

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

(Mark One)

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

For the quarterly period ended June 30, 2023

or

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

For the transition period from _____ to _____

Commission File Number: 001-35331

Acadia Healthcare Company, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

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

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

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

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

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

At July 28, 2023, there were 92,171,758 shares of the registrant's common stock outstanding.

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

PART I – FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	1
	<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	1
	<u>Condensed Consolidated Statements of Income (Unaudited)</u>	2
	<u>Condensed Consolidated Statements of Equity (Unaudited)</u>	3
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	4
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	5
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4.	<u>Controls and Procedures</u>	29

PART II – OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	30
Item 1A.	<u>Risk Factors</u>	30
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 6.	<u>Exhibits</u>	32

	<u>SIGNATURES</u>	34
--	--------------------------	----

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2023	December 31, 2022
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 112,173	\$ 97,649
Accounts receivable, net	345,836	322,439
Other current assets	120,748	86,037
Total current assets	578,757	506,125
Property and equipment, net	2,074,142	1,952,045
Goodwill	2,222,805	2,222,805
Intangible assets, net	71,607	76,041
Deferred tax assets	2,885	2,950
Operating lease right-of-use assets	127,515	135,238
Other assets	72,497	92,697
Total assets	<u>\$ 5,150,208</u>	<u>\$ 4,987,901</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 23,906	\$ 21,250
Accounts payable	148,896	104,723
Accrued salaries and benefits	111,409	125,298
Current portion of operating lease liabilities	26,422	26,463
Other accrued liabilities	121,849	110,592
Total current liabilities	432,482	388,326
Long-term debt	1,372,362	1,364,541
Deferred tax liabilities	92,870	92,588
Operating lease liabilities	110,869	116,429
Other liabilities	130,026	125,033
Total liabilities	2,138,609	2,086,917
Redeemable noncontrolling interests	90,583	88,257
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; 91,128,740 and 89,913,659 issued and outstanding at June 30, 2023 and December 31, 2022, respectively	911	899
Additional paid-in capital	2,628,403	2,658,440
Retained earnings	291,702	153,388
Total equity	2,921,016	2,812,727
Total liabilities and equity	<u>\$ 5,150,208</u>	<u>\$ 4,987,901</u>

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(In thousands, except per share amounts)			
Revenue	\$ 731,337	\$ 651,719	\$ 1,435,604	\$ 1,268,372
Salaries, wages and benefits (including equity-based compensation expense of \$7,348, \$6,580, \$14,977 and \$14,505, respectively)	386,633	339,388	777,810	675,150
Professional fees	43,803	40,440	84,928	77,351
Supplies	26,144	25,022	52,165	48,721
Rents and leases	11,725	11,192	23,149	22,441
Other operating expenses	95,912	84,937	186,750	166,362
Income from provider relief fund	—	(8,550)	—	(8,550)
Depreciation and amortization	32,012	29,128	63,581	58,054
Interest expense, net	20,910	16,565	40,909	32,352
Loss on impairment	8,694	—	8,694	—
Transaction-related expenses	9,074	3,940	15,545	7,522
Total expenses	634,907	542,062	1,253,531	1,079,403
Income before income taxes	96,430	109,657	182,073	188,969
Provision for income taxes	22,881	27,725	41,966	45,127
Net income	73,549	81,932	140,107	143,842
Net income attributable to noncontrolling interests	(1,250)	(1,853)	(1,793)	(2,926)
Net income attributable to Acadia Healthcare Company, Inc.	<u>\$ 72,299</u>	<u>\$ 80,079</u>	<u>\$ 138,314</u>	<u>\$ 140,916</u>
Earnings per share attributable to Acadia Healthcare Company, Inc. stockholders:				
Basic	<u>\$ 0.79</u>	<u>\$ 0.89</u>	<u>\$ 1.53</u>	<u>\$ 1.57</u>
Diluted	<u>\$ 0.79</u>	<u>\$ 0.88</u>	<u>\$ 1.51</u>	<u>\$ 1.54</u>
Weighted-average shares outstanding:				
Basic	91,044	89,724	90,691	89,492
Diluted	91,546	91,473	91,640	91,504

See accompanying notes.

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

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount			
Balance at December 31, 2021	89,028	\$ 890	\$ 2,636,350	\$ (119,751)	\$ 2,517,489
Common stock issued under stock incentive plans	633	7	3,742	—	3,749
Repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises	—	—	(15,490)	—	(15,490)
Equity-based compensation expense	—	—	7,925	—	7,925
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	60,837	60,837
Balance at March 31, 2022	89,661	897	2,632,527	(58,914)	2,574,510
Common stock issued under stock incentive plans	113	1	3,147	—	3,148
Repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises	—	—	(1,275)	—	(1,275)
Equity-based compensation expense	—	—	6,580	—	6,580
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	80,079	80,079
Balance at June 30, 2022	89,774	898	2,640,979	21,165	2,663,042
Common stock issued under stock incentive plans	101	1	3,066	—	3,067
Repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises	—	—	(740)	—	(740)
Equity-based compensation expense	—	—	7,240	—	7,240
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	71,099	71,099
Balance at September 30, 2022	89,875	899	2,650,545	92,264	2,743,708
Common stock issued under stock incentive plans	39	—	1,649	—	1,649
Repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises	—	—	(287)	—	(287)
Equity-based compensation expense	—	—	7,890	—	7,890
Other	—	—	(1,357)	—	(1,357)
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	61,124	61,124
Balance at December 31, 2022	89,914	899	2,658,440	153,388	2,812,727
Common stock issued under stock incentive plans	1,039	11	1,192	—	1,203
Repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises	—	—	(48,874)	—	(48,874)
Equity-based compensation expense	—	—	7,629	—	7,629
Other	—	—	902	—	902
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	66,015	66,015
Balance at March 31, 2023	90,953	910	2,619,289	219,403	2,839,602
Common stock issued under stock incentive plans	176	1	3,783	—	3,784
Repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises	—	—	(2,017)	—	(2,017)
Equity-based compensation expense	—	—	7,348	—	7,348
Net income attributable to Acadia Healthcare Company, Inc.	—	—	—	72,299	72,299
Balance at June 30, 2023	91,129	\$ 911	\$ 2,628,403	\$ 291,702	\$ 2,921,016

See accompanying notes.

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

	Six Months Ended June 30,	
	2023	2022
(In thousands)		
Operating activities:		
Net income	\$ 140,107	\$ 143,842
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	63,581	58,054
Amortization of debt issuance costs	1,651	1,620
Equity-based compensation expense	14,977	14,505
Deferred income taxes	347	7,975
Loss on impairment	8,694	—
Other	1,086	396
Change in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	(23,397)	(19,763)
Other current assets	(8,743)	(18,106)
Other assets	(322)	2,550
Accounts payable and other accrued liabilities	21,518	25,518
Accrued salaries and benefits	(13,889)	2,682
Other liabilities	2,568	7,928
Government relief funds	—	(1,212)
Net cash provided by operating activities	208,178	225,989
Investing activities:		
Cash paid for capital expenditures	(157,359)	(132,444)
Proceeds from sale of property and equipment	621	1,674
Other	(940)	(5,016)
Net cash used in investing activities	(157,678)	(135,786)
Financing activities:		
Borrowings on revolving credit facility	40,000	—
Principal payments on revolving credit facility	(20,000)	(85,000)
Principal payments on long-term debt	(10,625)	(7,969)
Repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises	(45,904)	(9,868)
Contributions from noncontrolling partners in joint ventures	2,516	8,008
Distributions to noncontrolling partners in joint ventures	(1,983)	(847)
Other	20	28
Net cash used in financing activities	(35,976)	(95,648)
Net increase (decrease) in cash and cash equivalents	14,524	(5,445)
Cash and cash equivalents at beginning of the period	97,649	133,813
Cash and cash equivalents at end of the period	<u>\$ 112,173</u>	<u>\$ 128,368</u>

See accompanying notes.

Acadia Healthcare Company, Inc.
Notes to Condensed Consolidated Financial Statements
June 30, 2023
(Unaudited)

1. Description of Business and Basis of Presentation

Description of Business

Acadia Healthcare Company, Inc. (the “Company”) develops and operates inpatient psychiatric facilities, residential treatment centers, group homes, substance abuse facilities and facilities providing outpatient behavioral healthcare services to serve the behavioral health and recovery needs of communities throughout the United States (“U.S.”) and Puerto Rico. At June 30, 2023, the Company operated 250 behavioral healthcare facilities with approximately 11,000 beds in 39 states and Puerto Rico.

Basis of Presentation

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

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation of the Company’s financial position and results of operations have been included. The Company’s fiscal year ends on December 31 and interim results are not necessarily indicative of results for a full year or any other interim period. The condensed consolidated balance sheet at December 31, 2022 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, 2022 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on February 28, 2023. 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.

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

2. Recently Issued Accounting Standards

In November 2021, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2021-10, “*Government Assistance (Topic 832)*” (“ASU 2021-10”). ASU 2021-10 provides guidance to increase the transparency of government assistance including the disclosure of (1) the types of assistance, (2) an entity’s accounting for the assistance, and (3) the effect of the assistance on an entity’s financial statements. ASU 2021-10 applies to all business entities except for not-for-profit entities within the scope of Topic 958, *Not-for-Profit Entities*, and employee benefit plans within the scope of Topic 960, *Plan Accounting—Defined Benefit Pension Plans*, Topic 962, *Plan Accounting—Defined Contribution Pension Plans*, and Topic 965, *Plan Accounting—Health and Welfare Benefit Plans* that account for a transaction with a government by applying a grant or contribution accounting model by analogy to other accounting guidance (for example, a grant model within IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, or Subtopic 958-605, *Not-For-Profit Entities—Revenue Recognition*). ASU 2021-10 is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Company adopted ASU 2021-10 for the year ended December 31, 2022. See Note 9 – The CARES Act for additional information on the Company’s accounting for government grants received.

In March 2020, the FASB issued ASU 2020-04, “*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*” (“ASU 2020-04”). ASU 2020-04 provides optional guidance for a limited period of time to ease the potential burden in accounting for or recognizing the effects of reference rate reform on financial reporting and applies only to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate (“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, 2024. Entities may adopt ASU 2020-04 as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020 or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. The Company adopted ASU 2020-04 for the quarter ended

March 31, 2023. See Note 11 – Long Term Debt for additional information on the Company’s accounting for the reference rate reform. There is no significant impact on the Company’s consolidated financial statements.

3. Revenue

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

Services ordered by a healthcare provider in an episode of care are not separately identifiable and therefore have been combined into a single performance obligation for each contract. The Company recognizes revenue as its performance obligations are completed. The performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the healthcare services provided. For inpatient services, the Company recognizes revenue equally over the patient stay on a daily basis. For outpatient services, the Company recognizes revenue equally over the number of treatments provided in a single episode of care. Typically, patients and third-party payors are billed within several days of the service being performed or the patient being discharged, and payments are due based on contract terms.

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

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

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

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

Specialty treatment facilities. Specialty treatment facilities include residential recovery facilities and eating disorder facilities. 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.

Comprehensive treatment centers. CTCs specialize in providing medication-assisted treatment in an outpatient setting to individuals addicted to opioids such as opioid analgesics (prescription pain medications).

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Acute inpatient psychiatric facilities	\$ 369,415	\$ 332,547	\$ 731,226	\$ 643,295
Specialty treatment facilities	156,908	140,363	304,211	273,965
Comprehensive treatment centers	123,472	103,363	238,973	203,401
Residential treatment centers	81,542	75,446	161,194	147,711
Revenue	<u>\$ 731,337</u>	<u>\$ 651,719</u>	<u>\$ 1,435,604</u>	<u>\$ 1,268,372</u>

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

The Company determines the transaction price based on established billing rates reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients and implicit price concessions. Contractual adjustments and discounts are based on contractual agreements, discount policies and historical experience. Implicit price concessions are based on historical collection experience. Most of the Company's facilities have contracts containing variable consideration. However, it is unlikely a significant reversal of revenue will occur when the uncertainty is resolved, and therefore, the Company has included the variable consideration in the estimated transaction price. Subsequent changes resulting from a patient's ability to pay are recorded as bad debt expense, which is included as a component of other operating expenses in the condensed consolidated statements of income. Bad debt expense for the three and six months ended June 30, 2023 and 2022 was not significant.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2023		2022		2023		2022	
	Amount	%	Amount	%	Amount	%	Amount	%
Commercial	\$ 209,383	28.6%	\$ 202,171	31.0%	\$ 413,002	28.8%	\$ 397,340	31.3%
Medicare	109,845	15.0%	97,173	14.9%	218,485	15.2%	192,093	15.1%
Medicaid	391,963	53.6%	326,998	50.2%	756,269	52.7%	627,524	49.6%
Self-Pay	15,804	2.2%	18,630	2.9%	36,502	2.5%	38,377	3.0%
Other	4,342	0.6%	6,747	1.0%	11,346	0.8%	13,038	1.0%
					1,435,6		1,268,3	
Revenue	<u>\$ 731,337</u>	<u>100.0%</u>	<u>\$ 651,719</u>	<u>100.0%</u>	<u>\$ 04</u>	<u>100.0%</u>	<u>\$ 72</u>	<u>100.0%</u>

4. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2023 and 2022 (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Numerator:				
Net income attributable to Acadia Healthcare Company, Inc.	<u>\$ 72,299</u>	<u>\$ 80,079</u>	<u>\$ 138,314</u>	<u>\$ 140,916</u>
Denominator:				
Weighted average shares outstanding for basic earnings per share	91,044	89,724	90,691	89,492
Effects of dilutive instruments	502	1,749	949	2,012
Shares used in computing diluted earnings per common share	<u>91,546</u>	<u>91,473</u>	<u>91,640</u>	<u>91,504</u>
Earnings per share attributable to Acadia Healthcare Company, Inc. stockholders:				
Basic	<u>\$ 0.79</u>	<u>\$ 0.89</u>	<u>\$ 1.53</u>	<u>\$ 1.57</u>
Diluted	<u>\$ 0.79</u>	<u>\$ 0.88</u>	<u>\$ 1.51</u>	<u>\$ 1.54</u>

Approximately 0.6 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 three months ended June 30, 2023 and 2022, respectively, because their effect would have been anti-dilutive. Approximately 0.5 million and 0.8 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 six months ended June 30, 2023 and 2022, respectively, because their effect would have been anti-dilutive.

5. Acquisitions

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

On November 7, 2022, the Company acquired four CTCs located in Georgia from Brand New Start Treatment Centers.

Transaction-related expenses

Transaction-related expenses represent costs primarily related to legal, accounting, termination, restructuring, management transition, acquisition and other similar costs. Transaction-related expenses comprised the following costs for the three and six months ended June 30, 2023 and 2022 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Management transition costs	\$ 6,175	\$ 1,165	\$ 10,976	\$ 2,200
Termination and restructuring costs	1,974	688	2,005	2,646
Legal, accounting and other acquisition-related costs	925	2,087	\$ 2,564	2,676
	<u>\$ 9,074</u>	<u>\$ 3,940</u>	<u>\$ 15,545</u>	<u>\$ 7,522</u>

6. Other Current Assets

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

	June 30, 2023	December 31, 2022
Income taxes receivable	\$ 39,487	\$ 5,767
Prepaid expenses	26,883	27,052
Other receivables	14,062	15,371
Workers' compensation deposits – current portion	12,000	12,000
Assets held for sale	11,496	8,347
Insurance receivable – current portion	9,504	10,158
Inventory	5,437	5,087
Other	1,879	2,255
Other current assets	<u>\$ 120,748</u>	<u>\$ 86,037</u>

7. Property and Equipment

Property and equipment consisted of the following (in thousands):

	June 30, 2023	December 31, 2022
Land	\$ 177,381	\$ 169,137
Building and improvements	1,911,252	1,797,809
Equipment	326,669	292,200
Construction in progress	373,369	349,473
	<u>2,788,671</u>	<u>2,608,619</u>
Less: accumulated depreciation	(714,529)	(656,574)
Property and equipment, net	<u>\$ 2,074,142</u>	<u>\$ 1,952,045</u>

During the three months ended June 30, 2023, the Company recorded a non-cash property impairment charge of \$2.0 million and a non-cash operating lease right-of-use asset impairment charge of \$2.0 million related to the closure of certain facilities, which is included in loss on impairment in the condensed consolidated statements of income.

The Company has recorded assets held for sale within other assets on the condensed consolidated balance sheets for closed properties actively marketed of \$11.5 million and \$8.3 million at June 30, 2023 and December 31, 2022, respectively.

8. Other Intangible Assets

Other identifiable intangible assets and related accumulated amortization consisted of the following (in thousands):

	Gross Carrying Amount		Accumulated Amortization	
	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
Intangible assets subject to amortization:				
Non-compete agreements	\$ 1,131	\$ 1,131	\$ (1,131)	\$ (1,131)
Intangible assets not subject to amortization:				
Licenses and accreditations	11,584	11,512	—	—
Trade names	42,156	45,935	—	—
Certificates of need	17,867	18,594	—	—
	<u>71,607</u>	<u>76,041</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 72,738</u>	<u>\$ 77,172</u>	<u>\$ (1,131)</u>	<u>\$ (1,131)</u>

All of the Company's definite-lived intangible assets are fully amortized. The Company's licenses and accreditations, trade names and certificates of need have indefinite lives and are, therefore, not subject to amortization. During the three months ended June 30, 2023, the Company recorded a non-cash indefinite-lived intangible asset impairment charge of \$4.7 million related to the closure of certain facilities, which is included in loss on impairment in the condensed consolidated statements of income.

9. The CARES Act

As part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), the U.S. government announced it would offer \$100 billion of relief to eligible healthcare providers. On April 24, 2020, then President Trump signed into law the Paycheck Protection Program and Health Care Enhancement Act (the "PPP Act"). Among other things, the PPP Act allocated \$75 billion to eligible healthcare providers to help offset losses and expenses related to the novel coronavirus known as COVID-19 ("COVID-19"). The \$75 billion allocated under the PPP Act was 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. The Company accounts for government grants by analogizing to the grant model in accordance with International Accounting Standard ("IAS") 20, *Accounting for Government Grants and Disclosure of Government Assistance*, and as such, has recognized income from grants in line with the recognition of expenses or the loss of revenues for which the grants are intended to compensate. The Company recognizes grants once both of the following conditions are met: (i) the Company is able to comply with the relevant terms and conditions of the grant and (ii) the grant will be received.

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

In 2021, the Company received \$24.2 million of additional funds from the PHSSE Fund. During the fourth quarter of 2021, the Company recorded \$17.9 million of income from provider relief fund related to the PHSSE Fund amounts received. During the year ended December 31, 2022, the Company received \$7.7 million of additional funds from the PHSSE Fund and \$14.2 million from the American Rescue Plan (“ARP”) Rural Payments for Hospitals. During the year ended December 31, 2022, the Company recorded \$21.5 million of income from provider relief fund related to PHSSE Fund and ARP funds received. The remaining unrecognized funds of \$9.0 million are included in other accrued liabilities on the condensed consolidated balance sheets at June 30, 2023 and December 31, 2022. The Company continues to evaluate its compliance with the terms and conditions to, and the financial impact of, the additional funds received, including potential repayment of the remaining balance.

Healthcare providers were required to sign an attestation confirming receipt of the PHSSE Fund amounts and agree to the terms and conditions of payment. Under the terms and conditions for receipt of the payment, the Company was allowed to use the funds to cover lost revenues and healthcare costs related to COVID-19, and the Company was required to properly and fully document the use of these funds to the U.S. Department of Health and Human Services. The reporting of the funds is subject to future audit for compliance with the terms and conditions. The Company recognized PHSSE Fund amounts to the extent it had qualifying COVID-19 expenses or lost revenues as permitted under the terms and conditions.

During 2020, the Company applied for and received approximately \$45.2 million of payments from the CMS Accelerated and Advance Payment Program. Of the \$45.2 million of advance payments received in 2020, the Company repaid approximately \$25.1 million of advance payments during 2021 and made additional repayments of approximately \$20.1 million during the year ended December 31, 2022.

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

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

These regulatory changes were temporary and expired at the end of the COVID-19 public health emergency on May 11, 2023.

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

10. Other Accrued Liabilities

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

	June 30, 2023	December 31, 2022
Accrued expenses	\$ 26,833	\$ 26,699
Cost report payable	25,221	13,738
Accrued interest	17,586	17,596
Insurance liability – current portion	12,128	12,128
Accrued property taxes	10,311	9,009
Government relief funds	8,975	8,975
Contract liabilities	4,052	6,653
Finance lease liabilities	990	990
Income taxes payable	130	1,338
Other	15,623	13,466
Other accrued liabilities	<u>\$ 121,849</u>	<u>\$ 110,592</u>

11. Long-Term Debt

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

	June 30, 2023	December 31, 2022
Credit Facility:		
Term Loan A	\$ 387,813	\$ 398,438
Revolving Line of Credit	95,000	75,000
5.500% Senior Notes due 2028	450,000	450,000
5.000% Senior Notes due 2029	475,000	475,000
Less: unamortized debt issuance costs, discount and premium	(11,545)	(12,647)
	1,396,268	1,385,791
Less: current portion	(23,906)	(21,250)
Long-term debt	<u>\$ 1,372,362</u>	<u>\$ 1,364,541</u>

Credit Facility

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

On March 30, 2023, the Company entered into the First Amendment to the Credit Facility (the "First Amendment"). The First Amendment replaced LIBOR with the Secured Overnight Financing Rate as determined for a term of, at the Company's option, one, three or six months, plus an adjustment of 0.10% ("Adjusted Term SOFR"). Borrowings under the Credit Facility bear interest at a rate equal to, at the Company's option, either (a) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate of Bank of America or (iii) Adjusted Term SOFR for a one month interest period or (b) Adjusted Term SOFR, in each case plus an applicable margin that varies according to the total leverage ratio of the Company from 0.375% to 1.250% in the case of base rate loans and from 1.375% to 2.250% in the case of Adjusted Term SOFR loans. In addition, an unused fee that varies according to the total leverage ratio of the Company from 0.200% to 0.350% is payable quarterly in arrears based on the average daily undrawn portion of the commitments in respect of the Revolving Facility. There is no significant impact on the Company's consolidated financial statements as a result of the First Amendment.

During the six months ended June 30, 2023, the Company borrowed \$40.0 million on the Revolving Facility and repaid \$20.0 million of the balance outstanding. The Company had \$501.6 million of availability under the Revolving Facility and had standby letters of credit outstanding of \$3.4 million related to security for the payment of claims required by its workers' compensation insurance program at June 30, 2023.

The Credit Facility requires quarterly term loan principal repayments for the Term Loan Facility of approximately \$5.3 million for September 30, 2023 to March 31, 2024, approximately \$8.0 million for June 30, 2024 to March 31, 2025, and approximately \$10.6 million for June 30, 2025 to December 31, 2025, with the remaining principal balance of the Term Loan Facility due on the maturity date of March 17, 2026.

The Company has the ability to increase the amount of the Senior Facilities, which may take the form of increases to the Revolving Facility or the Term Loan Facility or the issuance of one or more incremental term loan facilities (collectively, the "Incremental Facilities"), upon obtaining additional commitments from new or existing lenders and the satisfaction of customary conditions precedent for such Incremental Facilities. Such Incremental Facilities may not exceed the sum of (i) the greater of \$480.0 million and an amount equal to 100% of the Consolidated EBITDA (as defined in the Credit Facility) of the Company and (ii) additional amounts that would not cause the Consolidated Senior Secured Net Leverage Ratio (as defined in the Credit Facility) to exceed 3.5 to 1.0.

Subject to certain exceptions, substantially all of the Company's existing and subsequently acquired or organized direct or indirect wholly-owned subsidiaries are required to guarantee the repayment of the Company's obligations under the Credit Facility. The Company and such guarantor subsidiaries have granted a security interest on substantially all personal property assets as collateral for the obligations under the Credit Facility.

The Credit Facility contains customary representations and affirmative and negative covenants, including limitations on the Company's and its subsidiaries' ability to incur additional debt, grant or permit additional liens, make investments and acquisitions, merge or consolidate with others, dispose of assets, pay dividends and distributions, pay junior indebtedness and enter into affiliate transactions, in each case, subject to customary exceptions. In addition, the Credit Facility contains financial covenants requiring the Company on a consolidated basis to maintain, as of the last day of any consecutive four fiscal quarter period, a consolidated total net leverage ratio of not more than 5.0 to 1.0 and an interest coverage ratio of at least 3.0 to 1.0. The Credit Facility also includes events of default customary for facilities of this type and upon the occurrence of any such event of default, among other things, all outstanding loans under the Senior Facilities may be accelerated, the lenders' commitments may be terminated, and/or the lenders may exercise collateral remedies. At June 30, 2023, the Company was in compliance with all financial covenants.

Senior Notes

5.500% Senior Notes due 2028

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

5.000% Senior Notes due 2029

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

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

The Senior Notes issued by the Company are guaranteed by each of the Company's subsidiaries that guarantee the Company's obligations under the 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.

12. 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 June 30, 2023, the Company operated eight facilities through non-wholly owned subsidiaries. The Company owns between approximately 65% and 87% of the equity interests of these entities, and noncontrolling partners own the remaining equity interests. The initial value of the noncontrolling interests is based on the fair value of contributions. The Company consolidates the operations of each facility based on its status as primary beneficiary, as further discussed in Note 13 – Variable Interest Entities. The noncontrolling interests are reflected as redeemable noncontrolling interests on the accompanying condensed consolidated balance sheets based on put rights that could require the Company to purchase the noncontrolling interests upon the occurrence of a change in control.

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

Balance at December 31, 2022	\$	88,257
Contributions from noncontrolling partners in joint ventures		2,516
Net income attributable to noncontrolling interests		1,793
Distributions to noncontrolling partners in joint ventures		(1,983)
Balance at June 30, 2023	\$	<u>90,583</u>

13. Variable Interest Entities

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

At June 30, 2023, the Company operated eight facilities through non-wholly owned subsidiaries. The Company owns between approximately 65% and 87% of the equity interests of these entities, and noncontrolling partners own the remaining equity interests. The Company manages each of these facilities, is responsible for the day-to-day operations and, therefore, has the power to direct the activities that most significantly impact the VIE’s economic performance and the obligation to absorb losses or receive benefits from the VIE that could potentially be significant to the VIE. These activities include, but are not limited to, behavioral healthcare services, human resource and employment-related decisions, marketing and finance. The terms of the agreements governing each of the Company’s VIEs prohibit the Company from using the assets of each VIE to satisfy the obligations of other entities. Consolidated assets at June 30, 2023 and December 31, 2022 include total assets of variable interest entities of \$482.1 million and \$434.2 million, respectively, which cannot be used to settle the obligations of other entities. Consolidated liabilities at June 30, 2023 and December 31, 2022 include total liabilities of variable interest entities of \$28.8 million and \$24.4 million, respectively.

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

	June 30, 2023	December 31, 2022
Cash and cash equivalents	\$ 41,162	\$ 32,478
Accounts receivable, net	29,322	23,789
Other current assets	2,084	2,561
Total current assets	72,568	58,828
Property and equipment, net	347,696	313,358
Goodwill	39,564	39,564
Intangible assets, net	16,139	16,139
Operating lease right-of-use assets	6,118	6,284
Total assets	\$ 482,085	\$ 434,173
Accounts payable	\$ 5,674	\$ 4,650
Accrued salaries and benefits	7,625	6,866
Current portion of operating lease liabilities	253	233
Other accrued liabilities	8,987	6,179
Total current liabilities	22,539	17,928
Operating lease liabilities	6,302	6,433
Total liabilities	\$ 28,841	\$ 24,361

14. 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 June 30, 2023, a maximum of 12,700,000 shares of the Company’s common stock were authorized for issuance as stock options, restricted stock and restricted stock units or other share-based compensation under the Equity Incentive Plan, of which 2,637,496 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 \$7.3 million and \$6.6 million in equity-based compensation expense for the three months ended June 30, 2023 and 2022 and \$15.0 million and \$14.5 million for the six months ended June 30, 2023 and 2022, respectively. Stock compensation expense for the six months ended June 30, 2023 and 2022 is impacted by forfeiture adjustments and restricted stock unit adjustments based on actual performance compared to vesting targets. At June 30, 2023, there was \$92.3 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 1.5 years.

The Company recognized a deferred income tax benefit of \$2.0 million and \$1.9 million for the three months ended June 30, 2023 and 2022, respectively, related to equity-based compensation expense. The Company recognized a deferred income tax benefit of \$4.1 million and \$3.9 million for the six months ended June 30, 2023 and 2022, respectively.

Stock Options

Stock option activity during 2022 and 2023 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, 2022	1,106,069	\$ 42.07		
Options granted	334,260	55.73		
Options exercised	(285,577)	40.66		
Options cancelled	(175,475)	46.98		
Options outstanding at December 31, 2022	979,277	46.27		
Options granted	255,040	79.49		
Options exercised	(122,260)	40.79		
Options cancelled	(74,415)	55.07		
Options outstanding at June 30, 2023	1,037,642	\$ 54.45	7.57	\$ 22,712
Options exercisable at June 30, 2023	414,762	\$ 42.10	5.93	\$ 13,691

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 six months ended June 30, 2023 and year ended December 31, 2022:

	June 30, 2023	December 31, 2022
Weighted average grant-date fair value of options	\$ 31.19	\$ 20.72
Risk-free interest rate	4.1 %	2.0 %
Expected volatility	37 %	39 %
Expected life (in years)	5.0	5.0

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

Other Stock-Based Awards

Restricted stock activity during 2022 and 2023 was as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value
Unvested at January 1, 2022	926,627	\$ 37.84
Granted	650,396	64.65
Cancelled	(145,205)	49.03
Vested	(386,616)	32.64
Unvested at December 31, 2022	1,045,202	\$ 54.89
Granted	419,790	76.63
Cancelled	(142,930)	54.59
Vested	(323,106)	47.45
Unvested at June 30, 2023	998,956	\$ 66.47

Restricted stock unit activity during 2022 and 2023 was as follows:

	Number of Units	Weighted Average Grant-Date Fair Value
Unvested at January 1, 2022	1,504,420	\$ 23.20
Granted	105,311	73.96
Performance adjustment	182,543	33.05
Cancelled	—	—
Vested	(518,474)	43.16
Unvested at December 31, 2022	1,273,800	\$ 20.69
Granted	121,432	68.68
Performance adjustment	365,142	11.84
Cancelled	(114,908)	69.07
Vested	(1,408,195)	10.60
Unvested at June 30, 2023	237,271	\$ 68.07

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

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

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

15. Income Taxes

The provision for income taxes for the three months ended June 30, 2023 and 2022 reflects effective tax rates of 23.7% and 25.3%, and 23.0% and 23.9% for the six months ended June 30, 2023 and 2022, respectively.

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

16. 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 Credit Facility, 5.500% Senior Notes and 5.000% Senior Notes at June 30, 2023 and December 31, 2022 were as follows (in thousands):

	Carrying Amount		Fair Value	
	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
Credit Facility	\$ 481,184	\$ 471,489	\$ 481,184	\$ 471,489
5.500% Senior Notes due 2028	\$ 445,111	\$ 444,694	\$ 411,728	\$ 422,459
5.000% Senior Notes due 2029	\$ 469,973	\$ 469,609	\$ 434,725	\$ 433,214

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

17. Commitments and Contingencies

Professional and General Liability

A portion of the Company's professional liability risks are insured through a wholly-owned insurance subsidiary providing coverage for up to \$10.0 million per claim through August 31, 2022 and \$5.0 million and \$10.0 million for certain other claims thereafter. The Company has obtained reinsurance coverage from a third party to cover claims in excess of those retention limits. The reinsurance policy has a coverage limit of \$75.0 million or \$70.0 million for certain other claims 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.

From October 2018 to August 2020, the Company, its subsidiary Youth and Family Centered Services of New Mexico ("Desert Hills"), and FamilyWorks, a not-for-profit treatment foster care program to which Desert Hills provided management services, including day-to-day administration of the program, via a management services agreement, were among a number of defendants named in five lawsuits filed in New Mexico State District Court (collectively, the "Desert Hills Litigation"). These lawsuits each related to abuse that occurred in foster homes where FamilyWorks had placed children. In 2021, the Company finalized out-of-court settlements for two of the five cases for amounts covered under the Company's professional liability insurance.

On July 7, 2023, in connection with one of the lawsuits in the Desert Hills Litigation styled *Inman v. Garcia, et al, Case No. D-117-CV-2019-00136* (the "Inman Litigation"), a jury awarded the plaintiff compensatory damages of \$80 million and punitive damages of \$405 million. This award far exceeds the Company's reasonable expectation based on the previously resolved complaints and far exceeds any precedent for comparable cases. The Company is evaluating all legal options and intends to challenge this verdict. At this time, the Company is unable to quantify the ultimate liability in connection with the Inman litigation.

The two remaining lawsuits in the Desert Hills Litigation are styled *Rael v. Garcia, et al, Case No. D-117-CV-2019-00135* and *Endicott-Quinones v. Garcia, et al, Case No. D-117-CV-2019-00137*. Both cases seek monetary damages for alleged abuse by the former treatment foster care parents and alleged negligence, professional liability, breach of contract, breach of fiduciary duty and intentional spoliation of evidence by the corporate defendants. At this time, the Company is not able to quantify the ultimate liability in connection with the remaining lawsuits in the Desert Hills Litigation.

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

On February 21, 2019, a purported stockholder filed a related derivative action on behalf of the Company against certain former and current officers and directors in the lawsuit styled *Davydov v. Joey A. Jacobs, et al.*, Case No. 3:19-cv-00167, which is pending in the United States District Court for the Middle District of Tennessee. The complaint alleges claims for violations of Section 10(b) and 14(a) of the Exchange Act, breach of fiduciary duty, waste of corporate assets, and unjust enrichment. On May 23, 2019, a purported stockholder filed a second related derivative action on behalf of the Company against certain former and current officers and directors in the lawsuit styled *Beard v. Jacobs, et al.*, Case No. 3:19-cv-0441, which is pending the United States District Court for the Middle District of Tennessee. The complaint alleges claims for violations of Sections 10(b), 14(a), and 21D of the Exchange Act, breach of fiduciary duty, waste of corporate assets, unjust enrichment, and insider selling. On June 11, 2019, the *Davydov and Beard* actions were consolidated. On February 22, 2021, the court entered an order staying the case. On October 23, 2020, a purported stockholder filed a third related derivative action on behalf of the Company against former and current officers and directors in the lawsuit styled *Pfenning v. Jacobs, et al.*, Case No. 2020-0915-JRS, which is pending in the Court of Chancery of the State of Delaware. The complaint alleges claims for breach of fiduciary duty. On February 17, 2021, the court entered an order staying the case. On February 24, 2021, a purported stockholder filed a fourth derivative action on behalf of the Company against former and current officers and directors in the lawsuit styled *Solak v. Jacobs, et al.*, Case No. 2021-0163, which is pending in the Court of Chancery of the State of Delaware. The complaint alleges claims for breach of fiduciary duty, unjust enrichment, waste of corporate assets, and insider selling. At this time, the Company is not able to quantify any potential liability in connection with this litigation because the cases are in their early stages.

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

18. Subsequent Events

In July 2023, the Company signed a definitive agreement to acquire substantially all of the assets of Turning Point Centers ("Turning Point"), a 76-bed specialty provider of substance use disorder and primary mental health treatment services that supports the Salt Lake City, Utah, metropolitan market. Turning Point provides a full continuum of treatment services, including residential, partial hospitalization and intensive outpatient services.

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 competition for staffing, labor shortages and higher turnover rates on our labor costs and profitability;
- the impact of increases in inflation and rising interest rates;
- compliance with laws and government regulations;
- our indebtedness, our ability to meet our debt obligations, and our ability to incur substantially more debt;
- the impact of payments received from the government and third-party payors on our revenue and results of operations;
- the impact of volatility in the global capital and credit markets, as well as significant developments in macroeconomic and political conditions that are out of our control;
- the impact of general economic and employment conditions, including increased construction and other costs due to inflation, on our business and future results of operations;
- 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 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;
- 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 outcome of pending litigation, including the Desert Hills Litigation;
- the impact of governmental investigations, regulatory actions and whistleblower lawsuits;
- any failure to comply with the terms of our corporate integrity agreement with the OIG;
- the impact of healthcare reform in the U.S.;
- our acquisition, joint venture and wholly-owned de novo strategies, which expose us to a variety of operational and financial risks, as well as legal and regulatory risks;
- the impact of state efforts to regulate the construction or expansion of healthcare facilities on our ability to operate and expand our operations;
- our ability to implement our business strategies;
- the impact of Medicaid eligibility determinations associated with the end of COVID-related Medicaid continuing coverage requirements;
- the impact of disruptions on our inpatient and outpatient volumes caused by pandemics, epidemics or outbreaks of infectious diseases, such as the COVID-19 pandemic;

- our dependence on key management personnel, key executives and local facility management personnel, and the impact of any disruptions from the recent transition of various executives;
- our restrictive covenants, which may restrict our business and financing activities;
- the impact of adverse weather conditions and climate change, including the effects of hurricanes, wildfires and other natural disasters, and any resulting outmigration;
- the risk of a cyber-security incident and any resulting adverse impact on our operations or violation of laws and regulations regarding information privacy;
- our future cash flow and earnings;
- the impact of our highly competitive industry on patient volumes;
- our ability to cultivate and maintain relationships with referral sources;
- 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;
- our potential inability to extend leases at expiration;
- the impact of controls designed to reduce inpatient services on our revenue;
- the impact of different interpretations of accounting principles on our results of operations or financial condition;
- the impact of environmental, health and safety laws and regulations, especially in locations where we have concentrated operations;
- the impact of laws and regulations relating to privacy and security of patient health information and standards for electronic transactions;
- the impact of a change in the mix of our earnings, adverse changes in our effective tax rate and adverse developments in tax laws generally;
- changes in interpretations, assumptions and expectations regarding recent tax legislation, including provisions of the CARES Act and additional guidance that may be issued by federal and state taxing authorities;
- failure to maintain effective internal control over financial reporting;
- the impact of fluctuations in our operating results, quarter to quarter earnings and other factors on the price of our securities; 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 June 30, 2023, we operated 250 behavioral healthcare facilities with approximately 11,000 beds in 39 states and Puerto Rico. During the six months ended June 30, 2023, we added 204 beds to existing facilities and opened two CTCs. For the year ending December 31, 2023, we expect to add approximately 300 beds through additions to existing facilities, and we expect to open two wholly-owned facilities, two joint venture facilities and at least six CTCs.

We are the leading publicly traded pure-play provider of behavioral healthcare services in the U.S. Management believes that we are positioned as a leading platform in a highly fragmented industry under the direction of an experienced management team that has significant industry expertise. Management expects to take advantage of several strategies that are more accessible as a result of our increased size and geographic scale, including continuing a national marketing strategy to attract new patients and referral sources, increasing our volume of out-of-state referrals, providing a broader range of services to new and existing patients and clients and selectively pursuing opportunities to expand our facility and bed count in the U.S. through acquisitions, wholly-owned de novo facilities, joint ventures and bed additions in existing facilities.

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. economy and financial market. At many of our facilities, employees and/or patients have tested positive for COVID-19. We are committed to protecting the health of our communities and have been responding to the evolving COVID-19 situation while taking steps to provide quality care and protect the health and safety of our patients and employees. Over the last three years, all of our facilities have closely followed infectious disease protocols, as well as recommendations by the Centers for Disease Control and Prevention and local health officials.

CARES Act and Other Regulatory Matters

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

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

- an appropriation to the PHSSE Fund, also known as the Provider Relief Fund, to reimburse, through grants or other mechanisms, eligible healthcare providers and other approved entities for COVID-19-related expenses or lost revenue;
- the expansion of CMS' Accelerated and Advance Payment Program;
- the temporary suspension of Medicare sequestration from May 1, 2020 to March 31, 2022, which was reduced to 1% on April 1, 2022 and was eliminated effective July 1, 2022; and
- waivers or temporary suspension of certain regulatory requirements.

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

In 2021, we received \$24.2 million of additional funds from the PHSSE Fund. During the fourth quarter of 2021, we recorded \$17.9 million of income from provider relief fund related to the PHSSE Fund amounts received. During the year ended December 31, 2022, we received \$7.7 million of additional funds from the PHSSE Fund and \$14.2 million from the ARP Rural Payments for Hospitals. During the year ended December 31, 2022, we recorded \$21.5 million of income from provider relief fund related to PHSSE Fund and ARP funds received. The remaining ARP funds of \$9.0 million are included in other accrued liabilities on the condensed consolidated balance sheets as of June 30, 2023 and December 31, 2022. We continue to evaluate our compliance with the terms and conditions to, and the financial impact of, these additional funds received, including potential repayment of the remaining balance.

Healthcare providers were required to sign an attestation confirming receipt of the PHSSE Fund amounts and agree to the terms and conditions of payment. Under the terms and conditions for receipt of the payment, we were allowed to use the funds to cover lost revenues and healthcare costs related to COVID-19, and we were required to properly and fully document the use of these funds to the U.S. Department of Health and Human Services. The reporting of the funds is subject to future audit for compliance with the terms

and conditions. We recognized PHSSSE Fund amounts to the extent we had qualifying COVID-19 expenses or lost revenues as permitted under the terms and conditions.

During 2020, we applied for and received approximately \$45.2 million of payments from the CMS Accelerated and Advance Payment Program. Of the \$45.2 million of advance payments received in 2020, we repaid approximately \$25.1 million of advance payments during 2021 and made additional repayments of approximately \$20.1 million during the year ended December 31, 2022 to eliminate the liability.

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 March 31, 2022, which was reduced to 1% on April 1, 2022 and was eliminated effective July 1, 2022.

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

These regulatory changes were temporary and expired at the end of the COVID-19 public health emergency on May 11, 2023.

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

Results of Operations

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2023		2022		2023		2022	
	Amount	%	Amount	%	Amount	%	Amount	%
Revenue	731,3		651,7		1,435		1,268	
	\$ 37	100.0%	\$ 19	100.0%	\$,604	100.0%	\$,372	100.0%
Salaries, wages and benefits	386,6		339,3		777,8		675,1	
	33	52.8%	88	52.1%	10	54.3%	50	53.2%
Professional fees	43,80		40,44		84,92		77,35	
	3	6.0%	0	6.2%	8	5.9%	1	6.1%
Supplies	26,14		25,02		52,16		48,72	
	4	3.6%	2	3.8%	5	3.6%	1	3.8%
Rents and leases	11,72		11,19		23,14		22,44	
	5	1.6%	2	1.7%	9	1.6%	1	1.8%
Other operating expenses	95,91		84,93		186,7		166,3	
	2	13.1%	7	13.0%	50	13.0%	62	13.1%
Income from provider relief fund	—	0.0%	(8,55	-1.3%	—	0.0%	(8,55	-0.7%
			0)				0)	
Depreciation and amortization	32,01		29,12		63,58		58,05	
	2	4.4%	8	4.5%	1	4.4%	4	4.6%
Interest expense	20,91		16,56		40,90		32,35	
	0	2.9%	5	2.5%	9	2.8%	2	2.6%
Loss on impairment	8,694		—	0.0%	8,694		—	0.0%
					15,54			
Transaction-related expenses	9,074	1.2%	3,940	0.6%	5	1.1%	7,522	0.6%
	634,9		542,0		1,253		1,079	
Total expenses	07	86.8%	62	83.1%	,531	87.3%	,403	85.1%
Income before income taxes	96,43		109,6		182,0		188,9	
	0	13.2%	57	16.9%	73	12.7%	69	14.9%
Provision for income taxes	22,88		27,72		41,96		45,12	
	1	3.1%	5	4.3%	6	3.0%	7	3.6%
Net income	73,54		81,93		140,1		143,8	
	9	10.1%	2	12.6%	07	9.8%	42	11.3%
Net income attributable to noncontrolling interests	(1,25		(1,85		(1,79		(2,92	
	0)	-0.2%	3)	-0.3%	3)	-0.1%	6)	-0.2%
Net income attributable to Acadia Healthcare Company, Inc.	72,29		80,07		138,3		140,9	
	\$ 9	9.9%	\$ 9	12.3%	\$ 14	9.6%	\$ 16	11.1%

We believe that we are well positioned to help meet the growing demand for behavioral health services and we recorded a revenue growth rate of more than 13% for the six months ended June 30, 2023 compared to the six months ended June 30, 2022. Similar to many other healthcare providers and other industries across the country, we continue to navigate a tight labor market. While we experienced higher wage inflation in the six months ended June 30, 2023 compared to long-term historical averages, we have seen stability in our labor costs and our proactive focus helps us manage through this environment. We remain focused on ensuring that we have the level of staff to meet the demand in our markets across our 39 states and Puerto Rico.

The following table sets forth percent changes in same facility operating data for the three and six months ended June 30, 2023 compared to the same periods in 2022:

	Three Months Ended	Six Months Ended
Same Facility Results (a)		
Revenue growth	11.4%	12.3%
Patient days growth	4.9%	5.7%
Admissions growth	4.3%	6.4%
Average length of stay change (b)	0.6%	-0.7%
Revenue per patient day growth	6.1%	6.3%
Adjusted EBITDA margin change (c)	-30 bps	30 bps
Adjusted EBITDA margin excluding income from provider relief fund (d)	100 bps	100 bps

(a) Results for the periods presented include facilities we have operated more than one year and exclude certain closed services.

(b) Average length of stay is defined as patient days divided by admissions.

(c) Adjusted EBITDA is defined as income before provision for income taxes, equity-based compensation expense, loss on impairment, transaction-related expenses, interest expense and depreciation and amortization. Management uses Adjusted EBITDA as an analytical indicator to measure performance and to develop strategic objectives and operating plans. Adjusted EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. Adjusted EBITDA should not be considered as a measure of financial performance under GAAP, and the items excluded from Adjusted EBITDA are significant components in understanding and assessing financial performance. Because Adjusted EBITDA is not a measurement determined in accordance with GAAP and is thus susceptible to varying calculations, Adjusted EBITDA, as presented, may not be comparable to other similarly titled measures of other companies.

(d) For the three and six months ended June 30, 2022, excludes income from provider relief fund of \$8.6 million.

Three months ended June 30, 2023 compared to the three months ended June 30, 2022

Revenue. Revenue increased \$79.6 million, or 12.2%, to \$731.3 million for the three months ended June 30, 2023 from \$651.7 million for the three months ended June 30, 2022. Same facility revenue increased \$73.7 million, or 11.4%, for the three months ended June 30, 2023 compared to the three months ended June 30, 2022, resulting from an increase in same facility revenue per day of 6.1%, same facility growth in admissions of 4.3% and same facility growth in patient days of 4.9%. Consistent with same facility revenue growth in 2022, the growth in same facility patient days for the three months ended June 30, 2023 compared to the three months ended June 30, 2022 resulted from the addition of beds to our existing facilities and ongoing demand for our services.

Salaries, wages and benefits. Salaries, wages and benefits (“SWB”) expense was \$386.6 million for the three months ended June 30, 2023 compared to \$339.4 million for the three months ended June 30, 2022, an increase of \$47.2 million. SWB expense included \$7.3 million and \$6.6 million of equity-based compensation expense for the three months ended June 30, 2023 and 2022, respectively. Excluding equity-based compensation expense, SWB expense was \$379.3 million, or 51.9% of revenue, for the three months ended June 30, 2023, compared to \$332.8 million, or 51.1% of revenue, for the three months ended June 30, 2022. The increase in SWB expense relates to incremental staff to support volume growth as well as wage inflation. Same facility SWB expense was \$342.7 million for the three months ended June 30, 2023, or 47.5% of revenue, compared to \$308.0 million for the three months ended June 30, 2022, or 47.6% of revenue.

Professional fees. Professional fees were \$43.8 million for the three months ended June 30, 2023, or 6.0% of revenue, compared to \$40.4 million for the three months ended June 30, 2022, or 6.2% of revenue. Same facility professional fees were \$39.1 million for the three months ended June 30, 2023, or 5.4% of revenue, compared to \$37.4 million for the three months ended June 30, 2022, or 5.8% of revenue.

Supplies. Supplies expense was \$26.1 million for the three months ended June 30, 2023, or 3.6% of revenue, compared to \$25.0 million for the three months ended June 30, 2022, or 3.8% of revenue. Same facility supplies expense was \$25.6 million for the three months ended June 30, 2023, or 3.6% of revenue, compared to \$24.8 million for the three months ended June 30, 2022, or 3.8% of revenue.

Rents and leases. Rents and leases were \$11.7 million for the three months ended June 30, 2023, or 1.6% of revenue, compared to \$11.2 million for the three months ended June 30, 2022, or 1.7% of revenue. Same facility rents and leases were \$10.6 million for the three months ended June 30, 2023, or 1.5% of revenue, compared to \$10.5 million for the three months ended June 30, 2022, or 1.6% 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 \$95.9 million for the three months ended June 30, 2023, or 13.1% of revenue, compared to \$84.9 million for the three months ended June 30, 2022, or 13.0% of revenue. Same facility other operating expenses were \$88.7 million for the three months ended June 30, 2023, or 12.3% of revenue, compared to \$80.9 million for the three months ended June 30, 2022, or 12.5% of revenue.

Income from provider relief fund. For the three months ended June 30, 2022, we recorded \$8.6 million in income from provider relief fund related to PHSSE Fund amounts received in 2021.

Depreciation and amortization. Depreciation and amortization expense was \$32.0 million for the three months ended June 30, 2023, or 4.4% of revenue, compared to \$29.1 million for the three months ended June 30, 2022, or 4.5% of revenue.

Interest expense. Interest expense was \$20.9 million for the three months ended June 30, 2023 compared to \$16.6 million for the three months ended June 30, 2022. The increase in interest expense was primarily a result of higher interest rates applicable to our variable rate debt.

Loss on impairment. During the second quarter of 2023, we recorded non-cash impairment charges totaling \$8.7 million related to the closure of certain facilities. The non-cash impairment charges include indefinite-lived intangible asset impairment of \$4.7 million, property impairment of \$2.0 million and operating lease right-of-use asset impairment of \$2.0 million.

Transaction-related expenses. Transaction-related expenses were \$9.1 million for the three months ended June 30, 2023, compared to \$3.9 million for the three months ended June 30, 2022. Transaction-related expenses represent legal, accounting, termination, restructuring, management transition, acquisition and other similar costs incurred in the respective period, as summarized below (in thousands).

	Three Months Ended June 30,	
	2023	2022
Management transition costs	\$ 6,175	\$ 1,165
Termination and restructuring costs	1,974	688
Legal, accounting and other acquisition-related costs	925	2,087
	<u>\$ 9,074</u>	<u>\$ 3,940</u>

Provision for income taxes. For the three months ended June 30, 2023, the provision for income taxes was \$22.9 million, reflecting an effective tax rate of 23.7%, compared to \$27.7 million, reflecting an effective tax rate of 25.3%, for the three months ended June 30, 2022.

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

Six months ended June 30, 2023 compared to the six months ended June 30, 2022

Revenue. Revenue increased \$167.2 million, or 13.2%, to \$1,435.6 million for the six months ended June 30, 2023 from \$1,268.4 million for the six months ended June 30, 2022. Same facility revenue increased \$155.3 million, or 12.3%, for the six months ended June 30, 2023 compared to the six months ended June 30, 2022, resulting from an increase in same facility revenue per day of 6.3%, same facility growth in admissions of 6.4% and same facility growth in patient days of 5.7%. Consistent with same facility revenue growth in 2022, the growth in same facility patient days for the six months ended June 30, 2023 compared to the six months ended June 30, 2022 resulted from the addition of beds to our existing facilities and ongoing demand for our services.

Salaries, wages and benefits. SWB expense was \$777.8 million for the six months ended June 30, 2023 compared to \$675.2 million for the six months ended June 30, 2022, an increase of \$102.7 million. SWB expense included \$15.0 million and \$14.5 million of equity-based compensation expense for the six months ended June 30, 2023 and 2022, respectively. Excluding equity-based compensation expense, SWB expense was \$762.8 million, or 53.1% of revenue, for the six months ended June 30, 2023, compared to \$660.6 million, or 52.1% of revenue, for the six months ended June 30, 2022. The increase in SWB expense relates to incremental staff to support volume growth as well as wage inflation. Same facility SWB expense was \$688.7 million for the six months ended June 30, 2023, or 48.6% of revenue, compared to \$611.2 million for the six months ended June 30, 2022, or 48.5% of revenue.

Professional fees. Professional fees were \$84.9 million for the six months ended June 30, 2023, or 5.9% of revenue, compared to \$77.4 million for the six months ended June 30, 2022, or 6.1% of revenue. Same facility professional fees were \$75.3 million for the six months ended June 30, 2023, or 5.3% of revenue, compared to \$71.3 million for the six months ended June 30, 2022, or 5.7% of revenue.

Supplies. Supplies expense was \$52.2 million for the six months ended June 30, 2023, or 3.6% of revenue, compared to \$48.7 million for the six months ended June 30, 2023, or 3.8% of revenue. Same facility supplies expense was \$51.2 million for the six months ended June 30, 2023, or 3.6% of revenue, compared to \$48.3 million for the six months ended June 30, 2022, or 3.8% of revenue.

Rents and leases. Rents and leases were \$23.1 million for the six months ended June 30, 2023, or 1.6% of revenue, compared to \$22.4 million for the six months ended June 30, 2022, or 1.8% of revenue. Same facility rents and leases were \$21.2 million for the six months ended June 30, 2023, or 1.5% of revenue, compared to \$20.9 million for the six months ended June 30, 2022, or 1.7% 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 \$186.8 million for the six months ended June 30, 2023, or 13.0% of revenue, compared to \$166.4 million for the six months ended June 30, 2022, or 13.1% of revenue. Same facility other operating expenses were \$173.3 million for the six months ended June 30, 2023, or 12.2% of revenue, compared to \$159.6 million for the six months ended June 30, 2022, or 12.7% of revenue.

Income from provider relief fund. For the six months ended June 30, 2022, we recorded \$8.6 million in income from provider relief fund related to PHSSE Fund amounts received in 2021.

Depreciation and amortization. Depreciation and amortization expense was \$63.6 million for the six months ended June 30, 2023, or 4.4% of revenue, compared to \$58.1 million for the six months ended June 30, 2022, or 4.6% of revenue.

Interest expense. Interest expense was \$40.9 million for the six months ended June 30, 2023 compared to \$32.4 million for the six months ended June 30, 2022. The increase in interest expense was primarily a result of higher interest rates applicable to our variable rate debt.

Loss on impairment. During the second quarter of 2023, we recorded non-cash impairment charges totaling \$8.7 million related to the closure of certain facilities. The non-cash impairment charges include indefinite-lived intangible asset impairment of \$4.7 million, property impairment of \$2.0 million and operating lease right-of-use asset impairment of \$2.0 million.

Transaction-related expenses. Transaction-related expenses were \$15.5 million for the six months ended June 30, 2023, compared to \$7.5 million for the six months ended June 30, 2022. Transaction-related expenses represent legal, accounting, termination, restructuring, management transition, acquisition and other similar costs incurred in the respective period, as summarized below (in thousands).

	Six Months Ended June 30,	
	2023	2022
Management transition costs	\$ 10,976	\$ 2,200
Legal, accounting and other acquisition-related costs	2,564	2,676
Termination and restructuring costs	2,005	2,646
	<u>\$ 15,545</u>	<u>\$ 7,522</u>

Provision for income taxes. For the six months ended June 30, 2023, the provision for income taxes was \$42.0 million, reflecting an effective tax rate of 23.0%, compared to \$45.1 million, reflecting an effective tax rate of 23.9%, for the six months ended June 30, 2022.

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

Revenue

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

The following table presents revenue by payor type and as a percentage of revenue for the three and six months ended June 30, 2023 and 2022 (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2023		2022		2023		2022	
	Amount	%	Amount	%	Amount	%	Amount	%
Commercial	\$ 209,383	28.6 %	\$ 202,171	31.0 %	\$ 413,002	28.8 %	\$ 397,340	31.3 %
Medicare	109,845	15.0 %	97,173	14.9 %	218,485	15.2 %	192,093	15.1 %
Medicaid	391,963	53.6 %	326,998	50.2 %	756,269	52.7 %	627,524	49.6 %
Self-Pay	15,804	2.2 %	18,630	2.9 %	36,502	2.5 %	38,377	3.0 %
Other	4,342	0.6 %	6,747	1.0 %	11,346	0.8 %	13,038	1.0 %
					1,435,60		1,268,37	
Revenue	<u>\$ 731,337</u>	<u>100.0 %</u>	<u>\$ 651,719</u>	<u>100.0 %</u>	<u>\$ 4</u>	<u>100.0 %</u>	<u>\$ 2</u>	<u>100.0 %</u>

The following tables present a summary of our aging of accounts receivable at June 30, 2023 and December 31, 2022:

June 30, 2023

	Current	30-90	90-150	>150	Total
Commercial	19.8 %	5.2 %	3.3 %	8.6 %	36.9 %
Medicare	10.0 %	1.4 %	0.8 %	1.4 %	13.6 %
Medicaid	31.7 %	3.9 %	2.6 %	4.9 %	43.1 %
Self-Pay	1.2 %	1.4 %	1.5 %	2.3 %	6.4 %
Other	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Total	<u>62.7 %</u>	<u>11.9 %</u>	<u>8.2 %</u>	<u>17.2 %</u>	<u>100.0 %</u>

December 31, 2022

	<u>Current</u>	<u>30-90</u>	<u>90-150</u>	<u>>150</u>	<u>Total</u>
Commercial	18.0%	5.3%	2.8%	8.4%	34.5%
Medicare	11.5%	1.7%	0.7%	1.4%	15.3%
Medicaid	31.7%	4.5%	2.6%	4.7%	43.5%
Self-Pay	1.2%	1.4%	1.2%	2.6%	6.4%
Other	0.2%	0.0%	0.0%	0.1%	0.3%
Total	62.6%	12.9%	7.3%	17.2%	100.0%

Liquidity and Capital Resources

Cash provided by operating activities for the six months ended June 30, 2023 was \$208.2 million compared to \$226.0 million for the six months ended June 30, 2022. Days sales outstanding at June 30, 2023 was 43 compared to 44 at December 31, 2022.

Cash used in investing activities for the six months ended June 30, 2023 was \$157.7 million compared to \$135.8 million for the six months ended June 30, 2022. Cash used in investing activities for the six months ended June 30, 2023 primarily consisted of \$157.4 million of cash paid for capital expenditures and \$0.9 million of other, offset by \$0.6 million of proceeds from sales of property and equipment. Cash paid for capital expenditures for the six months ended June 30, 2023 was \$157.4 million, consisting of routine or maintenance capital expenditures of \$39.5 million and expansion capital expenditures of \$117.9 million. We define expansion capital expenditures as those that increase the capacity of our facilities or otherwise enhance revenue. Routine or maintenance capital expenditures, including information technology capital expenditures, were approximately 3% of revenue for the six months ended June 30, 2023. Cash used in investing activities for the six months ended June 30, 2022 primarily consisted of \$132.4 million of cash paid for capital expenditures and \$5.0 million of other, offset by \$1.7 million of proceeds from the sale of property and equipment. Cash paid for capital expenditures for the six months ended June 30, 2022 consisted of \$32.2 million of routine capital expenditures and \$100.2 million of expansion capital expenditures.

Cash used in financing activities for the six months ended June 30, 2023 was \$36.0 million compared to \$95.6 million for the six months ended June 30, 2022. Cash used in financing activities for the six months ended June 30, 2023 consisted of repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises of \$45.9 million, principal payments on revolving credit facility of \$20.0 million, principal payments on long-term debt of \$10.6 million and distributions to noncontrolling partners in joint ventures of \$2.0 million, offset by borrowings on revolving credit facility of \$40.0 million and contributions from noncontrolling partners in joint ventures of \$2.5 million. Cash used in financing activities for the six months ended June 30, 2022 primarily consisted of principal payments on revolving credit facility of \$85.0 million, repurchase of shares for payroll tax withholding, net of proceeds from stock option exercises of \$9.9 million, principal payments on long-term debt of \$8.0 million and distributions of to noncontrolling partners in joint ventures of \$0.8 million, offset by \$8.0 million of contributions from noncontrolling partners in joint ventures.

We had total available cash and cash equivalents of \$112.2 million and \$97.6 million at June 30, 2023 and December 31, 2022, respectively, of which approximately \$6.5 million and \$3.7 million was held by our foreign subsidiaries, respectively. Our strategic plan does not require the repatriation of foreign cash in order to fund our operations in the U.S.

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

Desert Hills Litigation

As described in more detail in Note 17 – Commitments and Contingencies in the accompanying notes to our consolidated financial statements, on July 7, 2023, a jury in our pending Inman Litigation awarded the plaintiff compensatory damages of \$80 million and punitive damages of \$405 million. We are evaluating all legal options and intend to challenge this verdict. During the pendency of the challenge, we may be required to post a bond in an amount of up to \$970 million. Neither the verdict nor the posting of the anticipated bond would result in a default under our debt instruments. At this time, we are not able to quantify the ultimate liability in connection with the Inman Litigation, or the potential liability in connection with similar unresolved lawsuits constituting the Desert Hills Litigation, however it may have a material impact on our financial condition and liquidity.

Credit Facility

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

On March 30, 2023, we entered into the First Amendment. The First Amendment replaced LIBOR with Adjusted Term SOFR. Borrowings under the Credit Facility bear interest at a rate equal to, at our option, either (a) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate of Bank of America or (iii) Adjusted Term SOFR for a one month interest period or (b) Adjusted Term SOFR, in each case plus an applicable margin that varies according to our total leverage ratio from 0.375% to 1.250% in the case of base rate loans and from 1.375% to 2.250% in the case of Adjusted Term SOFR loans. In addition, an unused fee that varies according to our total leverage ratio from 0.200% to 0.350% is payable quarterly in arrears based on the average daily undrawn portion of the commitments in respect of the Revolving Facility.

During the six months ended June 30, 2023, we borrowed \$40.0 million on the Revolving Facility and repaid \$20.0 million of the balance outstanding. We had \$501.6 million of availability under the Revolving Facility and had standby letters of credit outstanding of \$3.4 million related to security for the payment of claims required by our workers' compensation insurance program at June 30, 2023.

The Credit Facility requires quarterly term loan principal repayments for our Term Loan Facility of \$5.3 million for September 30, 2023 to March 31, 2024, \$8.0 million for June 30, 2024 to March 31, 2025 and \$10.6 million for June 30, 2025 to December 31, 2025, with the remaining principal balance of the Term Loan Facility due on the maturity date of March 17, 2026.

We have the ability to increase the amount of the Senior Facilities, which may take the form of increases to the Revolving Facility or the Term Loan Facility or the issuance of the Incremental Facilities, upon obtaining additional commitments from new or existing lenders and the satisfaction of customary conditions precedent for such Incremental Facilities. Such Incremental Facilities may not exceed the sum of (i) the greater of \$480.0 million and an amount equal to 100% of our Consolidated EBITDA (as defined in the Credit Facility), and (ii) additional amounts that would not cause the Consolidated Senior Secured Net Leverage Ratio (as defined in the Credit Facility) to exceed 3.5 to 1.0.

Subject to certain exceptions, substantially all of our existing and subsequently acquired or organized direct or indirect wholly-owned subsidiaries are required to guarantee the repayment of obligations under the Credit Facility. We and such guarantor subsidiaries have granted a security interest on substantially all personal property assets as collateral for the obligations under the Credit Facility.

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

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

The Credit Facility contains customary representations and affirmative and negative covenants, including limitations on our ability and our subsidiaries' ability to incur additional debt, grant or permit additional liens, make investments and acquisitions, merge or consolidate with others, dispose of assets, pay dividends and distributions, pay junior indebtedness and enter into affiliate transactions, in each case, subject to customary exceptions. In addition, the Credit Facility contains financial covenants requiring us on a consolidated basis to maintain, as of the last day of any consecutive four fiscal quarter period, a consolidated total net leverage ratio of not more than 5.0 to 1.0 and an interest coverage ratio of at least 3.0 to 1.0. The Credit Facility also includes events of default customary for facilities of this type and upon the occurrence of any such event of default, among other things, all outstanding loans under the Senior Facilities may be accelerated, the lenders' commitments may be terminated, and/or the lenders may exercise collateral remedies. At June 30, 2023, we were in compliance with all financial covenants.

Senior Notes

5.500% Senior Notes due 2028

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

5.000% Senior Notes due 2029

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

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

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

Supplemental Guarantor Financial Information

We conduct substantially all of our business through our subsidiaries. The Senior Notes are jointly and severally guaranteed on an unsecured senior basis by all of our subsidiaries that guarantee our obligations under the Credit Facility. The summarized financial information presented below is consistent with our consolidated financial statements, except transactions between combining entities have been eliminated. Financial information for our combined non-guarantor entities has been excluded pursuant to SEC Regulation S-X Rule 13-01. Presented below is condensed financial information for our combined wholly-owned subsidiary guarantors at June 30, 2023 and December 31, 2022, and for the six months ended June 30, 2023.

Summarized balance sheet information (in thousands):

	June 30, 2023	December 31, 2022
Current assets	\$ 459,105	\$ 396,553
Property and equipment, net	1,607,465	1,517,893
Goodwill	2,105,227	2,105,227
Total noncurrent assets	3,987,866	3,921,336
Current liabilities	391,674	345,606
Long-term debt	1,372,362	1,364,541
Total noncurrent liabilities	1,636,542	1,629,750
Redeemable noncontrolling interests	—	—
Total equity	2,418,755	2,342,533

Summarized operating results information (in thousands):

	Six Months Ended June 30, 2023
Revenue	\$ 1,260,227
Income before income taxes	161,970
Net income	125,111
Net income attributable to Acadia Healthcare Company, Inc.	125,111

Contractual Obligations

The following table presents a summary of contractual obligations at June 30, 2023 (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)	\$ 104,256	\$ 601,500	\$ 547,000	\$ 522,500	\$ 1,775,256
Operating lease liabilities (b)	33,245	53,984	29,522	61,974	178,725
Finance lease liabilities	990	2,145	2,178	21,277	26,590
Total obligations and commitments	<u>\$ 138,491</u>	<u>\$ 657,629</u>	<u>\$ 578,700</u>	<u>\$ 605,751</u>	<u>\$ 1,980,571</u>

(a) Amounts include required principal and interest payments. The projected interest payments reflect the interest rates in place on our variable-rate debt at June 30, 2023.

(b) Amounts exclude variable components of lease payments.

Critical Accounting Policies

There have been no material changes in our critical accounting policies at June 30, 2023 from those described in our Annual Report on Form 10-K for the year ended December 31, 2022.

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 June 30, 2023 was composed of \$915.1 million of fixed-rate debt and \$457.3 million of variable-rate debt with interest based on Adjusted Term SOFR plus an applicable margin. Based on our borrowing level at June 30, 2023, a hypothetical 1% increase in interest rates would decrease our pretax income on an annual basis by approximately \$4.6 million.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended June 30, 2023 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Item 5. Other Information

From time to time, certain of our executive officers and directors may enter into, amend or terminate written trading arrangements pursuant to Rule 10b5-1 of the Securities and Exchange Act of 1934 or otherwise. During the three months ended June 30, 2023, none of the Company's directors or officers adopted or terminated any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K).

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Information with respect to this item may be found in Note 17 – Commitments and Contingencies in the accompanying notes to our consolidated financial statements of this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the other information set forth in this report, an investor should carefully consider the factors discussed below and in Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022. The risks described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022, 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.

We are and in the future may become involved in legal proceedings based on negligence or breach of a contractual or statutory duty from service users or their family members or from employees or former employees.

From time to time, we are subject to complaints and claims from service users and their family members alleging professional negligence, medical malpractice or mistreatment. We are also subject to claims for unlawful detention from time to time when patients allege they should not have been detained under applicable laws and regulations or where the appropriate procedures were not correctly followed.

Similarly, there may be substantial claims from employees in respect of personal injuries sustained in the performance of their duties. Current or former employees may also make claims against us in relation to breaches of employment laws. There may also be safeguarding incidents at our facilities which, depending on the circumstances, may result in custodial sentences or other criminal sanctions for the member of staff involved.

For example, as described in more detail in Note 17 – Commitments and Contingencies in the accompanying notes to our consolidated financial statements, on July 7, 2023, a jury in our pending Inman Litigation awarded the plaintiff compensatory damages of \$80 million and punitive damages of \$405 million, and could face additional damages in connection with similar unresolved lawsuits constituting the Desert Hills Litigation.

The incurrence of substantial legal fees, damage awards or other fines as well as the potential impact on our brand or reputation as a result of being involved in any legal proceedings could have a material adverse impact on our business, results of operations and financial condition.

We carry a large self-insured retention and may be responsible for significant amounts not covered by insurance. In addition, our insurance may be inadequate, premiums may increase and, if there is a significant deterioration in our claims experience, insurance may not be available on acceptable terms.

We are subject to medical malpractice lawsuits and other legal actions in the ordinary course of business. Some of these actions, such as the Desert Hills Litigation, may involve large claims, as well as significant defense costs. We cannot predict the outcome of these lawsuits or the effect that findings in such lawsuits may have on us. We maintain liability insurance intended to cover service user, third-party and employee personal injury claims. Due to the structure of our insurance program under which we carry a large self-insured retention, there may be substantial claims in respect of which the liability for damages and costs falls to us before being met by any insurance underwriter. There may also be claims in excess of our insurance coverage or claims which are not covered by our insurance due to other policy limitations or exclusions or where we have failed to comply with the terms of the policy. Furthermore, there can be no assurance that we will be able to obtain liability insurance coverage in the future on acceptable terms, or without substantial premium increases or at all, particularly if there is a deterioration in our claim experience history. A successful claim against us not covered by or in excess of our insurance coverage could have a material adverse effect on our business, results of operations and financial condition.

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

During the three months ended June 30, 2023, the Company withheld shares of Company common stock to satisfy employee minimum statutory tax withholding obligations payable upon the vesting of restricted stock, as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 - April 30	4,060	\$ 68.21	—	—
May 1 - May 31	11,948	68.08	—	—
June 1 - June 30	2,904	70.27	—	—
Total	<u>18,912</u>			

Item 6. Exhibits

Exhibit No.	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation, as amended. (1)
3.2	Amended and Restated Bylaws of the Company, as amended. (1)
10.1	Employment Agreement, dated as of June 1, 2023, by and between Acadia Management Company, Inc. and Heather Dixon. (2)
10.2*	Employment Agreement, dated as of June 30, 2023, by and between Acadia Management Company, Inc. and Brian Farley.
10.3*	First Amendment to Employment Agreement, dated as of July 6, 2023, by and between Acadia Management Company, Inc. and Brian Farley
10.4	Separation and Consulting Agreement, dated June 28, 2023 between Acadia Management Company, LLC and Laurence Harrod. (3)
10.5	Separation and Transition Agreement, dated July 5, 2023 between Acadia Management Company, LLC. and Chris Howard. (3)
10.6	Transition Agreement, dated July 5, 2023, by and between Acadia Management Company, LLC and David Duckworth. (3)
22	List of Subsidiary Guarantors and Issuers of Guaranteed Securities. (4)
31.1*	Certification of the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of Chief Executive Officer and Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document.
101.SCH**	Inline XBRL Taxonomy Extension Schema Document.
101.CAL**	Inline XBRL Taxonomy Calculation Linkbase Document.
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	Inline XBRL Taxonomy Label Linkbase Document.
101.PRE**	Inline XBRL Taxonomy Presentation Linkbase Document.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, 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 June 2, 2023 (File No. 001-35331).

(3) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed July 5, 2023 (File No. 001-35331).

(4) Incorporated by reference to exhibits filed with the Company's Annual Report on Form 10-K for year ended December 31, 2022 (File No. 001-35331).

* Filed herewith.

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

SIGNATURES

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

Acadia Healthcare Company, Inc.

By: /s/ Heather Dixon

Heather Dixon

Chief Financial Officer

Dated: July 28, 2023

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this “Agreement”) is made and entered into as of June 30, 2023 (the “Effective Date”), by and between Acadia Management Company, Inc., a Delaware corporation (the “Company”), and Brian Farley (“Executive”).

WHEREAS, the Company desires to employ Executive, and Executive desires to be employed by and render services to the Company and its respective affiliates, on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Employment; Employment Period. The Company shall employ Executive, and Executive hereby accepts employment with the Company, upon the terms and conditions set forth in this Agreement for the period beginning on the 31st of July, 2023 (the “Start Date”) and ending on the date on which Executive’s employment is terminated pursuant to Section 4 hereof (the “Employment Period”). The place of employment of Executive shall be the principal executive offices and corporate headquarters of the Company and Acadia Healthcare Company, Inc., a Delaware corporation (“Acadia”), which, during the Employment Period, shall be located in Franklin, Tennessee.

2. Position and Duties.

(a) Position; Responsibilities. During the Employment Period, Executive shall serve as the Executive Vice President, General Counsel and Corporate Secretary of the Company and Acadia and shall have the normal duties, responsibilities, functions and authority of an executive vice president and general counsel, subject to the power and authority of the board of directors (the “Board”) of Acadia, to expand or limit such duties, responsibilities, functions and authority within the scope of duties, responsibilities, functions and authority associated with the position of Executive Vice President, General Counsel and Corporate Secretary and to overrule actions of officers of the Company.

(b) Reporting; Performance of Duties. Executive shall report to the Chief Executive Officer of Acadia and devote Executive’s full business time and attention (except for permitted vacation periods and reasonable periods of illness or other incapacity) to the business and affairs of Acadia and the Subsidiaries. So long as Executive is employed by the Company, Executive shall not, without the prior written consent or approval of the Board, perform other services for compensation. Notwithstanding the foregoing, nothing herein shall preclude Executive from (i) serving, with the prior written consent of the Board (not to be unreasonably withheld), as a member of the boards of directors or advisory boards (or their equivalents in the case of a non-corporate entity) of for-profit companies or businesses which are not directly competitive with the Company or any Subsidiary (provided that the prior written consent of the Board shall not be required for Executive to serve as a member of the boards of directors or advisory boards (or their equivalents) of the companies listed on Exhibit A); (ii) engaging in charitable activities and community affairs (including serving as a member of the boards of directors or advisory boards (or their equivalents in the case of a non-corporate entity) of not-for-profit, charitable or community organizations which are not directly competitive with the Company or any Subsidiary); or (iii) engaging in activities disclosed on Exhibit A; provided, however, the activities set out in clauses (i), (ii) and (iii) above shall be limited by Executive so as not to materially interfere, individually or in the aggregate, with the performance of Executive’s duties and responsibilities hereunder. For the avoidance of doubt, so long as Executive is employed by the Company, Executive shall not provide any services to any company or business that is directly competitive with Acadia or the Subsidiaries (whether for-profit or not-for-profit) without the prior written consent of the Board.

3. Compensation and Benefits.

(a) Base Salary. During the Employment Period, Executive’s base salary shall be \$550,000 per annum, subject to increase by the Board or Acadia’s Compensation Committee (the “Compensation Committee”) in its sole discretion on an annual basis (as adjusted from time to time, the “Base Salary”), which salary shall be payable by the Company in regular installments in accordance with the Company’s general payroll practices (as in effect from

time to time). The Base Salary for any partial year during the Employment Period will be based upon the actual number of days elapsed in such year.

(b) Bonus. In addition to the Base Salary, during each calendar year of the Employment Period beginning with the year ending December 31, 2023, Executive will be eligible to earn a target annual cash bonus of 85% of the Base Salary and up to a maximum cash bonus equal to two (2) times the target annual cash bonus for such year, if and only if Executive, Acadia and the Subsidiaries achieve the performance criteria specified by the Board or the Compensation Committee for such year, as determined by the Board or the Compensation Committee in its sole discretion. Notwithstanding the foregoing, Executive's Annual Bonus for the 2023 calendar year will be pro-rated from the Start Date. Unless otherwise agreed to by Executive, any such bonus amount for any year shall be earned (if awarded) on the last day of such year and paid by the Company in the calendar year following the calendar year to which such bonus has been earned and no later than the earlier of (x) the date that is ten (10) business days after the Company's receipt of its audited financial statements for the calendar year with respect to which such bonus has been earned and (y) December 31 of the calendar year following such year with respect to which such bonus has been earned.

(c) Cash Award. Executive will receive a one-time cash award in an amount equal to \$400,000, payable in a lump sum on or before March 31, 2024, provided that Executive remains employed by the Company through such payment date.

(d) Long-Term Incentive Compensation.

(i) Subject to approval by the Board or the Compensation Committee (which shall be sought as soon as practicable following the Effective Date), Executive shall receive an initial long-term incentive award (the "Initial Award") consisting of 18,000 time-based restricted stock units to acquire shares of the common stock of Acadia ("RSUs") and 10,000 performance stock units to acquire shares of the common stock of Acadia ("PSUs"). The date of grant of the Initial Award shall be the date of approval by the Board or the Compensation Committee. RSUs included in the Initial Award shall vest in four equal annual installments from the date of grant; provided that Executive has not suffered a Termination (as such term is defined in Acadia's Incentive Compensation Plan) prior to the applicable vesting date. PSUs included in the Initial Award shall vest based on performance over a three-year performance period commencing on January 1, 2023 and ending on December 31, 2025; provided that, except as otherwise provided in Section 4 or the form of award agreement documenting the terms of such award, Executive has not suffered a Termination prior to the last day of such performance period. The performance criteria for such PSUs shall be established by the Board or the Compensation Committee, with 50% of such performance criteria based on EBITDA and 50% of such performance criteria based on earnings per share.

(ii) Commencing with Acadia's 2024 fiscal year, Executive shall be eligible to receive annual grants of long-term incentive awards in amounts and on terms and conditions comparable to Acadia's other senior executives as determined by the Compensation Committee.

(e) Business Expenses. During the Employment Period, the Company shall reimburse Executive bi-weekly in accordance with the Company's customary payroll practices for all reasonable out-of-pocket business expenses incurred by Executive in the course of performing Executive's duties and responsibilities under this Agreement that are consistent with the Company's policies in effect from time to time with respect to travel, lodging, meals, entertainment and other business expenses, subject to the Company's requirements with respect to reporting and documentation of such expenses. From the Effective Date through the earlier of the second anniversary of the Effective Date or the date Executive relocates to the greater Nashville, Tennessee area, the Company shall reimburse Executive bi-weekly in accordance with the Company's customary payroll practices for all travel, lodging and meal expenses relating to Executive's travel from Executive's home in the State of Illinois to work at the Company's corporate office in Franklin, Tennessee.

(f) Relocation. Executive shall relocate Executive's principal residence to the greater Nashville, Tennessee area on or before the second anniversary of the Effective Date. The Company shall reimburse Executive for reasonable expenses incurred in connection with such relocation in accordance with the Company's relocation policy in effect from time to time, including, without limitation, the Company's requirements with respect to reporting and documentation of such expenses.

(g) Benefits. In addition to (but without duplication of) the Base Salary and any bonuses payable to Executive pursuant to this Section 3, Executive shall be entitled to participate at Executive's sole discretion in all of the Company's employee benefit programs for which senior executive employees of the Company are generally eligible.

4. Termination.

(a) Termination. The Employment Period shall terminate automatically and immediately upon Executive's resignation for any reason (whether with Good Reason or without Good Reason), Executive's death or becoming Disabled, or upon the termination of Executive's employment by the Company (through action by the Board) for any reason (whether for Cause or without Cause). The date on which Executive ceases to be employed by the Company is referred to herein as the "Termination Date."

(b) Termination without Cause or with Good Reason. If the Employment Period is terminated by the Company without Cause or by Executive with Good Reason, then Executive shall be entitled to receive:

(i) Executive's unpaid Base Salary through the Termination Date (payable in accordance with Section 3(a)), or such earlier date required by law);

(ii) an amount equal to the actual annual cash bonus amount to which Executive would be entitled under Section 3(b) with respect to the calendar year in which the Termination Date occurs, determined based on achievement of the performance objectives specified in Executive's bonus plan for such year, as determined by the Board or the Compensation Committee in its sole discretion, which amount shall be prorated based on the actual number of days elapsed in such year prior to the Termination Date (payable at the same time it would have been paid pursuant to Section 3(b));

(iii) an amount equal to one (1) times the target annual cash bonus amount to which Executive would be entitled under Section 3(b) with respect to the calendar year in which the Termination Date occurs, determined as if Executive, Acadia and the Subsidiaries have achieved all of the performance objectives specified in Executive's bonus plan for such year at the target level, whether or not such objectives actually have been achieved as of the Termination Date (payable in a lump sum within ten (10) business days after the Termination Date);

(iv) an amount equal to twelve (12) months of Executive's Base Salary as in effect on the Termination Date (such 12-month period, the "Severance Period"), (payable in a lump sum within ten (10) business days after the Termination Date);

(v) payment of the Annual Bonus for the prior year, as well as the Cash Award under Section 3(c), to the extent not previously paid;

(vi) payment in respect of any unused paid time off and sick pay of Executive in such amounts as have accrued as of the Termination Date in accordance with the Company's policies with respect thereto as in effect during the Employment Period, and reimbursement of any business expenses incurred by Executive but not reimbursed prior to the Termination Date in accordance with and reimbursable under the terms of the Company's policies with respect thereto as in effect on the Termination Date (in each case, payable in a lump sum within ten (10) business days after the Termination Date);

(vii) an amount equal to the cost of the premiums for continued health and dental insurance for Executive and/or Executive's dependents in accordance with the Consolidated Budget Reconciliation Act of 1985 ("COBRA") for the period commencing on the Termination Date and ending on the date on which the Severance Period expires (payable in monthly installments during and concurrently with Executive's COBRA period); provided that if Executive's COBRA period is terminated or expires prior to expiration of the Severance Period, then Executive shall be entitled to continue to receive an amount equal to the cost of the premiums for continued health and dental insurance for Executive and/or Executive's dependents in accordance with COBRA (assuming such continued insurance coverage remained available at the same monthly cost) for the period commencing on the date of such termination or expiration and ending on the date on which the Severance Period expires; and

(viii) all equity and equity-based awards granted to Executive during the Employment Period (the “Equity Awards”) shall be treated as set forth below: (A) the Equity Awards subject to time-based vesting requirements will fully vest on the Termination Date; and (B) the Equity Awards subject to performance-based vesting requirements will remain outstanding and eligible to vest based on actual achievement of the applicable performance conditions, subject to the terms and conditions (other than any term or condition requiring continued employment) set forth in the applicable award agreement and/or governing documentation.

Notwithstanding the foregoing, Executive shall not be entitled to receive the benefits provided for in Sections 4(b)(ii) – 4(b)(viii) above unless and until Executive signs and delivers and does not revoke the General Release substantially in the form attached hereto as Exhibit B; and provided further that Executive has not breached any of the provisions of Sections 5, 6 and 7 hereof.

(c) Termination by Death or Disability. If the Employment Period is terminated due to Executive’s death or becoming Disabled, then Executive (or Executive’s estate or beneficiary) shall be entitled to receive:

(i) Executive’s unpaid Base Salary through the Termination Date (payable in accordance with Section 3(a));

(ii) an amount equal to the actual annual cash bonus amount to which Executive would be entitled under Section 3(b) with respect to the calendar year in which the Termination Date occurs, determined based on achievement of the performance objectives specified in Executive’s bonus plan for such year, as determined by the Board or the Compensation Committee in its sole discretion, which amount shall be prorated based on the actual number of days elapsed in such year prior to the Termination Date (payable at the same time it would have been paid pursuant to Section 3(b));

(iii) payment in respect of any unused paid time off and sick pay of Executive in such amounts as have accrued as of the Termination Date in accordance with the Company’s policies with respect thereto as in effect during the Employment Period, and reimbursement of any business expenses incurred by Executive but not reimbursed prior to the Termination Date in accordance with and reimbursable under the terms of the Company’s policies with respect thereto as in effect on the Termination Date (in each case, payable in a lump sum within ten (10) business days after the Termination Date);

(iv) an amount equal to the cost of the premiums for continued health and dental insurance for Executive and/or Executive’s dependents in accordance with COBRA for the period commencing on the Termination Date and ending on the earliest of (A) the date on which Executive’s COBRA period terminates or expires, (B) six (6) months after the Termination Date, and (C) the date on which Executive becomes eligible for long-term disability benefits under any long-term disability program sponsored by the Company (payable in monthly installments during and concurrently with Executive’s COBRA period); provided that if Executive’s COBRA period is terminated prior to expiration of the period commencing on the Termination Date and ending on the earlier of (I) the date on which Executive becomes eligible for long-term disability benefits under any long-term disability program sponsored by the Company, and (II) six (6) months after the Termination Date (such period, the “Disability Severance Period”), then Executive shall be entitled to continue to receive an amount equal to the cost of the premiums for continued health and dental insurance for Executive and/or Executive’s dependents in accordance with COBRA (assuming such continued insurance coverage remained available at the same monthly cost) payable in monthly installments during the period commencing on the date of such termination or expiration and ending on the date on which the Disability Severance Period expires; and

(v) payment of the Annual Bonus under Section 3(b) for the prior year, as well as the Cash Award under Section 3(c), to the extent not previously paid.

In addition, if the Employment Period is terminated due to Executive’s becoming Disabled (but, for the avoidance of doubt, not due to Executive’s death), then Executive (or Executive’s estate or beneficiary) shall be entitled to receive, during the Disability Severance Period, continued installment payments of Executive’s Base Salary as in effect on the Termination Date, which shall be payable over the Disability Severance Period in regular installments in accordance

with the Company's general payroll practices as in effect on the Termination Date, but in no event less frequently than monthly.

(d) Other Termination. If the Employment Period is terminated (i) by the Company for Cause, or (ii) by Executive's resignation without Good Reason, then the Company shall pay Executive (A) Executive's unpaid Base Salary through the Termination Date (payable in accordance with Section 3(a)) and (B) any bonus amount under Section 3(b) to which Executive is entitled determined by reference to the calendar year that ended on or prior to the Termination Date (payable at the same time it would have been paid pursuant to Section 3(b)).

(e) Continuation of Benefits. Upon any termination of employment, whether voluntary or otherwise, Executive shall have the option to elect health insurance coverage for Executive, Executive's spouse and Executive's eligible dependents during the period commencing on the end of the statutory COBRA period, if any (provided that Executive validly elected COBRA continuation coverage), until the earliest of the date on which Executive (A) is eligible to participate in another health benefit plan (including, without limitation, a plan sponsored by a then current or former employer of Executive's or Executive's spouse, other than a plan that provides for "excepted benefits" as defined under section 733(c) of the Employee Retirement Income Security Act of 1974) or (B) becomes eligible for Medicare. Such coverage will be provided for by the Company (or any successor to the Company, whether by operation of law or otherwise) in accordance with applicable law, and Executive shall pay premiums consistent with other senior executive employees of the Company (or any successor to the Company, whether by operation of law or otherwise). Executive agrees to take all required actions and provide any requested personal medical history and information, in accordance with the applicable policy application and medical underwriting process.

(f) No Mitigation. Executive is under no obligation to mitigate damages or the amount of any payment provided for under this Section 4 by seeking other employment or otherwise.

(g) Right of Offset. The Company may offset any bona fide obligations that Executive owes Acadia or any of the Subsidiaries (which for the avoidance of doubt shall not include any unliquidated obligations or obligations to the extent Executive disputes in good faith the nature or amount thereof) against any amounts the Company or any of the Subsidiaries owes Executive hereunder; provided that, notwithstanding the foregoing or any other provision of this Agreement to the contrary, in no event shall any payment under this Agreement that constitutes "deferred compensation" for purposes of Code Section 409A be subject to offset, counterclaim or recoupment by any other amount unless otherwise permitted by Code Section 409A.

(h) Section 409A Compliance.

(i) The intent of the parties is that payments and benefits under this Agreement comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations and guidance promulgated thereunder (collectively "Code Section 409A") and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted and administered to be in compliance therewith. In no event whatsoever shall Acadia or any of the Subsidiaries be liable for any additional tax, interest or penalty that may be imposed on Executive by Code Section 409A or damages for failing to comply with Code Section 409A.

(ii) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment," "termination of the Employment Period" or like terms shall mean "separation from service."

(iii) All expenses or other reimbursements under this Agreement shall be made on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by Executive (provided that if any such reimbursements constitute taxable income to Executive, such reimbursements shall be paid no later than March 15th of the calendar year following the calendar year in which the expenses to be reimbursed were incurred), and no such reimbursement or expenses eligible for reimbursement in any taxable year shall in any way affect the expenses eligible for reimbursement in any other taxable year.

(iv) For purposes of Code Section 409A, Executive's right to receive any installment payment pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments.

(v) Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within fifteen (15) days following the Termination Date"), the actual date of payment within the specified period shall be within the sole discretion of the Company.

(vi) Notwithstanding any other payment schedule provided herein to the contrary, if Executive is deemed on the Termination Date to be a "specified employee" within the meaning of that term under Code Section 409A(a)(2)(B), then any payment that is considered deferred compensation under Code Section 409A payable on account of a "separation from service" shall be made on the date which is the earlier of (a) the expiration of the six (6)-month period measured from the date of such "separation from service" of Executive and (b) the date of Executive's death (the "Delay Period") to the extent required under Code Section 409A. Upon the expiration of the Delay Period, all payments delayed pursuant to the immediately preceding sentence (whether they otherwise would have been payable in a single sum or in installments in the absence of such delay) shall be paid to Executive in a lump sum, and all remaining payments due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein. In addition, if Executive is a "specified employee," to the extent that welfare benefits to be provided to Executive pursuant to this Agreement are not "disability pay," "death benefit" plans or non-taxable medical benefits within the meaning of Treasury Regulation Section 1.409A-1(a)(5) or other benefits not considered nonqualified deferred compensation within the meaning of that regulation, such provision of benefits shall be delayed until the end of the Delay Period. Notwithstanding the foregoing, to the extent that the previous sentence applies to the provision of any ongoing health or welfare benefits that would not be required to be delayed if the premiums were paid by Executive, Executive shall pay the full cost of the premiums for such benefits during the Delay Period and the Company shall pay Executive an amount equal to the amount of such premiums paid by Executive during the Delay Period within ten (10) days after the end of the Delay Period.

5. Confidential Information.

(a) Protection of Confidential Information. Executive acknowledges that the continued success of Acadia and the Subsidiaries depends upon the use and protection of a large body of confidential and proprietary information. All of such confidential and proprietary information now existing or to be developed in the future will be referred to in this Agreement as "Confidential Information." Confidential Information will be interpreted broadly to include, without limitation, all information that is (i) related to Acadia's or the Subsidiaries' (including any of their predecessors' prior to being acquired by the Company) current or potential business and (ii) is not generally or publicly known (including, without specific limitation, the information, observations and data concerning (A) acquisition opportunities in or reasonably related to Acadia's or the Subsidiaries' business or industry, (B) identities and requirements of, contractual arrangements with and other information regarding Acadia's or the Subsidiaries' employees (including personnel files and other information), suppliers, distributors, customers, independent contractors, third-party payors, providers or other business relations and their confidential information, including, without limitation, patient records, medical histories and other information concerning patients (including, without limitation, all "Protected Health Information" within the meaning of the Health Insurance Portability and Accountability Act), and (C) internal business information and intellectual property of every kind and description of Acadia and the Subsidiaries). Executive agrees that during the Employment Period and at any time thereafter, Executive shall not disclose to any unauthorized person or use for Executive's own account any of such Confidential Information, whether or not developed by Executive, without the Board's prior written consent, unless and to the extent that any Confidential Information (1) was known to Executive prior to the negotiation of this Agreement or the Employment Period from a source (other than Acadia, the Subsidiaries or any of their respective agents) that, to the knowledge of Executive, was not prohibited from disclosing such information by a legal, contractual or fiduciary obligation to Acadia or any of the Subsidiaries, (2) becomes generally known to and available for use by the public other than as a result of Executive's acts or omissions to act or (3) is required to be disclosed pursuant to any applicable law or court order.

(b) Use of Others' Confidential Information. During the Employment Period, Executive shall not use or disclose any confidential information or trade secrets, if any, of any former employers or any other Person to whom Executive has an obligation of confidentiality. If at any time during Executive's employment with the Company, Executive believes Executive is being asked to engage in work that will, or will be likely to, jeopardize any

confidentiality or other obligations Executive may have to former employers, then Executive shall immediately advise the Board so that Executive's duties can be modified appropriately.

(c) Third-Party Information. Executive understands that Acadia and the Subsidiaries will receive from third parties confidential or proprietary information ("Third-Party Information") subject to a duty on Acadia's and the Subsidiaries' part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the Employment Period and thereafter, and without in any way limiting the provisions of Section 5(a), Executive will hold Third-Party Information in the strictest confidence and will not disclose to anyone (other than personnel of Acadia or the Subsidiaries who need to know such information in connection with their work for Acadia or the Subsidiaries) or use, except in connection with Executive's work for Acadia or the Subsidiaries, Third-Party Information unless expressly authorized by the Board in writing.

(d) Whistleblower Protection. Notwithstanding anything to the contrary contained herein, no provision of this Agreement will be interpreted so as to impede Executive (or any other individual) from (i) making any disclosure of relevant and necessary information or documents in any action, investigation, or proceeding relating to this Agreement, or as required by law or legal process, including with respect to possible violations of law, (ii) participating, cooperating, or testifying in any action, investigation, or proceeding with, or providing information to, any governmental agency, legislative body or any self-regulatory organization, including, but not limited to, the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General, (iii) accepting any U.S. Securities and Exchange Commission Awards, or (iv) making other disclosures under the whistleblower provisions of federal law or regulation. In addition, nothing in this Agreement or any other agreement or Company policy prohibits or restricts Executive from initiating communications with, or responding to any inquiry from, any administrative, governmental, regulatory or supervisory authority regarding any good faith concerns about possible violations of law or regulation. Executive does not need the prior authorization of the Company to make any such reports or disclosures and Executive will not be required to notify the Company that such reports or disclosures have been made.

6. Ownership of Intellectual Property, Inventions and Patents. Executive acknowledges that all discoveries, concepts, ideas, inventions, innovations, improvements, developments, methods, processes, programs, designs, analyses, drawings, reports, patent applications, copyrightable work and mask work (whether or not including any confidential information) and all registrations or applications related thereto, all other proprietary information and all similar or related information (whether or not patentable) which relate to Acadia's or the Subsidiaries' actual or anticipated business, research and development or existing or future products or services and which are conceived, developed, contributed to, made or reduced to practice by Executive (whether alone or jointly with others) while employed by Acadia or the Subsidiaries after the date of this Agreement, including any of the foregoing that constitutes any proprietary information or records ("Work Product"), belong to Acadia or such Subsidiary. Any copyrightable work prepared in whole or in part by Executive in the course of Executive's work for any of the foregoing entities shall be deemed a "work made for hire" to the maximum extent permitted under copyright laws, and Acadia or such Subsidiary shall own all rights therein. To the extent any such copyrightable work is not a "work made for hire," Executive hereby assigns and agrees to assign to Acadia or such Subsidiary all right, title and interest, including, without limitation, copyright, in and to such copyrightable work. Executive shall promptly disclose such Work Product to the Board and, at the Company's expense, perform all actions reasonably requested by the Board (whether during or after the Employment Period) to establish and confirm such ownership by Acadia or such Subsidiary (including, without limitation, execution and delivery of assignments, consents, powers of attorney and other instruments).

7. Non-Compete; Non-Solicit.

(a) Non-Compete. In further consideration of the compensation to be paid to Executive hereunder, Executive acknowledges that, during the course of Executive's employment with the Company, Executive has and shall become familiar with Acadia's and the Subsidiaries' trade secrets and with other Confidential Information concerning Acadia and the Subsidiaries and that Executive's services have been and shall be of special, unique and extraordinary value to Acadia and the Subsidiaries, and, therefore, Executive agrees that, during the Employment Period and for a period thereafter of twelve (12) months (the "Noncompete Period"), Executive shall not (i) directly or indirectly own any interest in, manage, control, participate in, consult with, render services for, or in any manner engage in any business that derives at least 25% of its gross revenue from the business of providing behavioral healthcare and/or related services or (ii) directly or indirectly manage, control, participate in, consult with

or render services specifically with respect to any unit, division, segment or subsidiary of any other business that engages in or otherwise competes with (or was organized for the purpose of engaging in or competing with) the business of providing behavioral healthcare and/or related services (provided that, this clause (ii) shall not be construed to prohibit Executive from directly or indirectly owning any interest in, managing, controlling, participating in, consulting with, rendering services for, or in any manner engaging in any business activities with or for such business generally and, for the avoidance of doubt, not specifically with respect to such unit, division, segment or subsidiary), in each case, within any geographical area in which Acadia and the Subsidiaries engage in such businesses; provided that Executive shall not be subject to the restrictions set forth in this Section 7(a) if the Employment Period is terminated by the Company without Cause or by Executive with Good Reason and for so long as the Company is in breach of its obligations under Section 4(b) and such breach is not the subject of a good faith dispute between the Company and Executive. For purposes of this Agreement, the term “participate in” shall include, without limitation, having any direct or indirect interest in any Person, whether as a sole proprietor, owner, stockholder, partner, joint venturer, creditor or otherwise, or rendering any direct or indirect service or assistance to any individual, corporation, partnership, joint venture and other business entity (whether as a director, officer, manager, supervisor, employee, agent, consultant or otherwise). Nothing herein shall prohibit Executive from being a passive owner of not more than 2% of the outstanding stock of any class of a corporation which is publicly traded, so long as Executive has no active participation in the business of such corporation.

(b) Non-Solicit. During the Employment Period and for a period thereafter of twelve (12) months (the “Nonsolicit Period”), Executive shall not directly or indirectly through another Person (other than on behalf of Acadia and the Subsidiaries) (i) induce or attempt to induce any employee or independent contractor of Acadia or the Subsidiaries to leave the employ or services of Acadia or the Subsidiaries, or in any way interfere with the relationship between Acadia and the Subsidiaries and any employee or independent contractor thereof, (ii) hire or seek any business affiliation with any person who was an employee or independent contractor of Acadia or the Subsidiaries at any time during the twelve (12) months prior to the Termination Date or (iii) induce or attempt to induce any customer, supplier, licensee, licensor or other business relation of Acadia or any Subsidiary to cease doing business with Acadia or such Subsidiary or interfere with the relationship between any such customer, supplier, licensor or other business relation and Acadia or any Subsidiary; provided that Executive shall not be subject to the restrictions set forth in this Section 7(b) if the Employment Period is terminated by the Company without Cause or by Executive with Good Reason and for so long as the Company is in breach of its obligations under Section 4(b) and such breach is not the subject of a good faith dispute between the Company and Executive.

(c) Non-Disparagement. Without limiting any other obligation of Executive pursuant to this Agreement, Executive hereby covenants and agrees that, except as may be required by applicable law, Executive shall not make any statement, written or verbal, in any forum or media, or take any other action in disparagement of Acadia or any of its Subsidiaries, during the Employment Period and for a period of five (5) years thereafter (the “Non-Disparagement Period”). Without limiting any other obligation of Acadia and its subsidiaries pursuant to this Agreement, Acadia hereby covenants and agrees that, except as may be required by applicable law, Acadia shall cause its executive officers and members of its board of directors not to make any statement, written or verbal, in any forum or media, or take any other action in disparagement of Executive, during the Employment Period and the Non-Disparagement Period.

(d) Blue-Pencil. If, at the time of enforcement of Section 5 or 6 or this Section 7, a court shall hold that the duration, scope or area restrictions stated herein are unreasonable under circumstances then existing, the parties agree that the maximum duration, scope or area reasonable under such circumstances shall be substituted for the stated duration, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum duration, scope and area permitted by law. Executive hereby acknowledges and represents that Executive has either consulted with independent legal counsel regarding Executive’s rights and obligations under this Agreement or knowingly and voluntarily waived the opportunity to do so and that Executive fully understands the terms and conditions contained herein.

(e) Additional Acknowledgments. Executive acknowledges that the provisions of Sections 5 and 6 and this Section 7 are in consideration of Executive’s employment with the Company and other good and valuable consideration as set forth in this Agreement. In addition, Executive agrees and acknowledges that the restrictions contained in Sections 5 and 6 and this Section 7 do not preclude Executive from earning a livelihood, nor do they unreasonably impose limitations on Executive’s ability to earn a living. In addition, Executive acknowledges (x) that

the business of Acadia and the Subsidiaries will be conducted throughout the United States and its territories and beyond, (y) notwithstanding the state of organization or principal office of Acadia or any of the Subsidiaries or facilities, or any of their respective executives or employees (including Executive), it is expected that Acadia and the Subsidiaries will have business activities and have valuable business relationships within its industry throughout the United States and its territories and beyond, and (z) as part of Executive's responsibilities, Executive will be traveling throughout the United States and other jurisdictions where Acadia and the Subsidiaries conduct business during the Employment Period in furtherance of the Company's business relationships. Executive agrees and acknowledges that the potential harm to Acadia and the Subsidiaries of the non-enforcement of any provision of Sections 5 and 6 and this Section 7 outweighs any potential harm to Executive of its enforcement by injunction or otherwise. Executive acknowledges that Executive has carefully read this Agreement and either consulted with legal counsel of Executive's choosing regarding its contents or knowingly and voluntarily waived the opportunity to do so, has given careful consideration to the restraints imposed upon Executive by this Agreement and is in full accord as to their necessity for the reasonable and proper protection of confidential and proprietary information of Acadia and the Subsidiaries now existing or to be developed in the future. Executive expressly acknowledges and agrees that each and every restraint imposed by this Agreement is reasonable with respect to subject matter, duration and geographical area.

(f) Specific Performance. In the event of the breach or a threatened breach by Executive of any of the provisions of Section 5 or 6 or this Section 7, Acadia and the Subsidiaries would suffer irreparable harm and that money damages would not be a sufficient remedy and, in addition and supplementary to other rights and remedies existing in its favor whether under this Agreement or under any other agreement, the Company shall be entitled to specific performance and/or injunctive or other equitable relief from a court of competent jurisdiction in order to enforce or prevent any violations of the provisions hereof (without posting a bond or other security). In addition, in the event of an alleged breach or violation by Executive of this Section 7, the Noncompete Period or the Nonsolicit Period, as applicable, shall be tolled until such breach or violation has been duly cured.

8. Executive's Representations. Executive hereby represents and warrants to the Company that (a) the execution, delivery and performance of this Agreement by Executive do not and shall not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by which Executive is bound, (b) except as previously disclosed to the Company in writing (a copy of each such agreement having been provided to the Company prior to the Effective Date or being publicly available on EDGAR as of the Effective Date), Executive is not a party to or bound by any employment agreement, noncompete agreement or confidentiality agreement with any other person or entity, (c) except as previously disclosed to the Company in writing, Executive took nothing with Executive which belonged to any former employer when Executive left Executive's prior position and Executive has nothing that contains any information which belongs to any former employer, in either case which would reasonably be likely to result in any liability to Acadia or any Subsidiary, and (d) upon the execution and delivery of this Agreement by the Company, this Agreement shall be the valid and binding obligation of Executive, enforceable in accordance with its terms. Executive hereby acknowledges and represents that Executive has either consulted with independent legal counsel regarding Executive's rights and obligations under this Agreement or knowingly and voluntarily waived the opportunity to do so and that Executive fully understands the terms and conditions contained herein.

9. Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth below:

"Cause" shall mean with respect to Executive one or more of the following: (i) the conviction of or plea of nolo contendere to a felony or other crime involving moral turpitude or the conviction of any crime involving misappropriation, embezzlement or fraud with respect to Acadia or any of the Subsidiaries or any of their customers, suppliers or other business relations, (ii) conduct outside the scope of Executive's duties and responsibilities under this Agreement that causes Acadia or any of the Subsidiaries substantial public disgrace or disrepute or economic harm, (iii) repeated failure to perform duties consistent with this Agreement as reasonably directed by the Board, (iv) any act or knowing omission aiding or abetting a competitor, supplier or customer of Acadia or any of the Subsidiaries to the disadvantage or detriment of Acadia and the Subsidiaries, (v) breach of fiduciary duty, gross negligence or willful misconduct with respect to Acadia or any of the Subsidiaries, (vi) an administrative or other proceeding results in the suspension or debarment of Executive from participation in any contracts with, or programs of, the United States or any of the fifty states or any agency or department thereof, or (vii) any other material breach by Executive of this Agreement or any other agreement between Executive and Acadia or any of the Subsidiaries, which is not cured to the Board's reasonable satisfaction within thirty (30) days after written notice thereof to Executive.

“Disabled” means any physical or mental disability or infirmity that has prevented the performance of Executive’s duties for a period of (a) one hundred twenty (120) consecutive days or (b) one hundred eighty (180) non-consecutive days during any twelve (12)-month period. Any question as to the existence, extent or potentiality of Executive’s Disability upon which Executive and the Company cannot agree shall be determined by a qualified, independent physician selected by the Company and reasonably approved by Executive (or Executive’s representative).

“Good Reason” shall mean if Executive resigns Executive’s employment with the Company as a result of one or more of the following actions (in each case taken without Executive’s written consent): (i) a reduction in Executive’s Base Salary; (ii) a material diminution of Executive’s job duties or responsibilities inconsistent with Executive’s position, which shall include, without limitation, Executive’s removal from the position specified in Section 2(a), or the Company’s hiring an individual at an equivalent or senior level to Executive to perform substantially the same duties and responsibilities set forth in Section 2(a), or assigning job duties or responsibilities materially inconsistent with Executive’s position; (iii) any other material breach by the Company or Acadia (or their successors) of this Agreement; or (iv) a relocation of the Company’s and Acadia’s principal executive offices and corporate headquarters outside of a thirty (30) mile radius of Franklin, Tennessee; provided that, none of the events described in clauses (i) through (iv) above shall constitute Good Reason unless Executive shall have notified the Company and/or Acadia in writing describing the event which constitutes Good Reason within ninety (90) days after the occurrence of such event and then only if the Company and/or Acadia and the Subsidiaries shall have failed to cure such event within thirty (30) days after the Company’s and/or Acadia’s receipt of such written notice and Executive elects to terminate Executive’s employment as a result at the end of such thirty (30) day period.

“Person” shall mean an individual, a partnership, a corporation (whether or not for profit), a limited liability company, an association, a joint stock company, a trust, a joint venture, or other business entity, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

“Subsidiary” shall mean any corporation or other entity of which the securities or other ownership interests having the voting power to elect a majority of the board of directors or other governing body are, at the time of determination, owned by Acadia or of which Acadia serves as the managing member or in a similar capacity or of which Acadia holds a majority of the partnership or limited liability company or similar interests or is otherwise entitled to receive a majority of distributions made by it, in each case directly or through one or more Subsidiaries.

10. Survival. Except as otherwise provided in Section 4(d), Sections 4 through 27 (other than Section 22) shall survive and continue in full force in accordance with their terms notwithstanding the expiration or termination of the Employment Period.

11. Notices. Any notice provided for in this Agreement shall be in writing and shall be personally delivered, sent by facsimile (with hard copy to follow), sent by reputable overnight courier service, or mailed by first class mail, return receipt requested, to the recipient at the address below indicated:

Notices to Executive:

Brian Farley

At the address on the books and records of the Company at the time of such notice.

Notices to the Company:

Acadia Healthcare Company, Inc.
6100 Tower Circle, Suite 1000
Franklin, TN 37067 Attention: Board of Directors
Facsimile: (615) 261-9685

with copies (which shall not constitute notice) to:

or such other address or to the attention of such other Person as the recipient party shall have specified by prior written notice to the sending party. Any notice under this Agreement shall be deemed to have been given when so delivered or sent by facsimile (subject to automatic proof of transmission), one day after being sent by overnight courier or three days after being mailed by first class mail, return receipt requested, as applicable.

12. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement or any action in any other jurisdiction, but this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

13. Complete Agreement. This Agreement and those documents expressly referred to herein embody the complete agreement and understanding among the parties with respect to, and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to, the subject matter hereof in any way.

14. No Strict Construction. The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any party.

15. Counterparts. This Agreement may be executed in separate counterparts (including by means of facsimile or by electronic transmission in portable document format (pdf) or comparable electronic transmission), each of which is deemed to be an original and all of which taken together constitute one and the same agreement.

16. Successors and Assigns. This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign, transfer or delegate this Agreement or any rights or obligations hereunder; provided that (i) this Agreement will inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees and legatees (but otherwise will not otherwise be assignable, transferable or delegable by Executive), and (ii) this Agreement will be assignable, transferable or delegable by the Company, without the consent of Executive, to Acadia or any of the Subsidiaries or to any successor (whether direct or indirect, in whatever form of transaction) to all or substantially all of the business or assets of the Company or Acadia or the Subsidiaries (none of which shall constitute a termination of Executive's employment hereunder).

17. Choice of Law and Forum. All issues and questions concerning the construction, validity, enforcement and interpretation of this Agreement and the exhibits and schedules hereto shall be governed by, and construed in accordance with, the laws of the State of Delaware, without giving effect to any choice of law or conflict of law rules or provisions (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware. The parties agree that any dispute arising out of or relating to this Agreement, exclusively shall be brought in the state courts located in Williamson County, Tennessee or the United States District Court for the Middle District of Tennessee. Each party hereby waives any objection to the personal or subject matter jurisdiction and venue of such courts.

18. Amendment and Waiver. The provisions of this Agreement may be amended or waived only with the prior written consent of the Company (as approved by the Board) and Executive, and no course of conduct or course of dealing or failure or delay by any party hereto in enforcing or exercising any of the provisions of this Agreement (including, without limitation, the Company's right to terminate the Employment Period for Cause) shall affect the validity, binding effect or enforceability of this Agreement or be deemed to be an implied waiver of any provision of this Agreement.

19. Insurance. The Company may, at its discretion, apply for and procure in its own name and for its own benefit life and/or disability insurance on Executive in any amount or amounts considered advisable. Executive agrees to cooperate in any medical or other examination, supply any information and execute and deliver any applications or other instruments in writing as may be reasonably necessary to obtain and constitute such insurance.

20. Indemnification and Reimbursement of Payments on Behalf of Executive. Acadia and the Subsidiaries shall be entitled to deduct or withhold from any amounts owing from Acadia or any of the Subsidiaries to Executive any federal, state, local or foreign withholding taxes, excise tax, or employment taxes (“Taxes”) imposed with respect to Executive’s compensation or other payments from Acadia or any of the Subsidiaries or Executive’s ownership interest in Acadia or any of the Subsidiaries (including, without limitation, wages, bonuses, dividends, the receipt or exercise of equity options and/or the receipt or vesting of restricted equity), as may be required to be deducted or withheld by any applicable law or regulation. In the event Acadia or any of the Subsidiaries does not make such deductions or withholdings, Executive shall indemnify Acadia and the Subsidiaries for any amounts paid with respect to any such Taxes, together (if such failure to withhold was at the written direction of Executive or if Executive was informed in writing by Acadia or such Subsidiary that such deductions or withholdings were not made) with any interest, penalties and related expenses thereto.

21. Waiver of Jury Trial. AS A SPECIFICALLY BARGAINED FOR INDUCEMENT FOR EACH OF THE PARTIES HERETO TO ENTER INTO THIS AGREEMENT (AFTER HAVING THE OPPORTUNITY TO CONSULT WITH COUNSEL), EACH PARTY HERETO EXPRESSLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY LAWSUIT OR PROCEEDING RELATING TO OR ARISING IN ANY WAY FROM THIS AGREEMENT OR THE MATTERS CONTEMPLATED HEREBY.

22. Opportunity. During the Employment Period, Executive shall submit to the Board all investment or business opportunities of which Executive becomes aware and which are within the scope and investment objectives of Acadia or any of the Subsidiaries.

23. Executive’s Cooperation. During the Employment Period Executive shall cooperate with Acadia and the Subsidiaries in any internal investigation or administrative, regulatory or judicial investigation or proceeding or any dispute with any third party as reasonably requested by Acadia or the Subsidiaries (including, without limitation, Executive being available to Acadia and the Subsidiaries upon reasonable notice for interviews and factual investigations, appearing at Acadia’s or any of the Subsidiaries’ request to give testimony without requiring service of a subpoena or other legal process, volunteering Acadia and the Subsidiaries all pertinent information and turning over to Acadia and the Subsidiaries all relevant documents which are or may come into Executive’s possession, all at times and on schedules that are reasonably consistent with Executive’s other permitted activities and commitments), all at Acadia’s or the Subsidiaries’ sole cost and expense.

24. Delivery by Facsimile or PDF. This Agreement, the agreements referred to herein, and each other agreement or instrument entered into in connection herewith or therewith or contemplated hereby or thereby, and any amendments hereto or thereto, to the extent signed and delivered by means of a facsimile machine or electronic transmission in pdf, shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any party hereto or to any such agreement or instrument, each other party hereto or thereto shall re-execute original forms thereof and deliver them to all other parties. No party hereto or to any such agreement or instrument shall raise the use of a facsimile machine or electronic transmission in pdf to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through the use of a facsimile machine or electronic transmission in pdf as a defense to the formation or enforceability of a contract and each such party forever waives any such defense.

25. Indemnification and Directors and Officers Insurance.

(a) During the Employment Period and for a period of six (6) years thereafter, the Company shall, to the fullest extent permitted under applicable law, indemnify and hold harmless Executive against all costs and expenses (including attorneys’ fees), judgments, fines, losses, claims, damages, liabilities and settlement amounts paid in connection with any claim, action, suit, proceeding or investigation (whether arising before or after the Effective Date), whether civil, criminal, administrative or investigative, arising out of or pertaining to any action or omission in

their capacity as an officer, director, employee, fiduciary or agent of the Company (or Acadia or any Subsidiary). In the event of any such claim, action, suit, proceeding or investigation, (i) the Company shall pay the reasonable fees and expenses of counsel selected by Executive promptly after statements therefor are received, (ii) neither the Company, Acadia nor any Subsidiary shall settle, compromise or consent to the entry of any judgment in any pending or threatened action to which Executive is a party (and in respect of which indemnification could be sought by Executive hereunder), unless such settlement, compromise or consent includes an unconditional release of Executive from all liability arising out of such action, or Executive otherwise consents (which consent shall not be unreasonably withheld, conditioned or delayed), and (iii) the Company, Acadia and the applicable Subsidiaries shall cooperate in the defense of any such matter. In the event that any claim for indemnification is asserted or made within the Employment Period or the six (6) year period thereafter, all rights of Executive to indemnification in respect of such claim shall continue until the final disposition of such claim. The rights of Executive under this Section 25(a) shall be in addition to any rights Executive may have under the organizational documents of the Company, Acadia or any Subsidiary, under any law, or under any agreement of Executive with the Company, Acadia or any Subsidiary.

(b) During the Employment Period and for a period of six (6) years thereafter, the Company, or any successor to the Company, shall purchase and maintain, at its own expense, directors and officers liability insurance providing coverage for Executive in the same or greater amount as for members of the Board.

26. Legal Fees and Expenses. In the event any litigation or other court action, arbitration or similar adjudicatory proceeding (a "Proceeding") is commenced or threatened by any party hereto (the "Claiming Party") to enforce its rights under this Agreement against any other party hereto (the "Defending Party"), if the Defending Party is the prevailing party in such Proceeding, all fees, costs and expenses, including, without limitation, reasonable attorneys fees and court costs, incurred by the Defending Party in such Proceeding, will be reimbursed by the Claiming Party, and, if the Claiming Party is the prevailing party in such Proceeding, all fees, costs and expenses, including, without limitation, reasonable attorneys fees and court costs, incurred by the Claiming Party in such Proceeding, will be reimbursed by the Defending Party; provided that if the Defending Party prevails in part, and loses in part, in such Proceeding, the court, arbitrator or other adjudicator presiding over such Proceeding shall award a reimbursement of the fees, costs and expenses incurred by the Claiming Party and the Defending Party on an equitable basis. For purposes of this Section 26, and without limiting the generality of the foregoing, the Defending Party will be deemed to have prevailed in any Proceeding if the Claiming Party commences or threatens such Proceeding and (i) the underlying claim(s) in such Proceeding are subsequently dropped or dismissed, or (ii) the Defending Party defeats any such claim(s).

27. Acadia Guarantee. Acadia unconditionally guarantees and promises to pay and perform, upon Executive's demand following a default by the Company, any and all obligations of the Company from time to time owed to Executive under this Agreement, subject to any applicable cure period. Acadia further agrees that if the Company shall fail to fulfill any of its obligations under this Agreement, Acadia will perform the same on demand as a principal obligor, and not as a surety. This is a continuing guarantee of the obligations and may not be revoked and shall not otherwise terminate unless and until the obligations of the Company have been paid and performed in full. Acadia represents and warrants that it will receive a substantial benefit from Company's employment of Executive, which employment gives rise to the obligations of the Company under this Agreement. Acadia acknowledges that Executive would not execute this Agreement if it did not receive this guarantee.

* * * * *

IN WITNESS WHEREOF, the parties hereto have executed this Employment Agreement as of the date first written above.

COMPANY:

ACADIA MANAGEMENT COMPANY, INC.

By: /s/Christopher H. Hunter
Name: Christopher H. Hunter
Its: Chief Executive Officer

EXECUTIVE:

/s/Brian Farley
Name: Brian Farley

ACKNOWLEDGED AND AGREED:

ACADIA HEALTHCARE COMPANY, INC.,
solely with respect to Sections 7 and 27,
as of this 30 day of June, 2023

By: /s/Christopher H. Hunter
Name: Christopher H. Hunter
Its: Chief Executive Officer

EXHIBIT A

Other Activities

Executive may provide certain transition consulting services to GoHealth, a health insurance marketplace and Medicare-focused digital health company. Executive may provide such services for up to 12 months from the Effective Date.

EXHIBIT B

GENERAL RELEASE

I, Brian Farley, in consideration of and subject to the performance by Acadia Management Company, Inc., a Delaware corporation (together with its affiliates, the "Company"), of the Company's obligations under the Employment Agreement dated as of June 30, 2023 (the "Agreement"), do hereby release and forever discharge as of the date hereof the Company and all present, former and future managers, directors, officers, employees, successors and assigns of the Company and direct or indirect owners (collectively, the "Released Parties") to the extent provided below (this "General Release"). The Released Parties are intended to be third-party beneficiaries of this General Release, and this General Release may be enforced by each of them in accordance with the terms hereof in respect of the rights granted to such Released Parties hereunder. Terms used herein but not otherwise defined shall have the meanings given to them in the Agreement.

1. I understand that any payments or benefits paid or granted to me under Section 4 of the Agreement represent, in part, consideration for signing this General Release and are not salary, wages or benefits to which I was already entitled. I understand and agree that I will not receive certain of the payments and benefits specified in Section 4, unless I execute this General Release and do not revoke this General Release within the time period permitted hereafter. Such payments and benefits will not be considered compensation for purposes of any employee benefit plan, program, policy or arrangement maintained or hereafter established by the Company.
2. Except as provided in paragraphs 5 and 6 below and except for the provisions of the Agreement which expressly survive the termination of my employment with the Company, I knowingly and voluntarily (for myself, my heirs, executors, administrators and assigns) release and forever discharge the Company and the other Released Parties from any and all claims, suits, controversies, actions, causes of action, cross-claims, counter-claims, demands, debts, compensatory damages, liquidated damages, punitive or exemplary damages, other damages, claims for costs and attorneys' fees, or liabilities of any nature whatsoever in law and in equity, both past and present (through the date that this General Release becomes effective and enforceable) and whether known or unknown, suspected, or claimed against the Company or any of the Released Parties which I, my spouse, or any of my heirs, executors, administrators or assigns, may have, including those that arise out of or are connected with my employment with, or my separation or termination from, the Company (including, but not limited to, any allegation, claim or violation, arising under: Title VII of the Civil Rights Act of 1964, as amended; the Civil Rights Act of 1991; the Age Discrimination in Employment Act of 1967, as amended (including the Older Workers Benefit Protection Act); the Equal Pay Act of 1963, as amended; the Americans with Disabilities Act of 1990; the Family and Medical Leave Act of 1993; the Worker Adjustment Retraining and Notification Act; the Employee Retirement Income Security Act of 1974; any applicable Executive Order Programs; the Fair Labor Standards Act; or their state or local counterparts; or under any other federal, state or local civil or human rights law, or under any other local, state, or federal law, regulation or ordinance; or under any public policy, contract or tort, or under common law; or arising under any policies, practices or procedures of the Company; or any claim for wrongful discharge, breach of contract, infliction of emotional distress, defamation; or any claim for costs, fees, or other expenses, including attorneys' fees incurred in these matters) (all of the foregoing collectively referred to herein as the "Claims").
3. The released claims described in paragraph 2 hereof include all such claims, whether known or unknown by me.
4. I represent that I have made no assignment or transfer of any right, claim, demand, cause of action, or other matter covered by paragraph 2 above.
5. I agree that this General Release does not waive or release any rights or claims that I may have under the Age Discrimination in Employment Act of 1967 which arise after the date I execute this General Release. I acknowledge and agree that my separation from employment with the Company in compliance with the terms of the Agreement shall not serve as the basis for any claim or action (including, without limitation, any claim under the Age Discrimination in Employment Act of 1967).

6. I agree that I hereby waive all rights to sue or obtain equitable, remedial or punitive relief from any or all Released Parties of any kind whatsoever in respect of any Claim, including, without limitation, reinstatement, back pay, front pay, and any form of injunctive relief. Notwithstanding the above, I further acknowledge that I am not waiving and am not being required to waive any right that cannot be waived under law, including the right to file an administrative charge or participate in an administrative investigation or proceeding; provided, however, that I disclaim and waive any right to share or participate in any monetary award resulting from the prosecution of such charge or investigation or proceeding. Additionally, I am not waiving (and nothing set forth herein shall be deemed a release of) (a) any right to any earned and accrued salary, vacation, benefits, expense reimbursements, or any severance benefits to which I am entitled under the Agreement, (b) any claim relating to directors' and officers' liability insurance coverage or any right of indemnification under the Company's organizational documents, applicable law or otherwise, including, without limitation, Sections 25 and 26 of the Agreement, (c) claims for workers' compensation benefits under any of the Company's workers' compensation insurance policies or funds, (d) claims related to my rights under the Consolidated Budget Reconciliation Act of 1985, as amended and/or (e) any obligations of the Company under this General Release, including my rights to enforce this General Release.
7. In signing this General Release, I acknowledge and intend that it shall be effective as a bar to each and every one of the Claims hereinabove mentioned or implied. I expressly consent that this General Release shall be given full force and effect according to each and all of its express terms and provisions, including those relating to unknown and unsuspected Claims (notwithstanding any state or local statute that expressly limits the effectiveness of a general release of unknown, unsuspected and unanticipated Claims), if any, as well as those relating to any other Claims hereinabove mentioned or implied. I acknowledge and agree that this waiver is an essential and material term of this General Release and that without such waiver the Company would not have agreed to the terms of the Agreement. I further agree that in the event I should bring a Claim seeking damages against the Company, or in the event I should seek to recover against the Company in any Claim brought by a governmental agency on my behalf, this General Release shall serve as a complete defense to such Claims to the maximum extent permitted by law. I further agree that I am not aware of any pending claim of the type described in paragraph 2 above as of the execution of this General Release.
8. I agree that neither this General Release, nor the furnishing of the consideration for this General Release, shall be deemed or construed at any time to be an admission by the Company, any Released Party or myself of any improper or unlawful conduct.
9. I agree that if I violate this General Release by suing the Company or the other Released Parties, I will pay all costs and expenses of defending against the suit incurred by the Released Parties, including reasonable attorneys' fees.
10. Any non-disclosure provision in this General Release does not prohibit or restrict me (or my attorney) from responding to any inquiry about this General Release or its underlying facts and circumstances by the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), any other self-regulatory organization or any governmental entity.
11. I hereby acknowledge that Sections 4 through 27 (other than Section 22) of the Agreement shall survive my execution of this General Release.
12. I represent that I am not aware of any claim by me other than the claims that are released by this General Release. I acknowledge that I may hereafter discover claims or facts in addition to or different than those which I now know or believe to exist with respect to the subject matter of the release set forth in paragraph 2 above and which, if known or suspected at the time of entering into this General Release, may have materially affected this General Release and my decision to enter into it.
13. Notwithstanding anything in this General Release to the contrary, this General Release shall not relinquish, diminish, or in any way affect any rights or claims arising out of any breach by the Company or by any Released Party of the Agreement after the date hereof.

14. Whenever possible, each provision of this General Release shall be interpreted in, such manner as to be effective and valid under applicable law, but if any provision of this General Release is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any other jurisdiction, but this General Release shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

BY SIGNING THIS GENERAL RELEASE, I REPRESENT AND AGREE THAT:

- (a) I HAVE READ IT CAREFULLY;
- (b) I UNDERSTAND ALL OF ITS TERMS AND KNOW THAT I AM GIVING UP IMPORTANT RIGHTS, INCLUDING BUT NOT LIMITED TO, RIGHTS UNDER THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967, AS AMENDED; TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, AS AMENDED; THE EQUAL PAY ACT OF 1963; THE AMERICANS WITH DISABILITIES ACT OF 1990; AND THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED;
- (c) I VOLUNTARILY CONSENT TO EVERYTHING IN IT;
- (d) I HAVE BEEN ADVISED TO CONSULT WITH AN ATTORNEY BEFORE EXECUTING IT AND I HAVE DONE SO OR, AFTER CAREFUL READING AND CONSIDERATION, I HAVE CHOSEN NOT TO DO SO OF MY OWN VOLITION;
- (e) I HAVE HAD AT LEAST [21][45] DAYS FROM THE DATE OF MY RECEIPT OF THIS RELEASE TO CONSIDER IT, AND THE CHANGES MADE SINCE MY RECEIPT OF THIS RELEASE ARE NOT MATERIAL OR WERE MADE AT MY REQUEST AND WILL NOT RESTART THE REQUIRED [21][45]-DAY PERIOD;
- (f) I UNDERSTAND THAT I HAVE SEVEN (7) DAYS AFTER THE EXECUTION OF THIS RELEASE TO REVOKE IT AND THAT THIS RELEASE SHALL NOT BECOME EFFECTIVE OR ENFORCEABLE UNTIL THE REVOCATION PERIOD HAS EXPIRED;
- (g) I HAVE SIGNED THIS GENERAL RELEASE KNOWINGLY AND VOLUNTARILY AND WITH THE ADVICE OF ANY COUNSEL RETAINED TO ADVISE ME WITH RESPECT TO IT; AND
- (h) I AGREE THAT THE PROVISIONS OF THIS GENERAL RELEASE MAY NOT BE AMENDED, WAIVED, CHANGED OR MODIFIED EXCEPT BY AN INSTRUMENT IN WRITING SIGNED BY AN AUTHORIZED REPRESENTATIVE OF THE COMPANY AND BY ME.

SIGNED: _____

DATE: _____

**FIRST AMENDMENT TO
EMPLOYMENT AGREEMENT**

THIS FIRST AMENDMENT TO EMPLOYMENT AGREEMENT, dated effective as of July 6, 2023 (this "Agreement"), is by and between Acadia Management Company, Inc., a Delaware corporation (the "Company"), and Brian Farley ("Executive").

WHEREAS, the Company and Executive are party to that certain Employment Agreement, dated as of June 30, 2023 (the "Employment Agreement"); and

WHEREAS, the Company and Executive have agreed to make certain amendments to the Employment Agreement upon the terms and conditions hereinafter set forth.

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties, intending to be legally bound, hereby agree as follows:

1. **Employment; Employment Period.** The first sentence of Section 1 of the Employment Agreement shall be deleted in its entirety and the following substituted therefore:

"The Company shall employ Executive, and Executive hereby accepts employment with the Company, upon the terms and conditions set forth in this Agreement for the period beginning on the 26th of July, 2023 (the "Start Date") and ending on the date on which Executive's employment is terminated pursuant to Section 4 hereof (the "Employment Period")."

2. **Miscellaneous.**

- a. **Full Force and Effect.** Except as expressly amended hereby, the Employment Agreement shall continue in full force and effect in accordance with the provisions thereof on date hereof.
 - b. **Governing Law; Venue.** This Agreement shall be construed, interpreted, and governed in accordance with the laws of the State of Delaware, other than the conflict of laws provisions of such laws. The parties agree that any dispute arising out of or relating to this Agreement shall be brought in the state courts located in Williamson County, Tennessee or the United States District Court for the Middle District of Tennessee. Each party hereby waives any objection to the personal or subject matter jurisdiction and venue of such courts.
 - c. **Headings.** The headings of this Agreement are for the purposes of reference only and shall not affect the construction of the Employment Agreement.
 - d. **Effectiveness.** This Agreement shall be deemed fully effective as of the date first above written.
 - e. **Counterparts.** This Agreement may be executed in one or more counterparts all of which taken together shall constitute one and the same instrument.
-

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed and Executive has hereunto set Executive's hand, as of the day and year first above written.

ACADIA MANAGEMENT COMPANY, INC.

By: /s/ Christopher H. Hunter

Name: Christopher H. Hunter

Title: Chief Executive Officer

EXECUTIVE:

/s/ Brian Farley

Brian Farley

Signature Page to First Amendment to Employment Agreement

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

I, Christopher H. Hunter, certify that:

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

Date: July 28, 2023

/s/ Christopher H. Hunter

Christopher H. Hunter

Chief Executive Officer and Director

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

I, Heather Dixon, certify that:

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

Date: July 28, 2023

/s/ Heather Dixon

Heather Dixon

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 June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher H. Hunter, Chief Executive Officer of the Company, and I, Heather Dixon, 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: July 28, 2023

/s/ Christopher H. Hunter

Christopher H. Hunter

Chief Executive Officer and Director

/s/ Heather Dixon

Heather Dixon

Chief Financial Officer
