, LLC  
Acadia Management Company, LLC  
Acadia Merger Sub, LLC  
Acadia Reading Holdings, LLC  
Acadiana Addiction Center, LLC  
Advanced Treatment Systems, LLC  
Ascent Acquisition, LLC  
Ascent Acquisition - CYPDC, LLC  
Ascent Acquisition - PSC, LLC  
Aspen Education Group, Inc.  
Aspen Youth, Inc.  
ATS of Cecil County, LLC  
ATS of Delaware, LLC  
ATS of North Carolina, LLC  
Austin Behavioral Hospital, LLC  
Austin Eating Disorders Partners, LLC  
Baton Rouge Treatment Center, LLC  
Bayside Marin, Inc.  
BCA of Detroit, LLC  
Beckley Treatment Center, LLC  
Belmont Behavioral Hospital, LLC  
BGI of Brandywine, LLC  
Bowling Green Inn of Pensacola, LLC  
Bowling Green Inn of South Dakota, Inc.  
California Treatment Services, LLC  
Cartersville Center, LLC  
Cascade Behavioral Holding Company, LLC  
Cascade Behavioral Hospital, LLC  
CAPS of Virginia, LLC  
Center for Behavioral Health - HA, LLC  
Center for Behavioral Health-ME, Inc.  
Center for Behavioral Health-PA, LLC  
Centerpointe Community Based Services, LLC  
Charleston Treatment Center, LLC  
Clarksburg Treatment Center, LLC  
Clarksville Treatment Center, LLC  
Clearbrook Treatment Centers, LLC  
Commodore Acquisition Sub, LLC  
Conway Behavioral Health, LLC  
CRC ED Treatment, LLC  
CRC Group, LLC  
CRC Health, LLC  
CRC Health Oregon, LLC  
CRC Health Tennessee, LLC  
CRC Recovery, Inc.  
CRC Wisconsin RD, LLC

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Crossroads Regional Hospital, LLC  
Delta Medical Services, LLC  
Detroit Behavioral Institute, LLC  
DHG Services, LLC  
Discovery House CC, LLC  
Discovery House CU, LLC  
Discovery House MA, Inc.  
Discovery House Monroeville, LLC  
Discovery House of Central Maine, Inc.  
Discovery House TV, Inc.  
Discovery House Utah, Inc.  
Discovery House WC, Inc.  
Discovery House, LLC  
Discovery House-BC, LLC  
Discovery House-BR, Inc.  
Discovery House-Group, LLC  
Discovery House-HZ, LLC  
Discovery House-LT, Inc.  
Discovery House-NC, LLC  
Discovery House-UC, Inc.  
DMC—Memphis, LLC  
Duffy's Napa Valley Rehab, LLC  
East Indiana Treatment Center, LLC  
El Paso Behavioral Hospital, LLC  
Evansville Treatment Center, LLC  
FenX Healthcare, LLC  
Four Circles Recovery Center, LLC  
Galax Treatment Center, LLC  
Generations BH, LLC  
Gifford Street Wellness Center, LLC  
Greenbrier Acquisition, LLC  
Greenbrier Holdings, L.L.C.  
Greenbrier Hospital, L.L.C.  
Greenbrier Realty, L.L.C.  
Greenleaf Center, LLC  
Habilitation Center, LLC  
Habit Opco, LLC  
Hermitage Behavioral, LLC  
Henryville Inn, LLC  
HMIH Cedar Crest, LLC  
Huntington Treatment Center, LLC  
Indianapolis Treatment Center, LLC  
Kids Behavioral Health Of Montana, Inc.  
Lakeland Hospital Acquisition, LLC  
McCallum Group, LLC  
McCallum Properties, LLC  
Millcreek School Of Arkansas, LLC  
Millcreek Schools, LLC  
Milwaukee Health Services System, LLC  
Mission Treatment Centers, Inc.  
Mission Treatment Services, Inc.  
Northeast Behavioral Health, LLC  
Ohio Hospital For Psychiatry, LLC  
Options Treatment Center Acquisition Corporation  
Parkersburg Treatment Center, LLC  
Park Royal Fee Owner, LLC

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PHC Meadowwood, LLC  
PHC of Michigan, LLC  
PHC of Nevada, Inc.  
PHC of Utah, Inc.  
PHC of Virginia, LLC  
Piney Ridge Treatment Center, LLC  
Pocono Mountain Recovery Center, LLC  
Pocono Mountain Recovery Center Land, LLC  
Polaris Hospital Holdings, LLC  
Psychiatric Resource Partners, LLC  
Quality Addiction Management, Inc.  
R.I.S.A.T., LLC  
Rebound Behavioral Health, LLC  
Red River Holding Company, LLC  
Red River Hospital, LLC  
Rehabilitation Centers, LLC  
Resolute Acquisition Corporation,  
Richmond Treatment Center, LLC  
Riverview Behavioral Health, LLC  
Riverwoods Behavioral Health, LLC  
Rock Crest Drive, LLC  
Rock Crest LLC Limited Liability Company  
Rolling Hills Hospital, LLC  
RTC Resource Acquisition Corporation,  
Sahara Health Systems, L.L.C.  
San Diego Health Alliance  
San Diego Treatment Services, LLC  
Serenity Knolls  
Seven Hills Hospital, LLC  
Shaker Clinic, LLC  
Sheltered Living Incorporated  
Sierra Tucson, LLC  
Skyway House, LLC  
Sober Living by the Sea, Inc.  
Sonora Behavioral Health Hospital, LLC  
Southern Indiana Treatment Center, LLC  
Southwestern Children's Health Services, Inc.  
Southwood Psychiatric Hospital, LLC  
Structure House, LLC  
Success Acquisition, LLC  
SUWS of the Carolinas, Inc.  
Ten Broeck Tampa, LLC  
Ten Lakes Center, LLC  
Texarkana Behavioral Associates, L.C.  
The Camp Recovery Center, LLC  
The Pavilion at Health Park, LLC  
The Refuge, A Healing Place, LLC  
TK Behavioral, LLC  
TK Behavioral Holding Company, LLC  
Transcultural Health Development, Inc.  
Treatment Associates, Inc.  
Trustpoint Hospital, LLC  
Valley Behavioral Health System, LLC  
Vermilion Hospital, LLC  
Village Behavioral Health, LLC  
Virginia Treatment Center, LLC

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Vista Behavioral Holding Company, LLC  
Vista Behavioral Hospital, LLC  
Vita Nova, LLC  
Volunteer Treatment Center, LLC  
WCHS, Inc.  
Webster Wellness Professionals, LLC  
Wellplace, LLC  
Wheeling Treatment Center, LLC  
White Deer Realty, LLC  
White Deer Run, LLC  
Wichita Treatment Center Inc.  
Williamson Treatment Center, LLC  
Wilmington Treatment Center, LLC  
Youth and Family Centered Services of New Mexico, Inc.  
Youth Care of Utah, Inc.

**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, Debra K. Osteen, 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 U.S. 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: October 30, 2020

/s/ Debra K. Osteen

Debra K. Osteen

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 U.S. 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: October 30, 2020

/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, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Debra K. Osteen, 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: October 30, 2020

/s/ Debra K. Osteen

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Debra K. Osteen  
Chief Executive Officer and Director

/s/ David M. Duckworth

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David M. Duckworth  
Chief Financial Officer