

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

(Mark One)

- ☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
 For the fiscal year ended December 31, 2020  
 or  
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
 For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
 Commission File Number: 001-35331

**ACADIA HEALTHCARE COMPANY, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
 (State or other jurisdiction of  
 incorporation or organization)

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

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

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

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

Title of each Class  
 Common Stock, \$0.01 par value

Trading  
 Symbol  
 ACHC

Name of exchange on which  
 registered  
 NASDAQ Global Select  
 Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☐ Emerging growth company ☐  
 Non-accelerated filer ☐ Smaller reporting company ☐

If an emerging growth company, indicate by check mark of 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

As of June 30, 2020, the aggregate market value of the shares of common stock of the registrant held by non-affiliates was approximately \$2.2 billion, based on the closing price of the registrant's common stock reported on the NASDAQ Global Select Market of \$25.12 per share.

As of February 26, 2021, there were 89,039,946 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for its 2021 annual meeting of stockholders to be held on May 6, 2021 are incorporated by reference into Part III of this Form 10-K.

**ACADIA HEALTHCARE COMPANY, INC.**  
**ANNUAL REPORT ON FORM 10-K**  
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Unless the context otherwise requires, all references in this Annual Report on Form 10-K to “Acadia,” “the Company,” “we,” “us” or “our” mean Acadia Healthcare Company, Inc. and its consolidated subsidiaries.

## Item 1. Business.

### 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 December 31, 2020, we operated 572 behavioral healthcare facilities with approximately 18,100 beds in 40 states, the United Kingdom (“U.K.”) and Puerto Rico. During the year ended December 31, 2020, we added 460 beds in the United States (“U.S.”), consisting of 240 added to existing facilities and 220 added through the opening of two joint venture facilities, and we opened six comprehensive treatment centers (“CTCs”). On January 19, 2021, we completed the sale of the U.K. business, which included 345 facilities and approximately 8,200 beds.

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 through acquisitions, de novo facilities, joint ventures and bed additions in existing facilities.

On January 19, 2021, we completed the sale of our U.K. operations to RemedcoUK Limited, a company organized under the laws of England and Wales and owned by funds managed or advised by Waterland Private Equity Fund VII (the “U.K. Sale”). The U.K. Sale allows us to reduce our indebtedness and focus on our U.S. operations. As a result of the U.K. Sale, we reported, for all periods presented, results of operations and cash flows of the U.K. operations as discontinued operations in the accompanying financial statements. See “U.K. Sale” below for additional details about the U.K. Sale.

Our common stock is listed for trading on The NASDAQ Global Select Market under the symbol “ACHC.” Our principal executive offices are located at 6100 Tower Circle, Suite 1000, Franklin, Tennessee 37067, and our telephone number is (615) 861-6000.

### U.K. Sale

On January 19, 2021, we completed the U.K. Sale pursuant to a Share Purchase Agreement in which we sold all of the securities of AHC-WW Jersey Limited, a private limited liability company incorporated in Jersey and a subsidiary of the Company, which constitutes the entirety of our U.K. business operations. The U.K. Sale resulted in approximately \$1,525 million of gross proceeds before deducting the settlement of existing foreign currency hedging liabilities of \$85 million based on the current British Pounds (“GBP”) to US Dollars (“USD”) exchange rate, cash retained by the buyer of approximately \$75 million and transaction costs of \$16 million. We used the net proceeds of approximately \$1,425 million (or \$1,350 million, net of cash retained by the buyer) to repay in full the outstanding balance of our Term Loan A facility (the “TLA Facility”) of \$312 million and our Term Loan B facility Tranche B-4 (the “Tranche B-4 Facility”) of \$768 million of our Amended and Restated Credit Agreement (the “Amended and Restated Credit Agreement”) and added \$345 million of cash to the balance sheet. In addition to reducing our indebtedness, the U.K. Sale allows us to focus on our U.S. operations. As a result of the U.K. Sale, we reported, for all periods presented, results of operations and cash flows of the U.K. operations as discontinued operations in the accompanying financial statements.

### COVID-19 Impact

During March 2020, the global pandemic of the novel coronavirus known as COVID-19 (“COVID-19”) began to affect our facilities, employees, patients, communities, business operations and financial performance, as well as the broader U.S. and U.K. economies and financial markets. At many of our facilities, employees and/or patients have tested positive for COVID-19. We are committed to protecting the health of our communities and have been responding to the evolving COVID-19 situation while taking steps to provide quality care and protect the health and safety of our patients and employees. All of our facilities are closely following infectious disease protocols, as well as recommendations by the Centers for Disease Control and Prevention (“CDC”) and local health officials.

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

- established an internal COVID-19 taskforce;
- instituted social distancing practices and protective measures throughout our facilities, which includes restricting or suspending visitor access, limiting group therapy and screening patients and staff who enter our facilities based on criteria established by the CDC and local health officials;
- have taken steps to secure our supply chain;
- expanded telehealth capabilities;
- implemented emergency planning in directly impacted markets;
- limited all non-essential business travel; and
- implemented work-from-home policies for certain employees, to the extent practicable, and suspended in-person trainings and conferences.

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

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

At December 31, 2020, we had approximately \$378.7 million of cash and cash equivalents and \$441.6 million of available borrowing capacity under our revolving line of credit. In response to the estimated financial impact of the COVID-19 pandemic, we continue to pursue various actions intended to enhance our financial flexibility including, among other things, the benefits described below under the heading "CARES Act and Other Regulatory Developments". In addition, we are evaluating and undertaking certain additional steps to mitigate the financial impact, including:

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

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



## Financing Transactions

We entered into a Senior Secured Credit Facility (the “Senior Secured Credit Facility”), on April 1, 2011. On December 31, 2012, we entered into the Amended and Restated Credit Agreement, which amended and restated the Senior Secured Credit Facility. We have amended the Amended and Restated Credit Agreement from time to time as described in our prior filings with the Securities and Exchange Commission (the “SEC”). See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Amended and Restated Senior Credit Facility” for additional information.

On January 29, 2021, we issued conditional notices of full redemption providing for the redemption in full of \$650 million of 5.265% Senior Notes due 2013 (“5.265% Senior Notes”) and \$390 million of 6.500% Senior Notes due 2024 (“6.500% Senior Notes”) to the holders of such notes. The redemption of this \$1,040 million of additional debt, along with the payment of breakage costs of \$6 million and estimated transaction costs of \$9 million, is expected to be completed in early March 2021 and to be funded from cash from the balance sheet of \$430 million and proceeds from a new senior secured credit facility of \$625 million. We expect to enter into a new term loan and revolver as part of a five-year senior secured credit facility.

On January 5, 2021, we made a voluntary payment of \$105.0 million on our Tranche B-4 Facility. On January 19, 2021, we used a portion of the net proceeds from the U.K. Sale to repay \$311.7 million of our TLA Facility and \$767.9 million of our Tranche B-4 Facility of the Amended and Restated Credit Agreement.

On November 13, 2020, we entered into the Fourth Repricing Facilities Amendment (the “Fourth Repricing Facilities Amendment”) to the Amended and Restated Credit Agreement. The Fourth Repricing Facilities Amendment extended the maturity date of each of the existing revolving line of credit and the existing TLA Facility from November 30, 2021 to November 30, 2022. The Fourth Repricing Facilities Amendment also (1) replaced the revolving line of credit in an aggregate committed amount of \$500.0 million to an aggregate committed amount of approximately \$459.0 million and (2) replaced the TLA Facility aggregate outstanding principal amount of approximately \$352.4 million to an aggregate principal amount of approximately \$318.9 million. The interest rate margin applicable to both facilities remains unchanged from the prior facilities, and the commitment fee applicable to the new revolving line of credit also remains unchanged from the prior revolving line of credit. In connection with the Fourth Repricing Facilities Amendment, we recorded a debt extinguishment charge of \$1.0 million, including the write-off of discount and deferred financing costs, which was recorded in debt extinguishment costs in the consolidated statements of operations.

On October 14, 2020, we issued \$475.0 million of 5.000% Senior Note due 2029 (the “5.000% Senior Notes”). The 5.000% Senior Notes mature April 15, 2029 and bear interest at a rate of 5.000% per annum, payable semi-annually in arrears on April 15 and October 15, commencing on April 15, 2021. We used the net proceeds of the 5.000% Senior Notes to prepay approximately \$453.3 million of the outstanding borrowings on our existing Term Loan B facility Tranche B-3 (the “Tranche B-3 Facility”) and used the remaining net proceeds for general corporate purposes and to pay related fees and expenses in connection with the offering. In connection with the 5.000% Senior Notes, we recorded a debt extinguishment charge of \$2.9 million, including the write-off of discount and deferred financing cost in the consolidated statements of operations.

On June 24, 2020, we issued \$450.0 million of 5.500% Senior Notes due 2028 (the “5.500% Senior Notes”). The 5.500% Senior Notes mature on July 1, 2028 and bear interest at a rate of 5.500% per annum, payable semi-annually in arrears on January 1 and July 1 of each year, commencing on January 1, 2021. As further described below, we used the net proceeds of the 5.500% Senior Notes, together with cash on hand, to redeem in full the outstanding 6.125% Senior Notes due 2021 (the “6.125% Senior Notes”) and the 5.125% Senior Notes due 2022 (the “5.125% Senior Notes”) and to pay related fees and expenses in connection therewith.

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

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

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

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

On December 1, 2018, we exercised the option to redeem in whole \$7.5 million and \$15.5 million of Lee County (Florida) Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 with stated interest rates of 9.0% and 9.5% ("9.0% and 9.5% Revenue Bonds") at a redemption price equal to the sum of 104% of the principal amount of the 9.0% and 9.5% Revenue Bonds plus accrued and unpaid interest. In connection with the redemption of the 9.0% and 9.5% Revenue Bonds, we recorded a debt extinguishment charge of \$0.9 million, which was recorded in debt extinguishment costs in the consolidated statements of operations for the year ended December 31, 2018.

On March 29, 2018, we entered into a Third Repricing Facilities Amendment (the "Third Repricing Facilities Amendment", and together with the Second Repricing Facilities Amendment, the "Repricing Facilities Amendments") to the Amended and Restated Credit Agreement. The Third Repricing Facilities Amendment replaced the existing revolving credit facility and TLA Facility with a new revolving credit facility and TLA Facility, respectively. The Company's line of credit on its revolving credit facility remains at \$500.0 million and the Third Repricing Facility Amendment reduced the size of the TLA Facility from \$400.0 million to \$380.0 million to reflect the then current outstanding principal. The Third Repricing Facilities Amendment reduced the Applicable Rate by 25 basis points for the revolving credit facility and the TLA Facility by amending the definition of "Applicable Rate."

On March 22, 2018, we entered into a Second Repricing Facilities Amendment (the "Second Repricing Facilities Amendment") to the Amended and Restated Credit Agreement. The Second Repricing Facilities Amendment (i) replaced the Term Loan B facility Tranche B-1 (the "Tranche B-1 Facility") and the Term Loan B facility Tranche B-2 (the "Tranche B-2 Facility") with the Tranche B-3 Facility and a new Tranche B-4 Facility, respectively, and (ii) reduced the Applicable Rate from 2.75% to 2.50% in the case of Eurodollar Rate loans and reduced the Applicable Rate from 1.75% to 1.50% in the case of Base Rate Loans. In connection with the Repricing Facilities Amendments, we recorded a debt extinguishment charge of \$0.9 million, including the discount and write-off of deferred financing costs, which was recorded in debt extinguishment costs in the consolidated statements of operations for the year ended December 31, 2018.

### **Competitive Strengths**

Management believes the following strengths differentiate us from other providers of behavioral healthcare services:

**Premier operational management team with track record of success.** Our management team has approximately 200 combined years of experience in acquiring, integrating and operating a variety of behavioral health facilities. The extensive national experience and operational expertise of our management team give us what management believes to be the premier leadership team in the behavioral healthcare industry. Our management team strives to use its years of experience operating behavioral healthcare facilities to generate strong cash flow and grow a profitable business.

**Favorable industry and legislative trends.** According to a 2019 survey by the Substance Abuse and Mental Health Services Administration of the U.S. Department of Health and Human Services ("SAMHSA"), 20.6% of adults in the U.S. aged 18 years or older suffered from a mental illness in the prior year and 5.2% suffered from a serious mental illness. Further, approximately 7.8% of people aged 12 or older in 2018 needed substance use treatment in the past year. According to a study by The Journal of American Medical Association Pediatrics, an estimated 7.7 million U.S. children has a treatable mental health disorder. Management believes the market for behavioral services will continue to grow due to increased awareness of mental health and substance abuse conditions and treatment options.

While the growing awareness of mental health and substance abuse conditions is expected to accelerate demand for services, recent healthcare reform in the U.S. is expected to increase access to industry services as more people obtain insurance coverage. A key aspect of reform legislation is the extension of mental health parity protections established into law by the Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008 (the "MHPAEA"). The MHPAEA requires employers who provide behavioral health and addiction benefits to provide such coverage to the same extent as other medical conditions. On December 13, 2016, President Obama signed the 21st Century Cures Act. The 21st Century Cures Act appropriates substantial resources for the treatment of behavioral health and substance abuse disorders and contains measures intended to strengthen the MHPAEA. On October 21, 2018, the Substance Use-Disorder Prevention that Promotes Opioid Recovery and Treatment

("SUPPORT") for Patients and Communities Act was signed into law. The SUPPORT for Patients and Communities Act expands Medicare coverage to include Opioid Treatment Programs for services provided on or after January 2, 2020. It also includes Individuals in Medicaid Deserve Care that is Appropriate and Responsible in its Execution Act ("IMD CARE Act"), which suspends the current prohibition on using federal Medicaid funds to pay for substance use disorder treatment at inpatient treatment facilities with more than 16 beds and limits beneficiaries to no more than 30 days of inpatient treatment per 12 month period.

**Leading platform in attractive healthcare niche.** We are a leading behavioral healthcare platform in an industry that is undergoing consolidation in an effort to reduce costs and expand programs to better serve the growing need for inpatient behavioral healthcare services. 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.

**Diversified revenue and payor bases.** At December 31, 2020, we operated 572 facilities in 40 states, the U.K. and Puerto Rico. Our payor, patient and geographic diversity mitigates the potential risk associated with any single facility. For the year ended December 31, 2020, exclusive of our U.K. operations, we received 49% of our revenue from Medicaid, 29% from commercial payors, 16% from Medicare and 6% from other payors. As we receive Medicaid payments from 46 states, the District of Columbia and Puerto Rico, management does not believe that we are significantly affected by changes in reimbursement policies in any one state or territory. Excluding the U.K. operations, no facility accounted for more than 4% of revenue for the year ended December 31, 2020, and no state or U.S. territory accounted for more than 12% of revenue for the year ended December 31, 2020. We believe that our increased geographic diversity will mitigate the impact of any financial or budgetary pressure that may arise in a particular state or market where we operate.

**Strong cash flow generation and low capital requirements.** We generate strong free cash flow by profitably operating our business and by actively managing our working capital. Moreover, as the behavioral healthcare business does not typically require the procurement and replacement of expensive medical equipment, our maintenance capital expenditure requirements are generally less than that of other facility-based healthcare providers. For the year ended December 31, 2020, our maintenance capital expenditures amounted to approximately 2% of our revenue.

## **Business Strategy**

We are committed to providing the communities we serve with high-quality, cost-effective behavioral healthcare services, while growing our business, increasing profitability and creating long-term value for our stockholders. To achieve these objectives, we have aligned our activities around the following growth strategies:

**Increase margins by enhancing programs and improving performance at existing facilities.** Management believes we can improve efficiencies and increase operating margins by utilizing our management's expertise and experience within existing programs and their expertise in improving performance at underperforming facilities. Management believes the efficiencies can be realized by investing in growth in strong markets, addressing capital-constrained facilities that have underperformed and improving management systems.

**Opportunistically pursue acquisitions and partnerships.** We have positioned the Company as a leading provider of mental health services in the U.S. The behavioral healthcare industry in the U.S. is highly fragmented, and we selectively seek opportunities to expand and diversify our base of operations by acquiring additional facilities and entering into partnerships with healthcare providers to acquire and develop additional facilities. We have a number of potential joint ventures and acquisitions in various stages of development and consideration in the U.S.

Management believes our focus on behavioral healthcare and history of completing acquisitions provides us with a strategic advantage in sourcing, evaluating and closing acquisitions. We leverage our management team's expertise to identify and integrate acquisitions based on a disciplined acquisition strategy that focuses on quality of service, return on investment and strategic benefits. We also have a comprehensive post-acquisition strategic plan to facilitate the integration of acquired facilities that includes improving facility operations, retaining and recruiting psychiatrists and other healthcare professionals and expanding the breadth of services offered by the facilities.

**Drive organic growth of existing facilities.** We seek to increase revenue at our facilities by providing a broader range of services to new and existing patients and clients. In addition, management intends to increase bed counts in our existing facilities. During the year ended December 31, 2020, we added 460 beds in the U.S., consisting of 240 added to existing facilities and 220 added through the opening of two joint venture facilities, and we opened six CTCs. For the year ending December 31, 2021, we expect to add approximately 300 beds to existing facilities and 170 beds through the opening of one wholly-owned facility and one joint venture

facility and expect to open 11 CTCs. Furthermore, management believes that opportunities exist to leverage out-of-state referrals to increase volume and minimize payor concentration, especially with respect to our youth and adolescent focused services and our substance abuse services.

## U.S. Operations

Our facilities in the U.S. (the "U.S. Facilities") and services can generally be classified into the following categories: acute inpatient psychiatric facilities; specialty treatment facilities; residential treatment centers; and outpatient community-based facilities. The table below presents the percentage of our total U.S. revenue attributed to each category for the year ended December 31, 2020:

Facility/Service	Revenue for the Year Ended December 31, 2020
Acute inpatient psychiatric facilities	47%
Specialty treatment facilities	38%
Residential treatment centers	14%
Outpatient community-based facilities	1%

We receive payments from the following sources for services rendered in our U.S. Facilities: (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers; (iii) the federal government under the Medicare program administered by the Centers for Medicare and Medicaid Services ("CMS"); and (iv) individual patients and clients. For the year ended December 31, 2020, in our U.S. Facilities, we received 49.7% of our revenue from Medicaid, 28.5% from commercial payors, 15.8% from Medicare and 6.0% from other payors.

At December 31, 2020, our U.S. Facilities included 227 behavioral healthcare facilities with approximately 9,900 beds in 40 states and Puerto Rico. Of our U.S. Facilities, excluding CTCs, approximately 45% are acute inpatient psychiatric facilities, approximately 39% are specialty treatment facilities, approximately 13% are residential treatment centers and approximately 3% are outpatient community-based facilities at December 31, 2020. Of the 227 behavioral healthcare facilities, 131 are CTCs, which is a subset of specialty treatment facilities. Of our CTCs, 17 are owned properties and 114 are leased properties. Of the 96 facilities that are not CTCs, 74 are owned properties and 20 are leased properties. For the years ended December 31, 2020 and 2019, our U.S. operations generated revenue of \$2,089.9 million and \$2,008.4 million, respectively.

### 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. Generally, due to shorter lengths of stay, the related higher patient turnover, and the special security and health precautions required, acute inpatient psychiatric facilities have lower average occupancy than residential treatment centers. Our facilities that offer acute care services provide evaluation and crisis stabilization of patients with severe psychiatric diagnoses through a medical delivery model that incorporates structured and intensive medical and behavioral therapies with 24-hour monitoring by a psychiatrist, psychiatric trained nurses, therapists and other direct care staff. Lengths of stay for crisis stabilization and acute care range from three to five days and from five to twelve days, respectively.

### Specialty Treatment Facilities

Our specialty treatment facilities include residential recovery facilities, eating disorder facilities and CTCs. We provide a comprehensive continuum of care for adults with addictive disorders and co-occurring mental disorders. Our detoxification, inpatient, partial hospitalization and outpatient treatment programs are cost-effective and give patients access to the least restrictive level of care. All programs offer individualized treatment in a supportive and nurturing environment.

The majority of our specialty treatment services are provided to patients who abuse addictive substances such as alcohol, illicit drugs or opiates, including prescription drugs. Some of our facilities also treat other addictions and behavioral disorders such as chronic pain, sexual compulsivity, compulsive gambling, mood disorders, emotional trauma and abuse. The goal of our treatment facilities is to provide the appropriate level of treatment to an individual no matter where they are in the lifecycle of their disease in order to restore the individual to a healthier, more productive life, free from dependence on illicit substances and destructive behaviors. Our treatment facilities provide a number of different treatment services such as assessment, detoxification, medication-assisted treatment, counseling, education, lectures and group therapy. We assess and evaluate the medical, psychological and emotional needs of the patient and address these needs in the treatment process. Following this assessment, an individualized treatment program is designed to provide a foundation for a lifelong recovery process. Many modalities are used in our treatment programs to support the individual, including the twelve step philosophy, cognitive/behavioral therapies, supportive therapies and continuing care.

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**Residential Recovery Facilities.** Our inpatient facilities house and care for patients over an extended period and typically treat patients from a broadly defined regional market. We provide three basic levels of residential treatment depending on the severity of the patient's addiction and/or behavioral disorder. Patients with the most severe dependencies are typically placed into inpatient treatment, in which the patient resides at a treatment facility. If a patient's condition is less severe, he or she will be offered day treatment, which allows the patient to return home in the evening. The least intensive service is where the patient visits the facility for just a few hours a week to attend counseling/group sessions.

Following primary treatment, our extended care programs typically offer residential care, which allows patients to develop healthy and appropriate living skills while remaining in a safe and nurturing setting. Patients are supported in their recovery by a semi-structured living environment that allows them to begin the process of employment or to pursue educational goals and to take personal responsibility for their recovery. The structure of this treatment phase is monitored by a primary therapist who works with each patient to integrate recovery skills and build a foundation of sobriety with a strong support system. Length of stay will vary depending on the patient's needs with a minimum stay of 30 days and could be multiple months if needed.

Our outpatient clinics serve patients that do not require inpatient treatment or are transitioning from a residential treatment program; have employment, family or school commitments; and have stabilized in their substance addiction recovery practices and are seeking ongoing continuing care.

**Eating Disorder Facilities.** Our eating disorder facilities provide treatment services for eating disorders and weight management, each of which may be effectively treated through a combination of medical, psychological and social treatment programs.

**Comprehensive Treatment Centers.** Our CTCs specialize in providing medication-assisted and abstinent-based treatment. Medication-assisted treatment combines behavioral therapy and medication to treat substance use disorders. CTCs utilize medication-assisted treatment to individuals addicted to opiates such as opioid analgesics (prescription pain medications) and heroin. Medication is used to normalize brain chemistry to block the euphoric effects of alcohol and opioids allowing our professional staff to provide behavioral therapy. Patients begin their treatment attending the clinic almost daily. Then, through successfully progressing in treatment, patients attend less frequently depending on individual treatment plans. The length of treatment differs from patient to patient, but typically ranges from one to three years.

Each of our CTCs provide a range of comprehensive substance abuse treatment support services that include medical, counseling, vocational, educational, and other treatment services. Our behavioral therapies are delivered in an array of treatment models that may include individual and group therapy, intensive outpatient, outpatient, partial hospitalization/day treatment, road to recovery and other programs that can be either abstinent or medication assisted based.

### **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. Because the setting is less intensive, demands on staffing, security and oversight are generally lower than inpatient psychiatric facilities. In contrast to acute care psychiatric facilities, occupancy in residential treatment centers can be managed more easily given a longer length of stay. Over time, however, residential treatment centers have continued to serve increasingly severe patients who would have been treated in acute care facilities in earlier years.

We provide residential treatment care through a medical model residential treatment facility, which offers intensive, medically-driven interventions and individualized treatment regimens designed to deal with moderate to high level patient acuity. Children and adolescents admitted to these facilities typically have had multiple prior failed treatment plans, severe physical, sexual and emotional abuse, termination of parental custody, substance abuse, marked deficiencies in social, interpersonal and academic skills and a wide range of psychiatric disorders. Treatment typically is provided by an interdisciplinary team coordinating psychopharmacological, individual, group and family therapy, along with specialized accredited educational programs in both secure and unlocked environments. Lengths of stay range from three months to several years.

Certain of our residential treatment centers provide group home, therapeutic group home and therapeutic foster care programs. Our group home programs provide family-style living for youths in a single house or apartment within residential communities where supervision and support are provided by 24-hour staff. The goal of a group home program is to teach family living and social skills through individual and group counseling sessions within a real life environment. The residents are encouraged to take responsibility for the home and their health as well as actively take part in community functions. Most attend an accredited and licensed on-premises school or a local public school. We also operate therapeutic group homes that provide comprehensive treatment services for seriously, emotionally disturbed adolescents. The ultimate goal is to reunite or place these children with their families or prepare them, when



appropriate, for permanent placement with a relative or an adoptive family. We also manage therapeutic foster care programs, which are considered the least restrictive form of therapeutic placement for children and adolescents with emotional disorders. Children and adolescents in our therapeutic foster care programs often are part of the child welfare or juvenile justice system. Care is delivered in private homes with experienced foster parents who are trained to work with children and adolescents with special needs.

### **Outpatient Community-Based Facilities**

Our community-based facilities can be divided into two age groups: children and adolescents (seven to 18 years of age) and young children (three months to six years of age). Community-based programs are designed to provide therapeutic treatment to children and adolescents who have a clinically-defined emotional, psychiatric or chemical dependency disorder while enabling the youth to remain at home and within their community. Many patients who participate in community-based programs have transitioned out of a residential facility or have a disorder that does not require placement in a facility that provides 24-hour care.

Community-based programs developed for these age groups provide a unique array of therapeutic services to a very high-risk population of children. These children suffer from severe congenital, neurobiological, speech/motor and early onset psychiatric disorders. These services are provided in clinics and employ a treatment model that is consistent with our interdisciplinary medical treatment approach. Depending on their individual needs and treatment plan, children receive speech, physical, occupational and psychiatric interventions that are coordinated with services provided by their referring primary care physician. The children generally receive treatment during regular business hours.

## **U.K. Operations**

### **Overview**

Prior to the U.K. Sale, we were the leading independent provider of mental health services in the U.K. operating 345 inpatient behavioral health facilities with approximately 8,200 beds at December 31, 2020. The facilities are located in England, Wales, Scotland and Northern Ireland. For the years ended December 31, 2020 and 2019, our U.K. operations generated revenue of \$1,119.8 million and \$1,099.1 million, respectively, primarily through the operation and management of inpatient behavioral health facilities.

### **Description of U.K. Facilities**

Prior to the U.K. Sale, we provided inpatient services through a variety of facilities, including mental health hospitals, clinics, care homes, schools, colleges and children's homes in the U.K. In addition to these services, we also operated a U.K. division that leverages on our clinical knowledge to provide Employee Assistance Programs ("EAP") to organizations.

Our former facilities in the U.K. (the "U.K. Facilities") and services can generally be classified into the following categories: healthcare facilities, education and children's services and adult care facilities. The table below presents the percentage of our total U.K. revenue attributed to each category for the year ended December 31, 2020:

	U.K. Revenue for the Year Ended December 31, 2020
Facility/Service	
Healthcare facilities	55%
Education and Children's Services	16%
Adult Care facilities	29%

Prior to the U.K. Sale, we received payments from approximately 500 public funded sources in the U.K. (including the National Health Services ("NHS"), Clinical Commissioning Groups ("CCGs") and local authorities in England, Scotland and Wales) and individual patients and clients. For the year ended December 31, 2020 in our U.K. Facilities, we received 91% of our revenue from public funded sources in the U.K. (including the NHS, CCGs and local authorities in England, Scotland and Wales) and 9% from other payors.

At December 31, 2020, our U.K. Facilities included 345 behavioral healthcare facilities with approximately 8,200 beds, including approximately 1,100 non-residential education places, in the U.K. Of our U.K. Facilities, approximately 22% were healthcare facilities, approximately 18% were education and children's services facilities and approximately 60% were adult care facilities at December 31, 2020. At December 31, 2020, we owned 279 of the properties at our U.K. Facilities and leased 66 properties.

Additional information about our U.K. operations and the U.K.'s behavioral healthcare industry can be found in our prior filings with the SEC.

## **Sources of Revenue**

As of December 31, 2020, we received payments from the following sources for services rendered in our facilities: (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers; (iii) the federal government under the Medicare program administered by CMS; (iv) public funded sources in the U.K. (including the NHS, CCGs and local authorities in England, Scotland and Wales); and (v) individual patients and clients. We determine the transaction price based on established billing rates reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients and implicit price concessions. Contractual adjustments and discounts are based on contractual agreements, discount policies and historical experience. Implicit price concessions are based on historical collection experience. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Revenue and Accounts Receivable" for additional disclosure. Other information related to our revenue, income and other operating information is provided in our Consolidated Financial Statements.

## **Regulation**

### ***U.S. Overview***

The healthcare industry is subject to numerous laws, regulations and rules including, among others, those related to government healthcare program participation requirements, various licensure and accreditation standards, reimbursement for patient services, health information privacy and security rules, and government healthcare program fraud and abuse provisions. Providers that are found to have violated any of these laws and regulations may be excluded from participating in government healthcare programs, subjected to loss or limitation of licenses to operate, subjected to significant fines or penalties and/or required to repay amounts received from the government for previously billed patient services.

### ***Licensing, Certification and Accreditation***

All of our facilities must comply with various federal, state and local licensing and certification regulations and undergo periodic inspection by licensing agencies to certify compliance with such regulations. The initial and continued licensure of our facilities and certification to participate in government healthcare programs depends upon many factors including various state licensure regulations relating to quality of care, environment of care, equipment, services, staff training, personnel and the existence of adequate policies, procedures and controls. Federal, state and local agencies survey our facilities on a regular basis to determine whether the facilities are in compliance with regulatory operating and health standards and conditions for participating in government healthcare programs.

Most of our inpatient and residential facilities maintain accreditation from private entities, such as The Joint Commission or the Commission on Accreditation of Rehabilitation Facilities ("CARF"). The Joint Commission and CARF are private organizations that have accreditation programs for a broad spectrum of healthcare facilities. The Joint Commission accredits a broad variety of healthcare organizations, including hospitals and behavioral health organizations. CARF accredits behavioral health organizations providing mental health and alcohol and drug use and addiction services, as well as opiate treatment programs, and many other types of healthcare programs. These accreditation programs are intended generally to improve the quality, safety, outcomes and value of healthcare services provided by accredited facilities. Certain federal and state licensure agencies as well as many government and private healthcare payment programs require that providers be accredited as a condition of licensure, certification or participation. Accreditation is typically granted for a specified period, ranging from one to three years, and renewals of accreditation generally require completion of a renewal application and an on-site renewal survey.

### ***Certificates of Need***

Many of the states in which we operate facilities have enacted certificate of need ("CON") laws that regulate the construction or expansion of certain healthcare facilities, certain capital expenditures or changes in services or bed capacity. Failure to obtain CON approval of certain activities can result in: our inability to complete an acquisition, expansion or replacement; the imposition of civil penalties; the inability to receive Medicare or Medicaid reimbursement; or the revocation of a facility's license, any of which could harm our business.

### ***Audits***

Our healthcare facilities are also subject to federal, state and commercial payor audits to validate the accuracy of claims submitted to government healthcare programs and commercial payors. If these audits identify overpayments, we could be required to make substantial repayments, subject to various appeal rights. Several of our facilities have undergone claims audits related to their



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receipt of payments during the last several years with no material overpayments identified. However, potential liability from future audits could ultimately exceed established reserves, and any excess could potentially be substantial. Further, Medicare and Medicaid regulations, as well as commercial payor contracts, also provide for withholding or suspending payments in certain circumstances, which could adversely affect our cash flow.

### ***The Anti-Kickback Statute and Stark Law***

The Anti-Kickback Statute prohibits healthcare providers and others from directly or indirectly soliciting, receiving, offering or paying any remuneration, in cash or in kind, as an inducement or reward for using, referring, ordering, recommending or arranging for referrals or orders of services or other items paid for by a government healthcare program. The Anti-Kickback Statute may be found to have been violated if at least one purpose of the remuneration is to induce or reward referrals. A provider is not required to have actual knowledge or specific intent to commit a violation of the Anti-Kickback Statute to be found guilty of violating the law.

The Office of Inspector General of the Department of Health and Human Services (the "OIG") has issued safe harbor regulations that protect certain types of common arrangements from prosecution or sanction under the Anti-Kickback Statute. The fact that conduct or a business arrangement does not fall within a safe harbor does not automatically render the conduct or business arrangement illegal under the Anti-Kickback Statute. However, conduct and business arrangements falling outside the safe harbors may lead to increased scrutiny by government enforcement authorities. In December of 2020, the OIG finalized revisions to the Anti-Kickback Statute safe harbors and created new safe harbors for value-based care that became effective January 19, 2021. The new regulations are intended to improve patient care and foster innovative care models by easing regulatory burdens to coordinated and value-based care.

Although management believes that our arrangements with physicians and other referral sources comply with current law and available interpretative guidance, as a practical matter it is not always possible to structure our arrangements so as to fall squarely within an available safe harbor. Where that is the case, we cannot guarantee that applicable regulatory authorities will determine these financial arrangements do not violate the Anti-Kickback Statute or other applicable laws, including state anti-kickback laws.

In addition to the Anti-Kickback Statute, the federal Physician Self-Referral Law, also known as the Stark Law, prohibits physicians from referring Medicare patients to healthcare entities with which they or any of their immediate family members have a financial relationship for the furnishing of any "designated health services" unless certain exceptions apply. A violation of the Stark Law may result in a denial of payment; required refunds to the Medicare program; imposition of civil monetary penalties of up to \$25,820 for each prohibited claim, up to \$172,137 for circumvention schemes and up to \$20,489 for each day the entity fails to report required information; exclusion from government healthcare programs; and liability under the False Claims Act. There are ownership and compensation arrangement exceptions for many customary financial arrangements between physicians and facilities, including the employment exception, personal services exception, lease exception and certain recruitment exceptions. The Centers for Medicaid and Medicare finalized revisions to the exceptions and created new exceptions for value-based care that became effective on January 19, 2021. As with the changes made to the Anti-Kickback Statute, the new Stark exceptions are intended to improve patient care and foster innovative care models by easing regulatory burdens to coordinated and value-based care.

Management believes that our financial arrangements with physicians are structured to comply with the regulatory exceptions to the Stark Law. However, the Stark Law is a strict liability statute, meaning that no intent is required to violate the law, and even a technical violation may lead to significant penalties.

These laws and regulations are extremely complex and, in many cases, we do not have the benefit of regulatory or judicial interpretation. It is possible that different interpretations or enforcement of these laws and regulations could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our arrangements relating to facilities, equipment, personnel, services, capital expenditure programs and operating expenses. A determination that we have violated one or more of these laws, or the public announcement that we are being investigated for possible violations of one or more of these laws, could have a material adverse effect on our business, financial condition or results of operations. In addition, we cannot predict whether other federal or state legislation or regulations will be adopted, what form such legislation or regulations may take or what their impact on us may be.

If we are deemed to have failed to comply with the Anti-Kickback Statute, the Stark Law or other applicable laws and regulations, we could be subjected to liabilities, including criminal penalties, civil penalties and exclusion of one or more facilities from participation in the government healthcare programs. The imposition of such penalties could have a material adverse effect on our business, financial condition or results of operations.

### ***Eliminating Kickbacks in Recovery Act***

The Substance Use-Disorder Prevention that Promotes Opioid Recovery and Treatment for Patients and Communities Act (the "SUPPORT Act") contains a number of provisions aimed at identifying at-risk individuals, increasing access to opioid abuse treatment, reducing overprescribing and promoting data sharing with the primary goal of reducing the use and abuse of opioids. Additionally, the SUPPORT Act attempts to address the problem of "patient brokering" in the context of addiction treatment facilities and sober living homes.

One section of the SUPPORT Act, the Eliminating Kickbacks in Recovery Act ("EKRA"), makes it a federal crime to knowingly and willfully: (1) solicit or receive any remuneration in return for referring a patient to a recovery home, clinical treatment facility or laboratory; or (2) pay or offer any remuneration to induce such a referral or in exchange for an individual using the services of a recovery home, clinical treatment facility, or laboratory. Each conviction under the EKRA is punishable by up to \$200,000 in monetary damages, imprisonment for up to ten (10) years, or both. Unlike the Anti-Kickback Statute, EKRA is not limited to services reimbursable under a government healthcare program. The EKRA also contains exceptions similar to the Anti-Kickback Statute safe harbors, but those exceptions are more narrow than the Anti-Kickback Statute safe harbors such that practices that would be permissible under the Anti-Kickback Statute may violate EKRA.

### ***Federal False Claims Act and Other Fraud and Abuse Provisions***

The federal False Claims Act provides the government a tool to pursue healthcare providers for submitting false claims or requests for payment for healthcare items or services. Under the False Claims Act, the government may fine any person or entity that, among other things, knowingly submits, or causes the submission of, false or fraudulent claims for payment to the federal government or knowingly and improperly avoids or decreases an obligation to pay money to the federal government. The federal government has widely used the False Claims Act to prosecute Medicare and other federal healthcare program fraud such as coding errors, billing for services not provided, submitting false cost reports and providing care that is not medically necessary or that is substandard in quality. Claims for services or items rendered in violation of the Anti-Kickback Statute or the Stark Law can provide a basis for liability under the False Claims Act as well. The False Claims Act is also implicated by the knowing failure to report and return an overpayment within 60 days of identifying the overpayment or by the date a corresponding cost report is due, whichever is later.

Violations of the False Claims Act are punishable by significant penalties totaling \$11,665 to \$22,331 for each fraudulent claim plus three times the amount of damages sustained by the government. In addition, under the qui tam, or whistleblower, provisions of the False Claims Act, private parties may bring actions under the False Claims Act on behalf of the federal government. These private parties, known as relators, are entitled to share in any amounts recovered by the government, and, as a result, whistleblower lawsuits have increased significantly in recent years. Many states have similar false claims statutes that impose liability for the types of acts prohibited by the False Claims Act or that otherwise prohibit the submission of false or fraudulent claims to the state government or Medicaid program.

In addition to the False Claims Act, the federal government may use several criminal laws, such as the federal mail fraud, wire fraud or health care fraud statutes, to prosecute the submission of false or fraudulent claims for payment to the federal government. Most states have also adopted generally applicable insurance fraud statutes and regulations that prohibit healthcare providers from submitting inaccurate, incorrect or misleading claims to private insurance companies. Management believes our healthcare facilities have implemented appropriate safeguards and procedures to complete claim forms and requests for payment in an accurate manner and to operate in compliance with applicable laws. However, the possibility of billing or other errors can never be completely eliminated, and we cannot guarantee that the government or a qui tam plaintiff, upon audit or review, would not take the position that billing or other errors, should they occur, are violations of the False Claims Act.

### ***HIPAA Administrative Simplification and Privacy and Security Requirements***

The administrative simplification provisions of the Health Insurance Portability and Accountability Act ("HIPAA"), as amended by the Health Information Technology for Economic and Clinical Health Act ("HITECH"), require the use of uniform electronic data transmission standards for healthcare claims and payment transactions submitted or received electronically. These provisions are intended to encourage electronic commerce in the healthcare industry. HIPAA also established federal rules protecting the privacy and security of individually identifiable protected health information ("PHI"). The privacy and security regulations control the use and disclosure of PHI and the rights of patients to be informed about and control how such PHI is used and disclosed. Violations of HIPAA can result in both criminal and civil fines and penalties.

The HIPAA security regulations require healthcare providers to implement administrative, physical and technical safeguards to protect the confidentiality, integrity and availability of PHI. HITECH has strengthened certain HIPAA rules regarding the use and disclosure of PHI, extended certain HIPAA provisions to business associates and created security breach notification requirements including notifications to the individuals affected by the breach, the Department of Health and Human Services, and in certain cases, the media. HITECH has also increased maximum penalties for violations of HIPAA privacy rules. Management believes that we have

been in material compliance with the HIPAA regulations and have developed our policies and procedures to ensure ongoing compliance, although we cannot guarantee that our facilities will not be subject to security incidents or breaches which could have a material adverse effect on our business, financial condition or results of operations.

#### ***The Emergency Medical Treatment & Labor Act***

The Emergency Medical Treatment & Labor Act ("EMTALA") is intended to ensure public access to emergency services regardless of ability to pay. Section 1867 of the Social Security Act imposes specific obligations on Medicare-participating hospitals that offer emergency services to provide a medical screening examination when a request is made for examination or treatment for an emergency medical condition regardless of an individual's ability to pay. Hospitals are then required to provide stabilizing treatment for patients with emergency medical conditions. If a hospital is unable to stabilize a patient within its capability, or if the patient requests, an appropriate transfer must be implemented. EMTALA imposes additional obligations on hospitals with specialized capabilities, such as ours, to accept the transfer of patients in need of such specialized capabilities if those patients present in the emergency room of a hospital that does not possess the specialized capabilities.

#### ***Mental Health Parity Legislation***

The MHPAEA was signed into law in October 2008 and requires health insurance plans that offer mental health and addiction coverage to provide that coverage on par with financial and treatment coverage offered for other illnesses. The MHPAEA has some limitations because health plans that do not already cover mental health treatments are not required to do so, and health plans are not required to provide coverage for every mental health condition published in the Diagnostic and Statistical Manual of Mental Disorders by the American Psychiatric Association. The MHPAEA also contains a cost exemption which operates to exempt a group health plan from the MHPAEA's requirements if compliance with the MHPAEA becomes too costly.

On December 13, 2016, then President Obama signed the 21<sup>st</sup> Century Cures Act. The 21<sup>st</sup> Century Cures Act appropriated substantial resources for the treatment of behavioral health and substance abuse disorders and contained measures intended to strengthen the MHPAEA.

#### ***Patient Protection and Affordable Care Act***

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, "PPACA") dramatically altered the U.S. health care system. PPACA sought to provide coverage and access to substantially all Americans, to increase the quality of care provided and to reduce the rate of growth in health care expenditures. PPACA attempted to achieve these goals by, among other things, requiring most Americans to obtain health insurance, expanding the Medicare program's use of value-based purchasing programs, bundling payments to hospitals and other providers, reducing Medicare and Medicaid payments to providers, expanding Medicaid eligibility and tying reimbursement to the satisfaction of certain quality criteria.

On January 20, 2017, Donald Trump became President of the United States. Shortly after his inauguration, President Trump issued an executive order that, among other things, stated that it was the intent of his administration to repeal PPACA and, pending that repeal, instructed the executive branch of the federal government to defer or delay the implementation of any provision or requirement of PPACA that would impose a fiscal burden on any state or a cost, fee, tax, or penalty on any individual, family, health care provider or health insurer. Several bills have been introduced and voted upon in the House of Representatives and United States Senate that would either repeal and replace or simply repeal PPACA, although none have been enacted to-date.

On October 12, 2017, President Trump signed an executive order intending to expand the availability of so-called association health plans and short-term plans outside PPACA's requirements. President Trump also announced that the administration would cease making cost-sharing reduction payments to health insurance companies that help cover out-of-pocket costs for low-income individuals. On December 22, 2017, Public Law 115-97, informally referred to as the Tax Cuts and Jobs Act (the "Tax Act") was enacted into law. The Tax Act effectively eliminated PPACA's individual health insurance mandate as of 2018 by reducing to zero the tax penalty associated with failure to maintain health insurance coverage.

During the 2018 election cycle, Democrats regained control of the House of Representatives, effectively eliminating the possibility that PPACA will be repealed entirely during the next two years. Still, it remains difficult to predict whether PPACA will be replaced or modified; what the effect will be of the health care-related provisions in the Tax Act; or the impact that the President's executive actions will have on the implementation and enforcement of the provisions of PPACA or the regulations adopted or to be adopted to implement the law or the President's executive orders. In addition, if PPACA is replaced or modified, it remains unclear what the replacement plan or modifications would be, when the changes would become effective, or whether any of the existing provisions of PPACA would remain in place.



In 2018, a federal district court judge in Texas ruled that PPACA in its entirety is invalid. That decision has been stayed pending appeal, and will likely remain unresolved until finally decided by the United States Supreme Court. The United States Supreme Court heard oral argument of the case in November 2020 and a decision has yet to be issued.

There have been and likely will continue to be a number of legal challenges to various provisions of the law and President Trump's executive actions. On January 20, 2021, Joseph Biden became President of the United States and Democrats gained control of the United States Senate. President Biden issued an executive order in January 2021 seeking to strengthen PPACA and repealing two of former President Donald Trump's executive orders related to PPACA. It is likely that the Biden administration will continue to support PPACA and halt any repeal efforts.

Limitations on the availability of adequate insurance coverage for patients seeking services at our facilities; any reductions in government healthcare spending; and the possible Supreme Court invalidation of some or all of PPACA could have a material adverse effect on our business, financial condition or results of operations.

#### ***CARES Act and Other Regulatory Developments***

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

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

- an appropriation of \$100 billion to the PHSSE Fund for a new program to reimburse, through grants or other mechanisms, eligible healthcare providers and other approved entities for COVID-19-related expenses or lost revenue;
- the expansion of CMS' Accelerated and Advance Payment Program;
- the temporary suspension of Medicare sequestration from May 1, 2020 to March 31, 2021; and
- waivers or temporary suspension of certain regulatory requirements.

As noted above, the U.S. government initially announced it would offer \$100 billion of relief to eligible healthcare providers through the PHSSE Fund. On April 24, 2020, President Trump signed into law the New PPP Act. Among other things, the New PPP Act allocates \$75 billion to eligible healthcare providers to help offset COVID-19 related losses and expenses. The \$75 billion allocated under the New PPP Act is in addition to the \$100 billion allocated to healthcare providers for the same purposes in the CARES Act and has been disbursed to providers under terms and conditions similar to the CARES Act funds. We received approximately \$19.7 million of the initial PHSSE funds distributed in April 2020. We received approximately \$12.8 million of additional PHSSE funds in August 2020.

During the fourth quarter of 2020, we recorded \$32.8 million of other income in the consolidated statements of operations related to \$34.9 million of PHSSE funds received from April through December 2020. Our recognition of this income was based on revised guidance in the Consolidated Appropriations Act, 2021 enacted in December 2020.

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

On October 1, 2020, Congress amended the terms of the Accelerated and Advance Payment Program to extend the term of the loan and adjust the repayment process. Under the new terms of the program, all providers will have 29 months from the date of their first program payment to repay the full amount of the accelerated or advance payments they have received. The revised terms extend the period before repayment begins from 210 days to one year from the date that payment under the program was received. Once the repayment period begins, the offset will be limited to 25% of new claims during the first 11 months of repayment and 50% of new claims during the final 6 months. The revised program terms also lower the interest rate on outstanding amounts due at the end of the

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repayment period from 10% to 4%. We applied for and received approximately \$45 million in April 2020 from this program, which we expect to repay over the 12 month period beginning April 2021.

Also under the CARES Act, we received a 2% increase in our facilities' Medicare reimbursement rate as a result of the temporary suspension of Medicare sequestration from May 1, 2020 to March 31, 2021.

The CARES Act also provides for certain federal income and other tax changes, including an increase in the interest expense tax deduction limitation and bonus depreciation of qualified improvement property. Furthermore, under the CARES Act, (i) for taxable years beginning before 2021, net operating loss ("NOL") carryforwards and carrybacks may offset 100% of taxable income and (ii) NOLs arising in 2018, 2019 and 2020 taxable years may be carried back to each of the preceding five years to generate a refund. As a result, in 2019 and 2020 we received a benefit, in the form of refunds and lower future tax payments, of \$51.6 million, consisting of \$22.8 million related to interest expense, \$20.5 million related to qualified improvement property legislation, and an \$8.3 million permanent benefit due to the loss being able to be carried back at a 35% tax rate to offset income in tax years prior to 2018 (21% for tax years after 2017). We also received a cash benefit of approximately \$39 million for 2020 relating to the delay of payment of the employer portion of Social Security payroll taxes, as enacted by the CARES Act.

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

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

### ***Corporate Integrity Agreement***

During the second quarter of 2019, we entered into a corporate integrity agreement (the "CIA") with the OIG imposing certain compliance obligations on us and our subsidiary, CRC Health. For further discussion of the background of this matter and the CIA, see "Risk Factors— We could be subject to increased monetary penalties and other sanctions, including exclusion from federal healthcare programs, if we fail to comply with the terms of the Corporate Integrity Agreement."

### ***U.K. Overview***

The regulatory environment applicable to healthcare facilities in the U.K. is complex and multifaceted. The regulatory regime is made up of multiple statutes, regulations and minimum standards that are subject to continuous change. The laws and regulations applicable to the U.K. Facilities include, without limitation, the Mental Capacity Act of 2005, Safeguarding Vulnerable Groups Act of 2006, Mental Health Act of 2007, Health and Social Care Act of 2008 and Corporate Manslaughter and Corporate Homicide Act of 2007. These laws and regulations are predominantly protective in nature and share the same general underlying purpose to protect vulnerable persons from exploitation or harm. The regulatory requirements relevant to our facilities in the U.K. cover our operations from the initial establishments of new facilities, which are subject to registration and licensing requirements, to the recruitment and appointment of staff, occupational health and safety, duty of care to service users, clinical and educational standards, conduct of our professional and support staff and other areas.

### ***Risk Management and Insurance***

The healthcare industry in general continues to experience an increase in the frequency and severity of litigation and claims. As is typical in the healthcare industry, we are subject to claims that our services have resulted in injury to our patients or clients or other adverse effects. In addition, resident, visitor and employee injuries also subject us to the risk of litigation. While management believes that quality care is provided to patients and clients in our facilities and that we substantially comply with all applicable regulatory requirements, an adverse determination in a legal proceeding or government investigation could have a material adverse effect on our business, financial condition or results of operations.

Our statutory workers' compensation program is fully insured with a \$0.5 million deductible per accident. A portion of our professional liability risks are insured through a wholly-owned insurance subsidiary. We are self-insured for professional liability claims up to \$3.0 million per claim and have obtained reinsurance coverage from a third party to cover claims in excess of the retention limit. The reinsurance policy has a coverage limit of \$75.0 million in the aggregate. Our 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.

#### **Environmental Matters**

We are subject to various federal, state and local environmental laws that: (i) regulate certain activities and operations that may have environmental or health and safety effects, such as the handling, storage, transportation, treatment and disposal of medical waste products generated at our facilities, the identification and warning of the presence of asbestos-containing materials in buildings, as well as the removal of such materials, the presence of other hazardous substances in the indoor environment and protection of the environment and natural resources in connection with the development or construction of our facilities; (ii) impose liability for costs of cleaning up, and damages to natural resources from, past spills, waste disposals on and off-site, or other releases of hazardous materials or regulated substances; and (iii) regulate workplace safety. Some of our facilities generate infectious or other hazardous medical waste due to the illness or physical condition of our patients. The management of infectious medical waste is subject to regulation under various federal, state and local environmental laws, which establish management requirements for such waste. These requirements include record-keeping, notice and reporting obligations. Each of our facilities has an agreement with a waste management company for the disposal of medical waste. The use of such companies, however, does not completely protect us from violations of medical waste laws or from related third-party claims for clean-up costs.

From time to time, our operations have resulted in, or may result in, non-compliance with, or liability pursuant to, environmental or health and safety laws or regulations. Management believes that our operations are generally in compliance with environmental and health and safety regulatory requirements or that any non-compliance will not result in a material liability or cost to achieve compliance. Historically, the costs of achieving and maintaining compliance with environmental laws and regulations at our facilities have not been material. However, we cannot assure you that future costs and expenses required for us to comply with any new or changes in existing environmental and health and safety laws and regulations or new or discovered environmental conditions will not have a material adverse effect on our business, financial condition or results of operations.

We have not been notified of and management is otherwise currently not aware of any contamination at our currently or formerly operated facilities that could result in material liability or cost to us under environmental laws or regulations for the investigation and remediation of such contamination, and we currently are not undertaking any remediation or investigation activities in connection with any such contamination conditions. There may, however, be environmental conditions currently unknown to us relating to our prior, existing or future sites or operations or those of predecessor companies whose liabilities we may have assumed or acquired which could have a material adverse effect on our business.

New laws, regulations or policies or changes in existing laws, regulations or policies or their enforcement, future spills or accidents or the discovery of currently unknown conditions or non-compliances may give rise to investigation and remediation liabilities, compliance costs, fines and penalties, or liability and claims for alleged personal injury or property damage due to substances or materials used in our operations, any of which may have a material adverse effect on our business, financial condition or results of operations.

#### **Competition**

The healthcare industry is highly competitive. Our principal competitors include other behavioral healthcare service companies, including Universal Health Services, Inc. (NYSE: UHS) and other hospitals and general healthcare facilities that provide mental health services. An important part of our business strategy is to continue making targeted acquisitions of other behavioral health facilities. However, reduced capacity, the passage of mental health parity legislation and increased demand for mental health services are likely to attract other potential buyers, including diversified healthcare companies, other pure-play behavioral healthcare companies and private equity firms.

In addition to the competition we face for acquisitions, we must also compete for patients. Patients are referred to our behavioral healthcare facilities through a number of different sources, including healthcare practitioners, public programs, other treatment facilities, managed care organizations, unions, emergency departments, judicial officials, social workers, police departments and word of mouth from previously treated patients and their families, among others. These referral sources may instead refer patients to hospitals that are able to provide a full suite of medical services or to other behavioral healthcare centers.

## **Human Capital**

At December 31, 2020, we had approximately 42,200 employees (approximately 21,000 in the U.S. and approximately 21,200 in the U.K.), of which 28,600 were employed full-time. At December 31, 2020, labor unions represented approximately 392 of our U.S. employees at four of our U.S. Facilities through seven collective bargaining agreements. Organizing activities by labor unions and certain potential changes in federal labor laws and regulations could increase the likelihood of employee unionization in the future.

Typically, our inpatient facilities are staffed by a chief executive officer, medical director, director of nursing, chief financial officer, clinical director and director of performance improvement. Psychiatrists and other physicians working in our facilities are licensed medical professionals who are generally not employed by us and work in our facilities as independent contractors or medical staff members.

## **Seasonality of Demand for Services**

Our residential recovery and other inpatient facilities typically experience lower patient volumes and revenue during the holidays, and our child and adolescent facilities typically experience lower patient volumes and revenue during the summer months, holidays and other periods when school is out of session.

## **Available Information**

Our Internet website address is [www.acadiahealthcare.com](http://www.acadiahealthcare.com). We make available our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports free of charge on our website on the Investors webpage under the caption "SEC Filings" as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Our website and the information contained therein or linked thereto are not intended to be incorporated into this Annual Report on Form 10-K.

## **Item 1A. Risk Factors**

### **Risk Factors Summary**

We are subject to a variety of risks and uncertainties, including risks related to the COVID-19 global pandemic, financial risks, operational risks, human capital risks, legal proceedings and regulatory risks and certain general risks, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. Risks that we deem material are described under "Risk Factors" below and include, but are not limited to, the following:

#### **COVID-19 Risks**

- The COVID-19 global pandemic is affecting our operations, business and financial condition, and our liquidity could be negatively impacted, particularly if the U.S. economy remains unstable for a significant amount of time or if patient volumes decline at our facilities.
- There is a high degree of uncertainty regarding the implementation and impact of CARES Act and other existing or future stimulus legislation, if any. There can be no assurance as to the total amount of financial assistance or types of assistance we will receive or that we will be able to comply with the applicable terms and conditions to retain such assistance.
- An increase in uninsured or underinsured patients or the deterioration in the collectability of patient accounts receivables could harm our results of operation.

#### **Financial Risks**

- Our revenue and results of operations are significantly affected by payments received from the government and third-party payors.
- Our substantial debt could adversely affect our financial health and prevent us from fulfilling our obligations under our financing arrangements.
- Servicing our debt will require a significant amount of cash. Our ability to generate sufficient cash to service our debt depends on many factors beyond our control.
- We are subject to a number of restrictive covenants, which may restrict our business and financing activities.



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- Despite our current debt level, we may incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial debt.
- If we default on our obligations to pay our debt, we may not be able to make payments on our financing arrangements.
- The industry trend on value-based purchasing may negatively impact our revenue.

### **Operational Risks**

- An incident involving one or more of our patients or the failure by one or more of our facilities to provide appropriate care could result in increased regulatory burdens, governmental investigations, negative publicity and adversely affect the trading price of our common stock.
- Our business growth and acquisition strategies expose us to a variety of operational and financial risks.
- Joint ventures may use significant resources, may be unsuccessful and could expose us to unforeseen liabilities.
- We care for a large number of vulnerable individuals with complex needs and any care quality deficiencies could adversely impact our brand, reputation and ability to market our services effectively.
- Our business could be disrupted if our information systems fail or if our databases are destroyed or damaged.
- Although we have facilities in 40 states and Puerto Rico, we have substantial operations in Pennsylvania, California, Arizona and Tennessee, which makes us especially sensitive to regulatory, economic, environmental and competitive conditions and changes in those locations.
- If we fail to cultivate new or maintain established relationships with referral sources, our business, financial condition or results of operations could be adversely affected.
- We operate in a highly competitive industry, and competition may lead to declines in patient volumes.
- A cyber security incident could cause a violation of HIPAA and other privacy laws and regulations or result in a loss of confidential data.

### **Human Capital Risks**

- Our facilities face competition for staffing that may increase our labor costs and reduce our profitability.
- Our performance depends on our ability to recruit and retain quality psychiatrists and other physicians.

### **Legal Proceedings and Regulatory Risks**

- We are and in the future could become the subject of additional governmental investigations, regulatory actions and whistleblower lawsuits.
- We could be subject to monetary penalties and other sanctions, including exclusion from federal healthcare programs, if we fail to comply with the terms of the CIA.
- 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.
- If we fail to comply with extensive laws and government regulations, we could suffer penalties or be required to make significant changes to our operations.
- We could face risks associated with, or arising out of, environmental, health and safety laws and regulations.

### **General Risk Factors**

- Fluctuations in our operating results, quarter to quarter earnings and other factors, including factors outside our control, may result in significant decreases in the price of our common stock.
- Future sales of common stock by our existing stockholders may cause our stock price to fall.
- If securities or industry analysts do not publish research or reports about our business, if they were to change their recommendations regarding our stock adversely or if our operating results do not meet their expectations, our stock price and trading volume could decline.
- We incur substantial costs as a result of being a public company.

## Risk Factors

Any of the following risks could materially and adversely affect our business, financial condition or results of operations. These risks should be carefully considered before making an investment decision regarding us. The risks and uncertainties described below are not the only ones we face and there may be additional risks that we are not presently aware of or that we currently consider not likely to have a significant impact. If any of the following risks actually occurred, our business, financial condition and operating results could suffer, and the trading price of our common stock could decline.

### COVID-19 Risks

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

The global pandemic of COVID-19 is affecting our facilities, employees, patients, communities, business operations and financial performance, as well as the broader U.S. economy and financial markets. During the second, third and fourth quarters of 2020, COVID-19 resulted in fewer referrals to our facilities and lower voluntary admissions as individuals were less inclined to leave their homes and seek treatment. When employees and/or patients at a facility are infected with COVID-19, there is a risk that the virus will spread to others at the facility and impact the operations of such facility. COVID-19 is continuing to evolve and its full impact remains unknown and difficult to predict; however, it has adversely affected our business operations in the second, third and fourth quarters of 2020 and could negatively impact our financial performance for 2021 or longer.

We are also experiencing supply chain disruptions and could experience significant price increases in equipment, pharmaceuticals and medical supplies, particularly PPE. Pandemic-related staffing difficulties and equipment, pharmaceutical and medical supplies shortages may impact our ability to treat patients at our facilities. Such shortages could lead to us paying higher prices for supplies, equipment and labor and an increase in overtime hours paid to our employees.

The steps we have taken to mitigate the financial impact of COVID-19, see “Item 1. Business. COVID -19 Impact,” may not be successful, and we could experience material decreases in Adjusted EBITDA in 2021 or longer. In addition, we may need to take further steps to mitigate the financial impact of COVID-19, which actions could adversely affect our financial condition and results of operations.

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

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

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

In addition, we may not be able to pursue organic growth initiatives and/or acquisition and joint venture opportunities previously planned or expected for our business.

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

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

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

During the fourth quarter of 2020, we recorded \$32.8 million of other income in the consolidated statements of operations related to \$34.9 million of PHSSE funds received from April through December 2020. Our recognition of this income was based on revised guidance in the Consolidated Appropriations Act, 2021 enacted in December 2020.

The CARES Act also makes other forms of financial assistance available to health care providers, including Medicare and Medicaid payments adjustments and an expansion of the CMS Accelerated and Advance Payment Program, which makes available advance payments of Medicare funds in order to increase cash flow to providers. Using existing authority and certain expanded authority under the CARES Act, HHS has expanded CMS' Accelerated and Advance Payment Program to a broader group of Medicare Part A and Part B providers for the duration of the COVID-19 pandemic. Under the program, our facilities were eligible to request up to 100% of their Medicare payment amount for a three-month period.

On October 1, 2020, Congress amended the terms of the Accelerated and Advance Payment Program to extend the term of the loan and adjust the repayment process. Under the new terms of the program, all providers will have 29 months from the date of their first program payment to repay the full amount of the accelerated or advance payments they have received. The revised terms extend the period before repayment begins from 210 days to one year from the date that payment under the program was received. Once the repayment period begins, the offset will be limited to 25% of new claims during the first 11 months of repayment and 50% of new claims during the final 6 months. The revised program terms also lower the interest rate on outstanding amounts due at the end of the repayment period from 10% to 4%. We applied for and received approximately \$45 million in April 2020 from this program, which we expect to repay over the 12 month period beginning April 2021.

Also under the CARES Act, we received a 2% increase in our facilities' Medicare reimbursement rate as a result of the temporary suspension of Medicare sequestration from May 1, 2020 to March 31, 2021.

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

***An increase in uninsured or underinsured patients or the deterioration in the collectability of patient accounts receivables could harm our results of operation.***

Collection of receivables from third-party payors and patients is critical to our operating performance. Our primary collection risks relate to uninsured patients and the portion of the bill that is the patient's responsibility, which primarily includes co-payments and deductibles. 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. At December 31, 2020, our estimated implicit price concessions represented approximately 18% of our accounts receivable balance as of such date.

Significant changes in business office operations, payor mix, economic conditions or trends in federal and state governmental health coverage (including the repeal, replacement or modification of PPACA) could affect our collection of accounts receivable, cash



flow and results of operations. If we experience unexpected increases in the growth of uninsured and underinsured patients or in bad debt expenses, our results of operations will be harmed.

### Financial Risks

#### ***Our revenue and results of operations are significantly affected by payments received from the government and third-party payors.***

A significant portion of our revenue is derived from government healthcare programs. For the year ended December 31, 2020, exclusive of our U.K. operations, we derived approximately 65% of our revenue from the Medicare and Medicaid programs.

Government payors in the U.S., such as Medicaid, generally reimburse us on a fee-for-service basis based on predetermined reimbursement rate schedules. As a result, we are limited in the amount we can record as revenue for our services from these government programs, and if we have a cost increase, we typically will not be able to recover this increase. In addition, the federal government and many state governments, are operating under significant budgetary pressures, and they may seek to reduce payments under their Medicaid programs for services such as those we provide. Government payors also tend to pay on a slower schedule. In addition to limiting the amounts they will pay for the services we provide their members, government payors may, among other things, impose prior authorization and concurrent utilization review programs that may further limit the services for which they will pay and shift patients to lower levels of care and reimbursement. Therefore, if governmental entities reduce the amounts they will pay for our services, or if they elect not to continue paying for such services altogether, or if a total or partial repeal of PPACA results in significant contraction of the number of individuals covered by state Medicaid programs, our business, financial condition or results of operations could be adversely affected. In addition, if governmental entities slow their payment cycles further, our cash flow from operations could be negatively affected.

Commercial payors such as managed care organizations, private health insurance programs and labor unions generally reimburse us for the services rendered to insured patients based upon contractually determined rates. These commercial payors are under significant pressure to control healthcare costs. In addition to limiting the amounts they will pay for the services we provide their members, commercial payors may, among other things, impose prior authorization and concurrent utilization review programs that may further limit the services for which they will pay and shift patients to lower levels of care and reimbursement. These actions may reduce the amount of revenue we derive from commercial payors.

Changes in these government programs in recent years have resulted in limitations on reimbursement and, in some cases, reduced levels of reimbursement for healthcare services. Payments from federal and state government healthcare programs are subject to statutory and regulatory changes, administrative rulings, interpretations and determinations, requirements for utilization review, and federal and state funding restrictions, all of which could materially increase or decrease program payments, as well as affect the cost of providing service to patients and the timing of payments to facilities. We are unable to predict the effect of recent and future policy changes on our operations. In addition, since most states operate with balanced budgets and since the Medicaid program is often a state's largest program, some states can be expected to enact or consider enacting legislation formulated to reduce their Medicaid expenditures. Furthermore, the potential repeal, replacement or modification of PPACA, may negatively affect the availability of taxpayer funds for Medicare and Medicaid programs. If the rates paid or the scope of services covered by government payors are reduced, there could be a material adverse effect on our business, financial condition and results of operations.

In addition to changes in government reimbursement programs, our ability to negotiate favorable contracts with private payors, including managed care providers, significantly affects the financial condition and operating results of our facilities. Management expects third-party payors to aggressively manage reimbursement levels and cost controls. Reductions in reimbursement amounts received from third-party payors could have a material adverse effect on our business, financial condition and results of operations.

#### ***Our substantial debt could adversely affect our financial health and prevent us from fulfilling our obligations under our financing arrangements.***

At December 31, 2020, we had approximately \$3.1 billion of total debt (net of debt issuance costs, discounts and premiums of \$30.8 million), which included approximately \$1,175.4 million of debt under our Amended and Restated Senior Credit Facility (including approximately \$309.8 million of Senior Secured Term A Loan and approximately \$865.6 million of Senior Secured Term B Loans), \$650.0 million of debt under our 5.625% Senior Notes, \$390.0 million of debt under our 6.500% Senior Notes, \$450.0 million of debt under our 5.500% Senior Notes, \$475.0 million of debt under our 5.000% Senior Notes, and other long-term debt of \$3.6 million. On January 5, 2021 we made a voluntary payment of \$105.0 million on our Tranche B-4 Facility. On January 19, 2021, we repaid \$311.7 million of our TLA Facility and \$767.9 million of our Tranche B-4 Facility. See "Item 1. Business—Financing Transactions" for additional details regarding our outstanding indebtedness.

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Our substantial debt could have important consequences to our business. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- make it more difficult for us to satisfy our other financial obligations;
- restrict us from making strategic acquisitions or cause us to make non-strategic divestitures;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt (including scheduled repayments on our outstanding term loan borrowings under the Amended and Restated Senior Credit Facility), thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- expose us to interest rate fluctuations because the interest on the Amended and Restated Senior Credit Facility is imposed at variable rates;
- make it more difficult for us to satisfy our obligations to our lenders, resulting in possible defaults on and acceleration of such debt;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit our ability to borrow additional funds; and
- limit our ability to pay dividends, redeem stock or make other distributions.

In addition, the terms of our financing arrangements contain restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debts, including the Amended and Restated Senior Credit Facility and the Senior Notes.

***Servicing our debt will require a significant amount of cash. Our ability to generate sufficient cash to service our debt depends on many factors beyond our control.***

Our ability to make payments on and to refinance our debt, to fund planned capital expenditures and to maintain sufficient working capital will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under the Amended and Restated Senior Credit Facility or from other sources in an amount sufficient to enable us to service our debt or to fund our other liquidity needs. If our cash flow and capital resources are insufficient to allow us to make scheduled payments on our debt, we may need to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance all or a portion of our debt on or before the maturity thereof, any of which could have a material adverse effect on our business, financial condition or results of operations. We cannot assure you that we will be able to refinance any of our debt on commercially reasonable terms or at all, or that the terms of that debt will allow any of the above alternative measures or that these measures would satisfy our scheduled debt service obligations. If we are unable to generate sufficient cash flow to repay or refinance our debt on favorable terms, it could significantly adversely affect our financial condition and the value of our outstanding debt. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

***We are subject to a number of restrictive covenants, which may restrict our business and financing activities.***

Our financing arrangements impose, and the terms of any future debt may impose, operating and other restrictions on us. Such restrictions affect, and in many respects limit or prohibit, among other things, our and our subsidiaries' ability to:

- incur or guarantee additional debt and issue certain preferred stock;
- pay dividends on our common stock or redeem, repurchase or retire our equity interests or subordinated debt;
- transfer or sell our assets;
- make certain payments or investments;
- make capital expenditures;



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- create certain liens on assets;
- create restrictions on the ability of our subsidiaries to pay dividends or make other payments to us;
- engage in certain transactions with our affiliates; and
- merge or consolidate with other companies.

The Amended and Restated Senior Credit Facility also requires us to meet certain financial ratios, including a fixed charge coverage ratio and a consolidated leverage ratio. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources —Amended and Restated Senior Credit Facility”.

The restrictions may prevent us from taking actions that management believes would be in the best interests of our business, and may make it difficult for us to successfully execute our business strategy or effectively compete with companies that are not similarly restricted. We also may incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility. Our ability to comply with these covenants in future periods will largely depend on the pricing of our products and services, our success at implementing cost reduction initiatives and our ability to successfully implement our overall business strategy. We cannot assure you that we will be granted waivers or amendments to our financing arrangements if for any reason we are unable to comply with our financial covenants. The breach of any of these covenants and restrictions could result in a default under the indentures governing the Senior Notes or under the Amended and Restated Senior Credit Facility, which could result in an acceleration of our debt.

***Despite our current debt level, we may incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial debt.***

We may incur substantial additional debt, including additional notes and other debt, in the future. Although the indentures governing our outstanding Senior Notes and our Amended and Restated Senior Credit Facility contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of debt that could be incurred in compliance with these restrictions could be substantial. If new debt is added to our existing debt levels, the related risks that we now face would intensify and we may not be able to meet all our debt obligations.

***If we default on our obligations to pay our debt, we may not be able to make payments on our financing arrangements.***

Any default under the agreements governing our debt, including a default under the Amended and Restated Senior Credit Facility or the indentures governing our Senior Notes, and the remedies sought by the holders of such debt, could adversely affect our ability to pay the principal, premium, if any, and interest on the Senior Notes and substantially decrease the market value of the Senior Notes. If we are unable to generate sufficient cash flows and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our debt, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our debt (including the Amended and Restated Senior Credit Facility and the indentures governing the Senior Notes), we would be in default under the terms of the agreements governing such debt. In the event of such default, the holders of such debt could elect to declare all the funds borrowed thereunder to be due and payable, the lenders under the Amended and Restated Senior Credit Facility could elect to terminate their commitments or cease making further loans and institute foreclosure proceedings against our assets, or we could be forced to apply all available cash flows to repay such debt, and, in any such case, we could ultimately be forced into bankruptcy or liquidation. Because the indentures governing the Senior Notes and the agreement governing the Amended and Restated Senior Credit Facility have customary cross-default provisions, if the debt under the Senior Notes or the Amended and Restated Senior Credit Facility is accelerated, we may be unable to repay or refinance the amounts due.

***We have recorded impairment charges and may be required to record additional charges to future earnings if our goodwill, intangible assets and property and equipment become further impaired.***

We are required under U.S. generally accepted accounting principles (“GAAP”) to review annually, or more frequently if events indicate the carrying value of a reporting unit may not be recoverable, our goodwill and indefinite-lived intangible assets for impairment. For the years ended December 31, 2020 and 2019, we recorded impairment charges of \$4.8 million and \$27.2 million, respectively, relating to adjustments in the carrying value of certain closed facilities. We may be required to record additional charges to earnings during any period in which a further impairment of our goodwill, intangible assets and property and equipment is determined which could adversely affect our results of operations. Our evaluation of goodwill and the need for any further impairment in subsequent periods is sensitive to revisions to our current projections. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations— Critical Accounting Policies — Goodwill and Indefinite-Lived Intangible Assets” for additional information.

***Our operating costs are subject to increases in the wages and salaries of our staff.***

The most significant operating expense for our facilities is wage costs, which represent the staff costs incurred in providing our services and running our facilities, and which are primarily driven by the number of employees and pay rates. The number of employees employed by us is primarily linked to the number of facilities we operate and the number of individuals cared for by us. While we can reduce the number of employees should occupancy rates decrease at our facilities, there is a limit on the extent to which this can be done without impacting quality of our services.

We also have a number of recurring costs including insurance, utilities and rental costs, and may face increases to other recurring costs such as regulatory compliance costs. There can be no assurance that any of our recurring costs will not grow at a faster rate than our revenue. As a result, any increase in our operating costs could have a material adverse effect on our business, results of operations and financial condition.

***We are subject to volatility in the global capital and credit markets as well as significant developments in macroeconomic and political conditions that are out of our control.***

Our business can be affected by a number of factors that are beyond our control, such as general macroeconomic conditions, conditions in the financial services markets, geopolitical conditions and other general political and economic developments. In particular, we have historically financed the development of new facilities and the modification of our existing facilities through a variety of sources, including our own cash reserves and debt financing. While we intend to seek to finance new and existing developments from similar sources in the future, there may be insufficient cash reserves to fund the budgeted capital expenditure and market conditions and other factors may prevent us from obtaining debt financing on appropriate terms or at all. In addition, market conditions may limit the number of financial institutions that are willing to provide financing to landlords with whom we wish to contract to build homes for learning disability services, new schools or new mental health facilities which can then be made available to us under a long-term operating lease. If conditions in the global economy remain uncertain or weaken further, this could materially adversely impact our ADC, which would have a corresponding negative impact on our business, results of operations and financial condition.

***A worsening of the economic and employment conditions in the geographies in which we operate could materially affect our business and future results of operations.***

During periods of high unemployment, governmental entities often experience budget deficits as a result of increased costs and lower than expected tax collections. These budget deficits at the federal, state and local levels have decreased, and may continue to decrease, spending for health and human service programs, including Medicare and Medicaid, which are significant payor sources for our facilities. In periods of high unemployment, we also face the risk of potential declines in the population covered under private insurance, patient decisions to postpone or decide against receiving behavioral healthcare services, potential increases in the uninsured and underinsured populations we serve and further difficulties in collecting patient co-payment and deductible receivables.

A sizable portion of our revenue from certain residential recovery, eating disorder facilities, comprehensive treatment centers and youth programs is from self-payors. Accordingly, a sustained downturn in the U.S. economy could restrain the ability of our patients and the families of our students to pay for services.

Furthermore, the availability of liquidity and capital resources to fund the continuation and expansion of many business operations worldwide has been limited in recent years. Our ability to access the capital markets on acceptable terms may be severely restricted at a time when we would like, or need, access to those markets, which could have a negative impact on our growth plans, our flexibility to react to changing economic and business conditions and our ability to refinance existing debt (including debt under our Amended and Restated Senior Credit Facility and the Senior Notes). A sustained economic downturn or other economic conditions could also adversely affect the counterparties to our agreements, including the lenders under the Amended and Restated Senior Credit Facility, causing them to fail to meet their obligations to us.

***The industry trend on value-based purchasing may negatively impact our revenue.***

There is a trend in the healthcare industry toward value-based purchasing of healthcare services. These value-based purchasing programs include both public reporting of quality data and preventable adverse events tied to the quality and efficiency of care provided by facilities. Governmental programs including Medicare and Medicaid currently require hospitals to report certain quality data to receive full reimbursement updates. In addition, Medicare does not reimburse for care related to certain preventable adverse events. Many large commercial payors currently require hospitals to report quality data, and several commercial payors do not reimburse hospitals for certain preventable adverse events.

We expect value-based purchasing programs, including programs that condition reimbursement on patient outcome measures, to become more common and to involve a higher percentage of reimbursement amounts. We are unable at this time to predict how this



trend will affect our results of operations, but it could negatively impact our revenue if we are unable to meet quality standards established by both governmental and private payers.

***The trend by insurance companies and managed care organizations to enter into sole-source contracts may limit our ability to obtain patients.***

Insurance companies and managed care organizations are entering into sole-source contracts with healthcare providers, which could limit our ability to obtain patients since we do not offer the range of services required for these contracts. Moreover, private insurers, managed care organizations and, to a lesser extent, Medicaid and Medicare, are beginning to carve-out specific services, including mental health and substance abuse services, and establish small, specialized networks of providers for such services at fixed reimbursement rates. Continued growth in the use of carve-out arrangements could materially adversely affect our business to the extent we are not selected to participate in such networks or if the reimbursement rate in such networks is not adequate to cover the cost of providing the service.

***Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), could have a material adverse effect on our business.***

We are required to maintain internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act. If we are unable to maintain adequate internal control over financial reporting, we may be unable to report our financial information on a timely basis, may suffer adverse regulatory consequences or violations of NASDAQ listing rules and may breach the covenants under our financing arrangements. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. If we or our independent registered public accounting firm identify any material weakness in our internal control over financial reporting in the future (including any material weakness in the controls of businesses we have acquired), their correction could require additional remedial measures which could be costly, time-consuming and could have a material adverse effect on our business.

***We do not anticipate paying any cash dividends in the foreseeable future.***

We intend to retain our future earnings, if any, for use in our business or for other corporate purposes and do not anticipate that cash dividends with respect to common stock will be paid in the foreseeable future. Any decision as to the future payment of dividends will depend on our results of operations, financial position and such other factors as our board of directors, in its discretion, deems relevant. In addition, the terms of our debt substantially limit our ability to pay dividends. As a result, capital appreciation, if any, of our common stock will be a stockholder's sole source of gain for the foreseeable future.

#### **Operational Risks**

***An incident involving one or more of our patients or the failure by one or more of our facilities to provide appropriate care could result in increased regulatory burdens, governmental investigations, negative publicity and adversely affect the trading price of our common stock.***

Because many of the patients we treat suffer from severe mental health and chemical dependency disorders, patient incidents, including deaths, sexual abuse, assaults and elopements, occur from time to time. If one or more of our facilities experiences an adverse patient incident or is found to have failed to provide appropriate patient care, an admissions hold, loss of accreditation, license revocation or other adverse regulatory action could be taken against us. Any such patient incident or adverse regulatory action could result in governmental investigations, judgments or fines and have a material adverse effect on our business, financial condition and results of operations. In addition, we have been and could become the subject of negative publicity or unfavorable media attention, whether warranted or unwarranted, that could have a significant, adverse effect on the trading price of our common stock or adversely impact our reputation and how our referral sources and payors view us.

***Our business growth and acquisition strategies expose us to a variety of operational and financial risks.***

A principal element of our business strategy is to grow by acquiring other companies and assets in the behavioral healthcare industry. Growth, especially rapid growth, through acquisitions exposes us to a variety of operational and financial risks. We summarize the most significant of these risks below.

#### **Integration risks**

We must integrate our acquisitions with our existing operations. This process includes the integration of the various components of our business and of the businesses we have acquired or may acquire in the future, including the following:

- additional psychiatrists, other physicians and employees who are not familiar with our operations;

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- patients who may elect to switch to another behavioral healthcare provider;
- regulatory compliance programs; and
- disparate operating, information and record keeping systems and technology platforms.

Integrating a new facility could be expensive and time consuming and could disrupt our ongoing business, negatively affect cash flow and distract management and other key personnel from day-to-day operations.

We may not be able to successfully combine the operations of acquired facilities with our operations, and even if such integration is accomplished, we may never realize the potential benefits of the acquisition. The integration of acquisitions with our operations requires significant attention from management, may impose substantial demands on our operations or other projects and may impose challenges on the combined business including, but not limited to, inconsistencies in business standards, procedures, policies, business cultures and internal controls and compliance. Certain acquisitions involve a capital outlay, and the return that we achieve on any capital invested may be less than the return that we would achieve on our other projects or investments. If we fail to complete the integration of acquired facilities, we may never fully realize the potential benefits of the related acquisitions.

Successful integration depends on the ability to effect any required changes in operations or personnel, which may entail unforeseen liabilities. The integration of acquired businesses may expose us to certain risks, including the following: difficulty in integrating these businesses in a cost-effective manner, including the establishment of effective management information and financial control systems; unforeseen legal, regulatory, contractual, employment or other issues arising out of the combination; combining corporate cultures; maintaining employee morale and retaining key employees; potential disruptions to our on-going business caused by our senior management's focus on integrating these businesses; and performance of the combined assets not meeting our expectations or plans. A failure to properly integrate these businesses could have a corresponding material adverse effect on our business, results of operations, financial condition or prospects.

### *Benefits may not materialize*

When evaluating potential acquisition targets, we identify potential synergies and cost savings that we expect to realize upon the successful completion of the acquisition and the integration of the related operations. We may, however, be unable to achieve or may otherwise never realize the expected benefits. Our ability to realize the expected benefits from potential cost savings and revenue improvement opportunities is subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control, such as changes to government regulation governing or otherwise impacting the behavioral healthcare industry, reductions in reimbursement rates from third-party payors, reductions in service levels under our contracts, operating difficulties, client preferences, changes in competition and general economic or industry conditions. If we are unsuccessful in implementing these improvements or if we do not achieve our expected results, it may adversely impact our business, financial condition or results of operations.

### *Assumptions of unknown liabilities*

Facilities that we acquire may have unknown or contingent liabilities, including, but not limited to, liabilities for uncertain tax positions, liabilities for failure to comply with healthcare laws and regulations and liabilities for unresolved litigation or regulatory reviews. Although we typically attempt to exclude significant liabilities from our acquisition transactions and seek indemnification from the sellers of such facilities, the purchase agreement for some of our significant acquisitions contain minimal representations and warranties about the entities and business that we acquired. In addition, we have no indemnification rights against the sellers under some purchase agreements and all of the purchase price consideration was paid at closing. Therefore, we may incur material liabilities for the past activities of acquired entities and facilities. Even in those acquisitions in which we have such rights, we may experience difficulty enforcing the sellers' obligations, or we may incur material liabilities for the past activities of acquired facilities. Such liabilities and related legal or other costs and/or resulting damage to a facility's reputation could negatively impact our business, financial condition or results of operations.

### *Competing for acquisitions*

We face competition for acquisition candidates primarily from other for-profit healthcare companies, as well as from not-for-profit entities. Some of our competitors may have greater resources than we do. As a result, we may pay more to acquire a target business or may agree to less favorable deal terms than we would have otherwise. Our principal competitors for acquisitions have included UHS and private equity firms. Also, suitable acquisitions may not be accomplished due to unfavorable terms. Further, the cost of an acquisition could result in a dilutive effect on our results of operations, depending on various factors, including the amount paid for an acquired facility, the acquired facility's results of operations, the fair value of assets acquired and liabilities assumed,

effects of subsequent legislation and limits on rate increases. In addition, we may have to pay cash, incur debt, or issue equity securities to pay for any such acquisition, which could adversely affect our financial results, result in dilution to our stockholders, result in increased fixed obligations or impede our ability to manage our operations. There can be no assurances that we will be able to acquire facilities at historical or expected rates or on favorable terms.

#### *Managing growth*

Some of the facilities we have acquired or may acquire in the future may have had significantly lower operating margins prior to the time of our acquisition or may have had operating losses prior to such acquisition. If we fail to improve the operating margins of the facilities we acquire, operate such facilities profitably or effectively integrate the operations of the acquired facilities, our results of operations could be negatively impacted.

***Joint ventures may use significant resources, may be unsuccessful and could expose us to unforeseen liabilities.***

As part of our growth strategy, we have completed, or have announced plans to complete, a number of joint ventures and strategic alliances. These joint ventures may involve significant cash expenditures, debt incurrence, additional operating losses and expenses, and compliance risks that could negatively impact our business, financial condition or results of operations. Further, there is often a significant delay between our formation of a joint venture and the time that a de novo facility can be constructed and have a positive financial impact on our results of operations.

The nature of a joint venture requires us to consult with and share certain decision-making powers with unaffiliated third parties, some of which may be not-for-profit healthcare systems. If our joint venture partners do not fulfill their obligations, the affected joint venture may not be able to operate according to its business or strategic plans. In that case, our financial condition and results of operations may be materially adversely affected or we may be required to increase our level of financial commitment to the joint venture. Moreover, differences in economic or business interests or goals among joint venture participants could result in delayed decisions, failures to agree on major issues and even litigation. If these differences cause the joint ventures to deviate from their business or strategic plans, or if our joint venture partners take actions contrary to our policies, objectives or the best interests of the joint venture, our business, financial condition and results of operations could be negatively impacted. In addition, our relationships with not-for-profit healthcare systems and the joint venture agreements that govern these relationships are intended to be structured to comply with current revenue rulings published by the Internal Revenue Service ("IRS"), as well as case law relevant to joint ventures between for-profit and not-for-profit healthcare entities. Material changes in these authorities could adversely affect our relationships with not-for-profit healthcare systems and related joint venture arrangements.

***We incur significant transaction-related costs in connection with acquisitions and other strategic transactions.***

We incur substantial costs in connection with acquisitions and other strategic transactions, including transaction-related expenses. In addition, we may incur additional costs to maintain employee morale, retain key employees, and to formulate and execute integration plans. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of acquired businesses, should allow us to more than offset incremental transaction and acquisition-related costs over time, this net benefit may not be achieved in the near term, or at all.

***We care for a large number of vulnerable individuals with complex needs and any care quality deficiencies could adversely impact our brand, reputation and ability to market our services effectively.***

Our future growth will partly depend on our ability to maintain our reputation for providing quality patient care and, through new programs and marketing activities, increased demand for our services. Factors such as increased acuity of our patients, health and safety incidents at our facilities, regulatory enforcement actions, negative press or general customer dissatisfaction could lead to deterioration in the level of our quality ratings or the public perception of the quality of our services (including as a result of negative publicity about our industry generally), which in turn could lead to a loss of patient placements, referrals and self-pay patients or service users. Any impairment of our reputation, loss of goodwill or damage to the value of our brand name could have a material adverse effect on our business, results of operations and financial condition.

Many of our service users have complex medical conditions or special needs, are vulnerable and often require a substantial level of care and supervision. There is a risk that one or more service users could be harmed by one or more of our employees, either intentionally, through negligence or by accident. Further, individuals cared for by us have in the past engaged, and may in the future engage, in behavior that results in harm to themselves, our employees or to one or more other individuals, including members of the public. A serious incident involving harm to one or more service users or other individuals could result in negative publicity. Such negative publicity could have a material adverse effect on our brand, reputation and ADC, which would have a corresponding negative impact on our business, results of operations and financial condition. Furthermore, the damage to our reputation or to the reputation of the relevant facility from any such incident could be exacerbated by any failure on our part to respond effectively to such incident.



***Our ability to grow our business through organic expansion either by developing new facilities or by modifying existing facilities is dependent upon many factors.***

Our ability to grow our business through organic expansion is dependent on capacity and occupancy at our facilities. Should our facilities reach maximum occupancy, we may need to implement other growth strategies either by developing new facilities or by modifying existing facilities.

Our facilities typically need to be purpose-designed in order to enable the type and quality of service that we provide. Consequently, we must either develop sites to create facilities or purchase or lease existing facilities, which may require substantial modification. We must be able to identify suitable sites and there is no guarantee that such sites will be available at all, or at an economically viable cost or in areas of sufficient demand for our services. The subsequent successful development and construction of a new facility is contingent upon, among other things, negotiation of construction contracts, regulatory permits and planning consents and satisfactory completion of construction. Similarly, our ability to expand existing facilities is also dependent upon various factors, including identification of appropriate expansion projects, permitting, licensure, financing, integration into our relationships with payors and referral sources, and margin pressure as new facilities are filled with patients.

Delays caused by difficulties in respect of any of the above factors may lead to cost overruns and longer periods before a return is generated on an investment, if at all. We may incur significant capital expenditure but due to a regulatory, planning or other reason, may find that we are prevented from opening a new facility or modifying an existing facility. Moreover, even when incurring such development capital expenditure, there is no guarantee that we can fill beds when they become available. Upon operational commencement of a new facility, we typically expect that it will take approximately 12-18 months to reach our targeted occupancy level. Any delays or stoppages in our projects, the unsatisfactory completion or construction of such projects or the failure of such projects to increase our occupancy levels could have a material adverse effect on our ADC, which would have a corresponding negative impact on our business, results of operations and financial condition.

***We may fail to deal with clinical waste in accordance with applicable regulations or otherwise be in breach of relevant medical, health and safety or environmental laws and regulations.***

As part of our normal business activities, we produce and store clinical waste which may produce effects harmful to the environment or human health. The storage and transportation of such waste is strictly regulated. Our waste disposal services are outsourced and should the relevant service provider fail to comply with relevant regulations, we could face sanctions or fines which could adversely affect our brand, reputation, business or financial condition. Health and safety risks are inherent in the services that we provide and are constantly present in our facilities, primarily in respect of food and water quality, as well as fire safety and the risk that service users may cause harm to themselves, other service users or employees. From time to time, we have experienced, like other providers of similar services, undesirable health and safety incidents. Some of our activities are particularly exposed to significant medical risks relating to the transmission of infections or the prescription and administration of drugs for residents and patients. If any of the above medical or health and safety risks were to materialize, we may be held liable, fined and any registration certificate could be suspended or withdrawn for failure to comply with applicable regulations, which may have a material adverse impact on our business, results of operations and financial condition.

***Our business could be disrupted if our information systems fail or if our databases are destroyed or damaged.***

Our information technology ("IT") platform supports, among other things, management control of patient administration, billing and financial information and reporting processes. For example, patients in some of our facilities have an electronic patient record that allows our caregivers and nurses to see all information about a patient's care and treatment. Although we have taken measures to mitigate potential IT security risks and have IT continuity plans across our business intended to minimize the impact of IT failures, there can be no assurance that such measures and plans will be effective. Any failure in or breach of our IT systems could adversely impact our business, results of operations and financial condition.

***A cyber security incident could cause a violation of HIPAA and other privacy laws and regulations or result in a loss of confidential data.***

A cyber-attack that bypasses our IT security systems causing an IT security breach, loss of PHI or other data subject to privacy laws, loss of proprietary business information, or a material disruption of our IT business systems, could have a material adverse impact on our business, financial condition or results of operations. In addition, our future results of operations, as well as our reputation, could be adversely impacted by theft, destruction, loss, or misappropriation of PHI, other confidential data or proprietary business information.

***Although we have facilities in 40 states and Puerto Rico, we have substantial operations in Pennsylvania, California, Arizona and Tennessee, which makes us especially sensitive to regulatory, economic, environmental and competitive conditions and changes in those locations.***

Revenue from Pennsylvania, California, Arizona and Tennessee represented approximately 12%, 8%, 6% and 6% of our total revenue for the year ended December 31, 2020, respectively. This concentration makes us particularly sensitive to legislative, regulatory, economic, environmental and competition changes in those locations. Any material change in the current payment programs or regulatory, economic, environmental or competitive conditions in these locations could have a disproportionate effect on our overall business results. If our facilities in these locations are adversely affected by changes in regulatory and economic conditions, our business, financial condition or results of operations could be adversely affected.

In addition, some of our facilities are located in areas prone to hurricanes or wildfires. Natural disasters have historically had a disruptive effect on the operations of facilities and the patient populations in such areas. Our business activities could be significantly disrupted by wildfires, hurricanes or other natural disasters, and our property insurance may not be adequate to cover losses from such wildfires, storms or other natural disasters.

***A pandemic, epidemic or outbreak of an infectious disease in the markets in which we operate or that otherwise impacts our facilities could adversely impact our business.***

If a pandemic, epidemic, outbreak of an infectious disease, such as the coronavirus known as COVID-19, or other public health crisis were to occur in an area in which we operate, our operations could be adversely affected. Such a crisis could diminish the public trust in healthcare facilities, especially facilities with patients affected by infectious diseases. If any of our facilities were involved, or perceived as being involved, in treating such patients, other patients might fail to seek care at our facilities, and our reputation may be negatively affected. Further, a pandemic, epidemic or outbreak might adversely impact our business by causing a temporary shutdown or diversion of patients, by disrupting or delaying production and delivery of pharmaceuticals and other medical supplies or by causing staffing shortages in our facilities. Although we have disaster plans in place and operate pursuant to infectious disease protocols, the potential impact of a pandemic, epidemic or outbreak of an infectious disease with respect to our markets or our facilities is difficult to predict and could adversely impact our business, financial condition or results of operations.

***If we fail to cultivate new or maintain established relationships with referral sources, our business, financial condition or results of operations could be adversely affected.***

Our ability to grow or even to maintain our existing level of business depends significantly on our ability to establish and maintain close working relationships with physicians, managed care companies, insurance companies, educational consultants and other referral sources. We may not be able to maintain our existing referral source relationships or develop and maintain new relationships in existing or new markets. If we lose existing relationships with our referral sources, the number of people to whom we provide services may decline, which may adversely affect our revenue. If we fail to develop new referral relationships, our growth may be restrained.

***We operate in a highly competitive industry, and competition may lead to declines in patient volumes.***

The healthcare industry is highly competitive, and competition among healthcare providers (including hospitals) for patients, physicians and other healthcare professionals has intensified in recent years. There are other healthcare facilities that provide behavioral and other mental health services comparable to those offered by our facilities in each of the geographical areas in which we operate. Some of our competitors are owned by tax-supported governmental agencies or by non-profit corporations and may have certain financial advantages not available to us, including endowments, charitable contributions, tax-exempt financing and exemptions from sales, property and income taxes. Some of our for-profit competitors are local, independent operators or physician groups with strong established reputations within the surrounding communities, which may adversely affect our ability to attract a sufficiently large number of patients in markets where we compete with such providers. We also face competition from other for-profit entities, who may possess greater financial, marketing or research and development resources than us or may invest more funds in renovating their facilities or developing technology.

If our competitors are better able to attract patients, recruit and retain physicians and other healthcare professionals, expand services or obtain favorable managed care contracts at their facilities, we may experience a decline in patient volume and our results of operations may be adversely affected.

***We may be unable to extend leases at expiration, which could harm our business, financial condition or results of operations.***

We lease the real property on which a number of our facilities are located. Our lease agreements generally give us the right to renew or extend the term of the leases and, in certain cases, purchase the real property. These renewal and purchase rights generally are based upon either prescribed formulas or fair market value. Management expects to renew, extend or exercise purchase options with respect to our leases in the normal course of business; however, there can be no assurance that these rights will be exercised in

the future or that we will be able to satisfy the conditions precedent to exercising any such renewal, extension or purchase options. Furthermore, the terms of any such options that are based on fair market value are inherently uncertain and could be unacceptable or unfavorable to us depending on the circumstances at the time of exercise. If we are not able to renew or extend our existing leases, or purchase the real property subject to such leases, at or prior to the end of the existing lease terms, or if the terms of such options are unfavorable or unacceptable to us, our business, financial condition or results of operations could be adversely affected.

***Controls designed to reduce inpatient services may reduce our revenue.***

Controls imposed by Medicare, Medicaid and commercial third-party payors designed to reduce admissions and lengths of stay, commonly referred to as "utilization review," have affected and are expected to continue to affect our facilities. Inpatient utilization, average lengths of stay and occupancy rates continue to be negatively affected by payor-required preadmission authorization and utilization review and by payor pressure to maximize outpatient and alternative healthcare delivery services for less acutely ill patients. Efforts to impose more stringent cost controls are expected to continue. For example, PPACA expanded the potential use of prepayment review by Medicare contractors by eliminating certain statutory restrictions on its use. Utilization review is also a requirement of most non-governmental managed-care organizations and other third-party payors. Although we are unable to predict the effect these controls and changes will have on our operations, significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on our financial condition and results of operations.

**Human Capital Risks**

***Our facilities face competition for staffing that may increase our labor costs and reduce our profitability.***

Our operations depend on the efforts, abilities and experience of our management and medical support personnel, including our addiction counselors, therapists, nurses, pharmacists, licensed counselors, clinical technicians, and mental health technicians, as well as our psychiatrists and other professionals. We compete with other healthcare providers in recruiting and retaining qualified management, program directors, physicians (including psychiatrists) and support personnel responsible for the daily operations of our business, financial condition or results of operations.

A shortage of nurses, qualified addiction counselors and other medical and care support personnel has been a significant operating issue facing us and other healthcare providers. We also may be required to enhance wages and benefits to hire nurses, qualified addiction counselors and other medical and care support personnel, hire more expensive temporary personnel or increase our recruiting and marketing costs relating to labor. The use of temporary or agency staff could also heighten the risk one of our facilities experiences an adverse patient incident. Further, because we generally recruit our personnel from the local area where the relevant facility is located, the availability in certain areas of suitably qualified personnel can be limited, particularly care home management, qualified teaching personnel and nurses. In addition, certain of our facilities are required to maintain specified staffing levels. To the extent we cannot meet those levels, we may be required to limit the services provided by these facilities, which would have a corresponding adverse effect on our net operating revenue. Certain of our treatment facilities are located in remote geographical areas, far from population centers, which increases this risk.

We cannot predict the degree to which we will be affected by the future availability or cost of attracting and retaining talented medical support staff. If our general labor and related expenses increase, we may not be able to raise our rates correspondingly. Our failure either to recruit and retain qualified management, psychiatrists, therapists, counselors, nurses and other medical support personnel or control our labor costs could have a material adverse effect on our results of operations.

***Our performance depends on our ability to recruit and retain quality psychiatrists and other physicians.***

The success and competitive advantage of our facilities depends, in part, on the number and quality of the psychiatrists and other physicians on the medical staffs of our facilities and our maintenance of good relations with those medical professionals. Although we employ psychiatrists and other physicians at many of our facilities, psychiatrists and other physicians generally are not employees of our facilities, and, in a number of our markets, they have admitting privileges at competing hospitals providing acute or inpatient behavioral healthcare services. Such physicians (including psychiatrists) may terminate their affiliation with us at any time or admit their patients to competing healthcare facilities or hospitals. If we are unable to attract and retain sufficient numbers of quality psychiatrists and other physicians by providing adequate support personnel and facilities that meet the needs of those psychiatrists and other physicians, they may stop referring patients to our facilities and our results of operations may decline.

It may become difficult for us to attract and retain an adequate number of psychiatrists and other physicians to practice in certain of the communities in which our facilities are located. Our failure to recruit psychiatrists and other physicians to these communities or the loss of such medical professionals in these communities could make it more difficult to attract patients to our facilities and thereby may have a material adverse effect on our business, financial condition or results of operations. Additionally, our ability to recruit psychiatrists and other physicians is closely regulated. The form, amount and duration of assistance we can provide to recruited



psychiatrists and other physicians is limited by the Stark Law, the Anti-Kickback Statute, state anti-kickback statutes, and related regulations.

***Some of our employees are represented by labor unions and any work stoppage could adversely affect our business.***

Increased labor union activity could adversely affect our labor costs. At December 31, 2020, labor unions represented approximately 392 of our employees at four of our U.S. Facilities through seven collective bargaining agreements. We cannot assure you that employee relations will remain stable. Furthermore, there is a possibility that work stoppages could occur as a result of union activity, which could increase our labor costs and adversely affect our business, financial condition or results of operations. To the extent that a greater portion of our employee base unionizes and the terms of any collective bargaining agreements are significantly different from our current compensation arrangements, it is possible that our labor costs could increase materially and our business, financial condition or results of operations could be adversely affected.

***We depend on key management personnel, and the departure of one or more of our key executives or a significant portion of our local facility management personnel could harm our business.***

The expertise and efforts of our senior executives and the chief executive officer, chief financial officer, medical directors, physicians and other key members of our facility management personnel are important to the success of our business. The loss of the services of one or more of our senior executives or our facility management personnel could significantly undermine our management expertise and our ability to provide efficient, quality healthcare services at our facilities, which could have a material adverse effect on our business, results of operations and financial condition.

#### **Legal Proceedings and Regulatory Risks**

***We are and in the future could become the subject of additional governmental investigations, regulatory actions and whistleblower lawsuits.***

Healthcare companies in the U.S. may be subject to investigations by various governmental agencies. Certain of our individual facilities have received, and from time to time, other facilities may receive, subpoenas, civil investigative demands, audit reports and other inquiries from, and may be subject to investigation by, federal and state agencies. See Note 17—Commitments and Contingencies in the accompanying notes to our consolidated financial statements beginning on Page F-1 of this Annual Report on Form 10-K for additional information about pending investigations. 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. If we incur significant costs responding to or resolving these or future inquiries or investigations, our business, financial condition and results of operations could be materially adversely affected.

Further, under the False Claims Act, private parties are permitted to bring qui tam or “whistleblower” lawsuits against companies that submit false claims for payments to, or improperly retain overpayments from, the government. Because qui tam lawsuits are filed under seal, we could be named in one or more such lawsuits of which we are not aware. We may also be subject to substantial reputational harm as a result of the public announcement of any investigation into such claims.

***We could be subject to monetary penalties and other sanctions, including exclusion from federal healthcare programs, if we fail to comply with the terms of the CIA.***

During the second quarter of 2019, we reached a settlement with the U.S. Attorney’s Office for the Southern District of West Virginia relating to the manner in which seven of our comprehensive treatment centers in West Virginia had historically billed lab claims to the West Virginia Medicaid Program. We paid the government \$17.0 million during the three months ended June 30, 2019 and entered into the CIA with the OIG imposing certain compliance obligations on us and our subsidiary, CRC Health.

Material, uncorrected violations of the CIA could lead to our suspension or exclusion from participation in Medicare, Medicaid and other federal and state healthcare programs and repayment obligations. In addition, we are subject to possible civil penalties for failure to substantially comply with the terms of the CIA, including stipulated penalties ranging between \$1,000 to \$2,500 per day. We are also subject to a stipulated penalty of \$50,000 for each false certification made by us or on our behalf, pursuant to the reporting provisions of the CIA. The CIA increases the amount of information we must provide to the federal government regarding our healthcare practices and our compliance with federal regulations. The reports we provide in connection with the CIA could result in greater scrutiny by regulatory authorities.



***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.

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 handle sensitive personal data which are protected by numerous U.S. laws in the ordinary course of business and any failure to maintain the confidentiality of such data could result in legal liability and reputational harm.***

We collect, process and store sensitive personal data as part of our business. In the event of a security breach, sensitive personal data could become public. We are currently not aware of any material incidences of potential data breach; however, there can be no assurance that such breaches will not arise in future. Although we have in place policies and procedures to prevent such breaches, breaches could occur either as a result of a breach by our employees or as a result of a breach by a third party to whom we have provided sensitive personal data, and we could face liability under data protection laws.

Liability under data protection laws may result in sanctions, including substantial fines and/or compensation to those affected. Additionally, liability may cause us to suffer damage to our brand and reputation, which could have a material adverse effect 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 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.

***Our reimbursement may be adversely affected by the repeal, replacement or modification of PPACA.***

If PPACA is modified or ruled invalid, we may experience a significant decrease in reimbursement from state Medicaid programs. We may also experience a significant increase in uncompensated care if many of our patients who currently obtain private health insurance coverage or Medicaid coverage under the provisions of PPACA are no longer able to maintain that coverage. Finally, PPACA currently works in conjunction with MHPAEA to require that third-party payors reimburse providers of certain mental health and substance abuse treatment services on an out-of-network basis. If PPACA or this particular provision thereof is eliminated, we may experience a significant decrease in out-of-network reimbursement at certain of our facilities.

***If we fail to comply with extensive laws and government regulations, we could suffer penalties or be required to make significant changes to our operations.***

Companies operating in the behavioral healthcare industry in the U.S. are required to comply with extensive and complex laws and regulations at the federal, state and local government levels relating to, among other things: billing practices and prices for services; relationships with physicians and other referral sources; necessity and quality of medical care; condition and adequacy of facilities; qualifications of medical and support personnel; confidentiality, privacy and security issues associated with health-related information and PHI; EMTALA compliance; handling of controlled substances; certification, licensure and accreditation of our

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facilities; operating policies and procedures; activities regarding competitors; state and local land use and zoning requirements; and addition or expansion of facilities and services.

Among the laws applicable to our operations are the federal Anti-Kickback Statute, the Stark Law, the federal False Claims Act, EKRA, and similar state laws. These laws impact the relationships that we may have with physicians and other potential referral sources. We have a variety of financial relationships with physicians and other professionals who refer patients to our facilities, including employment contracts, leases and professional service agreements. The OIG has issued certain safe harbor regulations that outline practices that are deemed acceptable under the Anti-Kickback Statute, and similar regulatory exceptions have been promulgated by CMS under the Stark Law. While we endeavor to ensure that our arrangements with referral sources comply with an applicable safe harbor to the Anti-Kickback Statute where possible, certain of our current arrangements with physicians and other potential referral sources may not qualify for such protection. Failure to meet a safe harbor does not mean that the arrangement automatically violates the Anti-Kickback Statute, but may subject the arrangement to greater scrutiny. Even if our arrangements are found to be in compliance with the Anti-Kickback Statute, they may still face scrutiny under the newly enacted EKRA law. Moreover, while we believe that our arrangements with physicians comply with applicable Stark Law exceptions, the Stark Law is a strict liability statute for which no intent to violate the law is required.

These laws and regulations are extremely complex, and, in many cases, we do not have the benefit of regulatory or judicial interpretation. In the future, it is possible that different interpretations of these laws and regulations could subject our current or past practices to allegations of impropriety or illegality or could require us to make changes in our arrangements for facilities, equipment, personnel, services, capital expenditure programs and operating expenses. A determination that we have violated one or more of these laws could subject us to liabilities, including civil penalties, exclusion of one or more facilities from participation in the government healthcare programs and, for violations of certain laws and regulations, criminal penalties. Even the public announcement that we are being investigated for possible violations of these laws could cause our reputation to suffer and have a material adverse effect on our business, financial condition or results of operations. In addition, we cannot predict whether other similar legislation or regulations at the federal or state level will be adopted, what form such legislation or regulations may take or what their impact on us may be.

The construction and operation of healthcare facilities in the U.S. are subject to extensive federal, state and local regulation relating to, among other things, the adequacy of medical care, equipment, personnel, operating policies and procedures, fire prevention, rate-setting, compliance with building codes and environmental protection. Additionally, such facilities are subject to periodic inspection by government authorities to assure their continued compliance with these various standards. If we fail to adhere to these standards, we could be subject to monetary penalties or restrictions on our ability to operate.

All of our facilities that handle and dispense controlled substances must comply with strict federal and state regulations regarding the purchase, storage, distribution and disposal of such controlled substances. The potential for theft or diversion of such controlled substances for illegal uses has led the federal government as well as a number of states and localities to adopt stringent regulations not applicable to many other types of healthcare providers. Compliance with these regulations is expensive and these costs may increase in the future.

Property owners and local authorities have attempted, and may in the future attempt, to use or enact zoning ordinances to eliminate our ability to operate a given treatment facility or program. Local governmental authorities in some cases also have attempted to use litigation and the threat of prosecution to force the closure of certain comprehensive treatment facilities. If any of these attempts were to succeed or if their frequency were to increase, our revenue would be adversely affected and our operating results might be harmed. In addition, such actions may require us to litigate which would increase our costs.

Many of our U.S. Facilities are also accredited by third-party accreditation agencies such as The Joint Commission or CARF. If any of our existing healthcare facilities lose their accreditation or any of our new facilities fail to receive accreditation, such facilities could become ineligible to receive reimbursement under Medicare or Medicaid.

Federal, state and local regulations determine the capacity at which many of our U.S. Facilities may be operated. State licensing standards require many of our U.S. Facilities to have minimum staffing levels; minimum amounts of residential space per student or patient and adhere to other minimum standards. Local regulations require us to follow land use guidelines at many of our U.S. Facilities, including those pertaining to fire safety, sewer capacity and other physical plant matters.

We cannot guarantee that current laws, regulations and regulatory assessment methodologies will not be modified or replaced in the future. There can be no assurance that our business, results of operations and financial condition will not be adversely affected by any future regulatory developments or that the cost of compliance with new regulations will not be material.

***We may be required to spend substantial amounts to comply with statutes and regulations relating to privacy and security of PHI.***

There are currently numerous legislative and regulatory initiatives in the U.S. addressing patient privacy and information security concerns. In particular, federal regulations issued under HIPAA require our U.S. Facilities to comply with standards to protect the privacy, security and integrity of PHI. These requirements include the adoption of certain administrative, physical, and technical safeguards; development of adequate policies and procedures, training programs and other initiatives to ensure the privacy of PHI is maintained; entry into appropriate agreements with so-called business associates; and affording patients certain rights with respect to their PHI, including notification of any breaches. Compliance with these regulations requires substantial expenditures, which could negatively impact our business, financial condition or results of operations. In addition, our management has spent, and may spend in the future, substantial time and effort on compliance measures.

In addition to HIPAA, we are subject to similar, and in some cases more restrictive, state and federal privacy regulations. For example, the federal government and some states impose laws governing the use and disclosure of health information pertaining to mental health and/or substance abuse treatment that are more stringent than the rules that apply to healthcare information generally. As public attention is drawn to the issues of the privacy and security of medical information, states may revise or expand their laws concerning the use and disclosure of health information, or may adopt new laws addressing these subjects.

Violations of the privacy and security regulations could subject our operations to substantial civil monetary penalties and substantial other costs and penalties associated with a breach of data security, including criminal penalties. We may also be subject to substantial reputational harm if we experience a substantial security breach involving PHI.

***We could face risks associated with, or arising out of, environmental, health and safety laws and regulations.***

We are subject to various federal, foreign, state and local laws and regulations that:

- regulate certain activities and operations that may have environmental or health and safety effects, such as the generation, handling and disposal of medical wastes;
- impose liability for costs of cleaning up, and damages to natural resources from, past spills, waste disposals on and off-site, or other releases of hazardous materials or regulated substances; and
- regulate workplace safety.

Compliance with these laws and regulations could increase our costs of operation. Violation of these laws may subject us to significant fines, penalties or disposal costs, which could negatively impact our results of operations, financial condition or cash flows. We could be responsible for the investigation and remediation of environmental conditions at currently or formerly owned, operated or leased sites, as well as for associated liabilities, including liabilities for natural resource damages, third-party property damage or personal injury resulting from lawsuits that could be brought by the government or private litigants, relating to our operations, the operations of facilities or the land on which our facilities are located. We may be subject to these liabilities regardless of whether we operate, lease or own the facility, and regardless of whether such environmental conditions were created by us or by a prior owner or tenant, or by a third party or a neighboring facility whose operations may have affected such facility or land. That is because liability for contamination under certain environmental laws can be imposed on current or past owners, lessors or operators of a site without regard to fault. We cannot assure you that environmental conditions relating to our prior, existing or future sites or those of predecessor companies whose liabilities we may have assumed or acquired will not have a material adverse effect on our business, financial condition or results of operations.

***State efforts to regulate the construction or expansion of healthcare facilities could impair our ability to operate and expand our operations.***

A majority of the states in which we operate facilities have enacted certificate of need ("CON") laws that regulate the construction or expansion of healthcare facilities, certain capital expenditures or changes in services or bed capacity. In giving approval for these actions, these states consider the need for additional or expanded healthcare facilities or services. Our failure to obtain necessary state approval could (i) result in our inability to acquire a targeted facility, complete a desired expansion or make a desired replacement, (ii) make a facility ineligible to receive reimbursement under the Medicare or Medicaid programs or (iii) result in the revocation of a facility's license or imposition of civil or criminal penalties, any of which could harm our business.

In addition, significant CON reforms have been proposed in a number of states that would increase the capital spending thresholds and provide exemptions of various services from review requirements. In the past, we have not experienced any material adverse effects from such requirements, but we cannot predict the impact of these changes upon our operations.

***We are required to treat patients with emergency medical conditions regardless of ability to pay.***

In accordance with our internal policies and procedures, as well as EMTALA, we provide a medical screening examination to any individual who comes to one of our hospitals seeking medical treatment (whether or not such individual is eligible for insurance benefits and regardless of ability to pay) to determine if such individual has an emergency medical condition. If it is determined that such person has an emergency medical condition, we provide such further medical examination and treatment as is required to stabilize the patient's medical condition, within the facility's capability, or arrange for the transfer of the individual to another medical facility in accordance with applicable law and the treating hospital's written procedures. Our hospitals may face substantial civil penalties if we fail to provide appropriate screening and stabilizing treatment or fail to facilitate other appropriate transfers as required by EMTALA.

***We are subject to taxation in the U.S., Puerto Rico and various state jurisdictions. Any adverse development in the tax laws of such jurisdictions or any disagreement with our tax positions could have a material adverse effect on our business, financial condition or results of operations. In addition, our effective tax rate could change materially as a result of changes in tax laws.***

We are subject to taxation in, and to the tax laws and regulations of, the U.S., Puerto Rico and various state jurisdictions as a result of our operations and our corporate and financing structure. Adverse developments in these tax laws or regulations, or any change in position regarding the application, administration or interpretation thereof, in any applicable jurisdiction, could have a material adverse effect on our business, financial condition or results of operations. In addition, the tax authorities in any applicable jurisdiction may disagree with the tax treatment or characterization of any of our transactions, which, if successfully challenged by such tax authorities, could have a material adverse effect on our business, financial condition or results of operations. Certain changes in the mix of our earnings between jurisdictions and assumptions used in the calculation of income taxes, among other factors, could have a material adverse effect on our overall effective tax rate.

In addition, the Tax Act provided for significant changes in the U.S. tax code, including reducing the U.S. federal tax rate for corporations from 35% to 21% for U.S. taxable income. The issuance of additional regulatory or accounting guidance related to the Tax Act, or other executive or Congressional actions in the U.S. could materially affect our tax obligations and effective tax rate in the period such guidance is issued or such actions take effect.

#### **General Risk Factors**

***Provisions of our charter documents or Delaware law could delay or prevent an acquisition of us, even if the acquisition would be beneficial to our stockholders, and could make it more difficult for stockholders to change management.***

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which stockholders might otherwise receive a premium for their shares. This is because these provisions may prevent or frustrate attempts by stockholders to replace or remove our management. These provisions include:

- a classified board of directors;
- a prohibition on stockholder action through written consent;
- a requirement that special meetings of stockholders be called only upon a resolution approved by a majority of our directors then in office;
- advance notice requirements for stockholder proposals and nominations; and
- the authority of the board of directors to issue preferred stock with such terms as the board of directors may determine.

Section 203 of the Delaware General Corporation Law ("DGCL") prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person that together with its affiliates owns or within the last three years has owned 15% of voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Although we have elected not to be subject to Section 203 of the DGCL, our amended and restated certificate of incorporation contains provisions that have the same effect as Section 203, except that they provide that Waud Capital Partners, L.L.C. ("WCP"), its affiliates and any investment fund managed by WCP and any persons to whom WCP sells at least five percent (5%) of our outstanding voting stock will be deemed to have been approved by our board of directors, and thereby not subject to the restrictions set forth in our amended and restated certificate of incorporation that have the same effect as Section 203 of the DGCL. Accordingly, the provision in our amended and restated certificate of incorporation that adopts a modified version of Section 203 of the DGCL may discourage, delay or prevent a change in control of us.



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As a result of these provisions in our charter documents and Delaware law, the price investors may be willing to pay in the future for shares of our common stock may be limited.

***Fluctuations in our operating results, quarter to quarter earnings and other factors, including factors outside our control, may result in significant decreases in the price of our common stock.***

The stock markets experience volatility, in some cases unrelated to operating performance. These broad market fluctuations may adversely affect the trading price of our common stock and, as a result, there may be significant volatility in the market price of our common stock. If we are unable to operate our facilities as profitably as we have in the past or as our investors expect us to in the future, the market price of our common stock will likely decline when it becomes apparent that the market expectations may not be realized. In addition to our operating results, many economic and other factors outside of our control could have an adverse effect on the price of our common stock and increase fluctuations in our quarterly earnings. These factors include certain of the risks discussed herein, outcomes of political elections, demographic changes, operating results of other healthcare companies, changes in our financial estimates or recommendations of securities analysts, speculation in the press or investment community, the possible effects of war, terrorist and other hostilities, adverse weather conditions, managed care contract negotiations and terminations, changes in general conditions in the economy or the financial markets or other developments affecting the healthcare industry.

***Future sales of common stock by our existing stockholders may cause our stock price to fall.***

The market price of our common stock could decline as a result of sales by us or our existing stockholders, particularly our largest stockholders, our directors and executive officers, in the market, or the perception that these sales could occur. These sales might also make it more difficult for us to sell equity securities at a time and price that we deem appropriate.

***If securities or industry analysts do not publish research or reports about our business, if they were to change their recommendations regarding our stock adversely or if our operating results do not meet their expectations, our stock price and trading volume could decline.***

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us. If one or more of these analysts cease coverage of us or fail to publish regular reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline. Moreover, if one or more of the analysts who cover us downgrade our stock or if our operating results do not meet their expectations, our stock price could decline.

***We incur substantial costs as a result of being a public company.***

As a public company, we incur significant legal, accounting, insurance and other expenses, including costs associated with public company reporting requirements. We incur costs associated with complying with the requirements of the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), and related rules implemented by the SEC and NASDAQ. Enacted in July 2010, the Dodd-Frank Act contains significant corporate governance and executive compensation-related provisions, some of which the SEC has implemented by adopting additional rules and regulations in areas such as executive compensation. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. Management expects these laws and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly, although management is currently unable to estimate these costs with any degree of certainty. These laws and regulations could make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

### **Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

The following table lists, by state or country, the number of behavioral healthcare facilities directly or indirectly owned and operated by us at December 31, 2020:

State	Facilities	Operated Beds
Alaska	1	—
Arizona	4	481
Arkansas	6	777
California	25	484
Delaware	2	120
Florida	6	481
Georgia	5	380
Illinois	1	192
Indiana	8	227
Iowa	2	—
Kansas	1	—
Kentucky	1	—
Louisiana	6	445
Maine	4	—
Maryland	3	—
Massachusetts	14	215
Michigan	7	456
Mississippi	3	454
Missouri	2	246
Nevada	5	134
New Hampshire	2	—
New Jersey	1	—
New Mexico	1	46
North Carolina	10	431
Ohio	5	210
Oklahoma	4	108
Oregon	6	—
Pennsylvania	30	1,599
Rhode Island	2	—
South Carolina	1	63
South Dakota	1	126
Tennessee	9	876
Texas	5	555
Utah	6	147
Vermont	7	286
Virginia	1	—
Washington	8	137
West Virginia	7	—
Wisconsin	14	35
International	1	172
Puerto Rico	345	8,247
United Kingdom	572	18,130

Additionally, we provided outpatient services in Montana at December 31, 2020. See “Business— U.S. Operations” and “Business— U.K. Operations — Description of U.K. Facilities” for a summary description of the facilities that we own and lease. In addition, we currently lease approximately 61,000 square feet of office space at 6100 Tower Circle, Franklin, Tennessee, for our corporate headquarters. Our headquarters and facilities are generally well maintained and in good operating condition.

**Item 3. 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 beginning on Page F-1 of this Annual Report on Form 10-K, which information is incorporated herein by reference.

**Item 4. Mine Safety Disclosures**

Not applicable.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock is listed for trading on The NASDAQ Global Select Market under the symbol "ACHC."

**Stockholders**

As of February 26, 2021, there were approximately 536 holders of record of our common stock.

**Recent Sales of Unregistered Securities**

None.

**Issuer Purchases of Equity Securities**

During the three months ended December 31, 2020, the Company withheld shares of Company common stock to satisfy employee minimum statutory tax withholding obligations payable upon the vesting of restricted stock, as follows:

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
October 1 – October 31	291	\$ 32.41	—	—
November 1 – November 30	3,525	\$ 38.42	—	—
December 1 – December 31	1,755	\$ 30.22	—	—
Total	5,571			

**Dividends**

We have never declared or paid dividends on our common stock. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business and to repay indebtedness, and therefore we do not anticipate paying any cash dividends in the foreseeable future. Additionally, because we are a holding company, our ability to pay dividends on our common stock is limited by restrictions on the ability of our subsidiaries to pay dividends or make distributions to us, including restrictions under the terms of the agreements governing our indebtedness. Any future determination to pay dividends will be at the discretion of our board of directors, subject to compliance with covenants in current and future agreements governing our indebtedness (including our Amended and Restated Senior Credit Facility and the indenture governing our Senior Notes), and will depend upon our results of operations, financial condition, capital requirements and other factors that our board of directors deems relevant.

**Item 6. Selected Financial Data.**

Not required.



## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations with our audited consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

### Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K 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 contained 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 following:

- the impact of the COVID-19 pandemic on our inpatient and outpatient volumes, or disruptions caused by other pandemics, epidemics or outbreaks of infectious diseases;
- the impact of an increase in uninsured and underinsured patients or the deterioration in the collectability of the accounts of such patients on our results of operations, particularly as the unemployment rate and number of underinsured patients have increased as a result of the COVID-19 pandemic;
- costs of providing care to our patients, including increased staffing, equipment and supply expenses resulting from the COVID-19 pandemic;
- our significant indebtedness, our ability to meet our debt obligations, and our ability to incur substantially more debt;
- our ability to implement our business strategies, especially in light of the COVID-19 pandemic;
- the impact of payments received from the government and third-party payors on our revenue and results of operations;
- difficulties in successfully integrating the operations of acquired facilities or realizing the potential benefits and synergies of our acquisitions and joint ventures;
- our ability to recruit and retain quality psychiatrists and other physicians, nurses, counselors and other medical support personnel;
- the impact of competition for staffing on our labor costs and profitability;
- the impact of increases to our labor costs;
- the occurrence of patient incidents, which could result in negative media coverage, adversely affect the price of our securities and result in incremental regulatory burdens and governmental investigations;
- our future cash flow and earnings;
- our restrictive covenants, which may restrict our business and financing activities;
- our ability to make payments on our financing arrangements;
- the impact of the economic and employment conditions on our business and future results of operations;
- the impact of adverse weather conditions, including the effects of hurricanes;
- compliance with laws and government regulations;
- the impact of claims brought against us or our facilities including claims for damages for personal injuries, medical malpractice, overpayments, breach of contract, securities law violations, tort and employee related claims;
- the impact of governmental investigations, regulatory actions and whistleblower lawsuits;
- any failure to comply with the terms of the CIA;

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

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. These risks and uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. These forward-looking statements are made only as of the date of this Annual Report on Form 10-K. 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 December 31, 2020, we operated 572 behavioral healthcare facilities with approximately 18,100 beds in 40 states, the U.K. and Puerto Rico. During the year ended December 31, 2020, we added 460 beds in the U.S., consisting of 240 added to existing facilities and 220 added through the opening of two joint venture facilities, and we opened six CTCs. On January 19, 2021, we completed the sale of the U.K. business, which included 345 facilities and approximately 8,200 beds. For the year ending December 31, 2021, we expect to add approximately 300 beds to existing facilities, 170 beds through the opening of one wholly-owned facility and one joint venture facility and expect to open 11 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, de novo facilities, joint ventures and bed additions in existing facilities.

On January 19, 2021, we completed the U.K. Sale pursuant to a Share Purchase Agreement in which we sold all of the securities of AHC-WW Jersey Limited, a private limited liability company incorporated in Jersey and a subsidiary of the Company, which constitutes the entirety of our U.K. business operations. The U.K. Sale resulted in approximately \$1,525 million of gross proceeds before deducting the settlement of existing foreign currency hedging liabilities of \$85 million based on the current GBP to USD exchange rate, cash retained by the buyer of approximately \$75 million and transaction costs of \$16 million. We used the net proceeds of approximately \$1,425 million (or \$1,350 million, net of cash retained by the buyer) to repay in full the outstanding balances of our TLA Facility of \$312 million and our Tranche B-4 Facility \$768 million of the Amended and Restated Credit Agreement and added \$345 million of cash on the balance sheet. In addition to reducing our indebtedness, the U.K. Sale allows us to focus on our U.S. operations. As a result of the U.K. Sale, we reported, for all periods presented, results of operations and cash flows of the U.K. operations as discontinued operations in the accompanying financial statements.

## Acquisitions

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

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

## Results of Operations

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

	Year Ended December 31,					
	2020		2019		2018	
	Amount	%	Amount	%	Amount	%
Revenue	2,089,929	100.0%	2,008,381	100.0%	1,904,695	100.0%
Salaries, wages and benefits	1,154,522	55.2%	1,107,357	55.1%	1,049,317	55.1%
Professional fees	120,489	5.8%	118,451	5.9%	110,049	5.8%
Supplies	87,241	4.2%	85,534	4.3%	81,462	4.3%
Rents and leases	37,362	1.8%	35,486	1.8%	34,315	1.8%
Other operating expenses	262,272	12.5%	259,536	12.9%	243,671	12.8%
Other income	(32,819)	(1.6)%	—	0.0%	—	0.0%
Depreciation and amortization	95,256	4.6%	87,923	4.4%	80,342	4.2%
Interest expense, net	158,105	7.6%	187,325	9.3%	184,534	9.7%
Debt extinguishment costs	7,233	0.3%	—	0.0%	1,815	0.1%
Legal settlements expense	—	0.0%	—	0.0%	22,076	1.2%
Loss on impairment	4,751	0.2%	27,217	1.4%	—	0.0%
Transaction-related expenses	11,720	0.6%	21,157	1.1%	29,719	1.6%
	<u>1,906,132</u>	<u>91.2%</u>	<u>1,929,986</u>	<u>96.2%</u>	<u>1,837,300</u>	<u>96.6%</u>
Income from continuing operations before income taxes	183,797	8.8%	78,395	3.8%	67,395	3.4%
Provision for income taxes	40,606	1.9%	25,085	1.2%	9,907	0.5%
Income (loss) from continuing operations	<u>143,191</u>	<u>6.8%</u>	<u>53,310</u>	<u>2.6%</u>	<u>57,488</u>	<u>2.9%</u>
(Loss) income from discontinued operations, net of taxes	<u>(812,390)</u>	<u>(38.9)%</u>	<u>56,812</u>	<u>2.8%</u>	<u>(232,974)</u>	<u>(12.2)%</u>
Net (loss) income	<u>(669,199)</u>	<u>(32.0)%</u>	<u>110,122</u>	<u>5.5%</u>	<u>(175,486)</u>	<u>(9.2)%</u>
Net income attributable to noncontrolling interest	<u>(2,933)</u>	<u>(0.1)%</u>	<u>(1,199)</u>	<u>(0.1)%</u>	<u>(264)</u>	<u>0.0%</u>
Net (loss) income attributable to Acadia Healthcare Company, Inc.	<u><u>(672,132)</u></u>	<u><u>(32.2)%</u></u>	<u><u>108,923</u></u>	<u><u>5.4%</u></u>	<u><u>(175,750)</u></u>	<u><u>(9.2)%</u></u>



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At December 31, 2020, we operated 227 behavioral healthcare facilities with approximately 9,900 beds in 40 states and Puerto Rico and 345 behavioral healthcare facilities with approximately 8,200 beds in the U.K. We reported, for all periods presented, results of operations and cash flows of the U.K. operations as discontinued operations in the accompanying financial statements.

The following table sets forth percent changes in same facility operating data for our U.S. Facilities for the years ended December 31, 2020 and 2019 compared to the previous years:

	Year Ended December 31,	
	2020	2019
U.S. Same Facility Results (a)		
Revenue growth	3.9%	5.8%
Patient days growth	2.5%	3.2%
Admissions growth	(0.6)%	4.0%
Average length of stay change (b)	3.2%	-0.8%
Revenue per patient day growth	1.4%	2.5%
Adjusted EBITDA margin change (c)	250 bps	-30 bps

- (a) Results for the periods presented include facilities we have operated more than one year and exclude certain closed services.
- (b) Average length of stay is defined as patient days divided by admissions.
- (c) Adjusted EBITDA is defined as income before provision for income taxes, equity-based compensation expense, debt extinguishment costs, legal settlements expense, loss on impairment, transaction-related expenses, interest expense and depreciation and amortization. Management uses Adjusted EBITDA as an analytical indicator to measure the 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.

### Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

**Revenue.** Revenue increased \$81.5 million, or 4.1%, to \$2,089.9 million for the year ended December 31, 2020 from \$2,008.4 million for the year ended December 31, 2019. Same facility revenue increased by \$78.5 million, or 3.9%, for the year ended December 31, 2020 compared to the year ended December 31, 2019, resulting from same facility growth in patient days of 2.5% and an increase in same facility revenue per day of 1.4%. Consistent with the same facility patient day growth in 2019, the growth in same facility patient days for the year ended December 31, 2020 compared to the year ended December 31, 2019 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 \$1,154.5 million for the year ended December 31, 2020 compared to \$1,107.4 million for the year ended December 31, 2019, an increase of \$47.2 million. SWB expense included \$22.5 million and \$17.3 million of equity-based compensation expense for the years ended December 31, 2020 and 2019, respectively. Excluding equity-based compensation expense, SWB expense was \$1,132.0 million, or 54.2% of revenue, for the year ended December 31, 2020, compared to \$1,090.1 million, or 54.3% of revenue, for the year ended December 31, 2019. Same facility SWB expense was \$1,047.7 million for the year ended December 31, 2020, or 50.5% of revenue, compared to \$1,018.3 million for the year ended December 31, 2019, or 51.0% of revenue.

**Professional fees.** Professional fees were \$120.5 million for the year ended December 31, 2020, or 5.8% of revenue, compared to \$118.5 million for the year ended December 31, 2019, or 5.9% of revenue. Same facility professional fees were \$171.9 million for the year ended December 31, 2020, or 8.3% of revenue, compared to \$171.2 million, for the year ended December 31, 2019, or 8.6% of revenue.

**Supplies.** Supplies expense was \$87.2 million for the year ended December 31, 2020, or 4.2% of revenue, compared to \$85.5 million for the year ended December 31, 2019, or 4.3% of revenue. Same facility supplies expense was \$86.2 million for the year ended December 31, 2020, or 4.2% of revenue, compared to \$84.6 million for the year ended December 31, 2019, or 4.2% of revenue.



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**Rents and leases.** Rents and leases were \$37.4 million for the year ended December 31, 2020, or 1.8% of revenue, compared to \$35.5 million for the year ended December 31, 2019, or 1.8% of revenue. Same facility rents and leases were \$33.8 million for the year ended December 31, 2020, or 1.6% of revenue, compared to \$32.3 million for the year ended December 31, 2019, 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 \$262.3 million for the year ended December 31, 2020, or 12.5% of revenue, compared to \$259.5 million for the year ended December 31, 2019, or 12.9% of revenue. Same facility other operating expenses were \$189.7 million for the year ended December 31, 2020, or 9.1% of revenue, compared to \$184.1 million for the year ended December 31, 2019, or 9.2% of revenue.

**Other income.** For the year ended December 31, 2020, we recorded \$32.8 million of other income related to \$34.9 million of PHSSE funds received from April through December 2020. Our recognition of this income in the fourth quarter of 2020 was based on revised guidance in the Consolidated Appropriations Act, 2021 enacted in December 2020.

**Depreciation and amortization.** Depreciation and amortization expense was \$95.3 million for the year ended December 31, 2020, or 4.6% of revenue, compared to \$87.9 million for the year ended December 31, 2019, or 4.4% of revenue.

**Interest expense.** Interest expense was \$158.1 million for the year ended December 31, 2020 compared to \$187.3 million for the year ended December 31, 2019. The decrease in interest expense was primarily a result of lower interest rates applicable to our variable-rate debt.

**Debt extinguishment costs.** Debt extinguishment costs were \$7.2 million for the year ended December 31, 2020 represented \$1.4 million of cash charges and \$5.8 million of non-cash charges recorded in connection with the redemption of the 6.125% Senior Notes and the 5.125% Senior Notes, the issuance of 5.000% Senior Notes and the Fourth Repricing Facilities Amendment.

**Loss on impairment.** Loss on impairment of \$4.8 million for the year ended December 31, 2020 represents a non-cash long-lived asset impairment charge of \$4.2 million and \$0.6 million related to indefinite-lived asset impairment related to closed facilities in the U.S. Loss on impairment of \$27.2 million for the year ended December 31, 2019 represents a non-cash long-lived asset impairment charge of \$27.2 million related to two closed U.S. Facilities.

**Transaction-related expenses.** Transaction-related expenses were \$11.7 million for the year ended December 31, 2020 compared to \$21.2 million for the year ended December 31, 2019. Transaction-related expenses represent costs incurred in the respective periods primarily related to termination, restructuring, strategic review, management transition and other similar costs incurred in the respective periods, as summarized below (in thousands):

	Year Ended December 31,	
	2020	2019
Legal, accounting and other acquisition-related costs	\$ 8,252	\$ 3,030
Termination, restructuring and strategic review costs	3,468	12,598
Management transition costs	—	5,529
	<u>\$ 11,720</u>	<u>\$ 21,157</u>

**Discontinued Operations.** Loss from discontinued operations for the year ended December 31, 2020 was \$812.4 million compared to income from discontinued operations of \$56.8 million for the year ended December 31, 2019. The year ended December 31, 2020 included a loss on sale of \$867.3 million and a non-cash long-lived asset impairment charge of \$20.2 million related to the decision to close certain U.K. elderly care facilities. The year ended December 31, 2019 included a non-cash long-lived asset impairment charge of \$27.2 million related to the closure of certain U.K. facilities.

**Provision for income taxes.** For the year ended December 31, 2020, the provision for income taxes was \$40.6 million, reflecting an effective tax rate of 22.1%, compared to \$25.1 million, reflecting an effective tax rate of 32.0%, for the year ended December 31, 2019. The decrease in the effective tax rate for the year ended December 31, 2020 was primarily attributable to the release of a state valuation allowance related and permitting benefits generated from the application of federal net operating loss carryback provisions within the CARES Act. The federal net operating loss legislation within the CARES Act allows net operating losses generated in tax years 2018 through 2020 to be carried back at a 35% tax rate to offset income in tax years prior to 2018 (21% for tax years after 2017), resulting in a permanent benefit.

**Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018**

**Revenue.** Revenue increased \$103.7 million, or 5.4%, to \$2,008.4 million for the year ended December 31, 2019 from \$1,904.7 million for the year ended December 31, 2018. The increase related primarily to additions to beds in our existing facilities and ongoing demand for our services. Same facility revenue increased by \$106.7 million, or 5.8%, for the year ended December 31, 2019 compared to the year ended December 31, 2018, resulting from same facility growth in patient days of 3.2% and an increase in same facility revenue per day of 2.5%. Consistent with the same facility patient day growth in 2018, the growth in same facility patient days for the year ended December 31, 2019 compared to the year ended December 31, 2018 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 \$1,107.4 million for the year ended December 31, 2019 compared to \$1,049.3 million for the year ended December 31, 2018, an increase of \$58.2 million. SWB expense included \$17.3 million and \$22.0 million of equity-based compensation expense for the years ended December 31, 2019 and 2018, respectively. Excluding equity-based compensation expense, SWB expense was \$1,090.1 million, or 54.2% of revenue, for the year ended December 31, 2019, compared to \$1,027.3 million, or 53.8% of revenue, for the year ended December 31, 2018. Same facility SWB expense was \$986.3 million for the year ended December 31, 2019, or 50.4% of revenue compared to \$926.4 million for the year ended December 31, 2018, or 50.1% of revenue.

**Professional fees.** Professional fees were \$118.5 million for the year ended December 31, 2019, or 5.9% of revenue, compared to \$110.0 million for the year ended December 31, 2018, or 5.8% of revenue. Same facility professional fees were \$99.1 million for the year ended December 31, 2019, or 5.1% of revenue, compared to \$93.5 million, for the year ended December 31, 2018, or 5.1% of revenue.

**Supplies.** Supplies expense was \$85.5 million for the year ended December 31, 2019, or 4.3% of revenue, compared to \$81.5 million for the year ended December 31, 2018, or 4.3% of revenue. Same facility supplies expense was \$82.1 million for the year ended December 31, 2019, or 4.2% of revenue, compared to \$78.3 million for the year ended December 31, 2018, or 4.2% of revenue.

**Rents and leases.** Rents and leases were \$35.5 million for the year ended December 31, 2019, or 1.8% of revenue, compared to \$34.3 million for the year ended December 31, 2018, or 1.8% of revenue. Same facility rents and leases were \$31.7 million for the year ended December 31, 2019, or 1.6% of revenue, compared to \$30.6 million for the year ended December 31, 2018, 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 \$259.5 million for the year ended December 31, 2019, or 12.9% of revenue, compared to \$243.7 million for the year ended December 31, 2018, or 12.8% of revenue. Same facility other operating expenses were \$242.2 million for the year ended December 31, 2019, or 12.4% of revenue, compared to \$228.7 million for the year ended December 31, 2018, or 12.3% of revenue.

**Depreciation and amortization.** Depreciation and amortization expense was \$87.9 million for the year ended December 31, 2019, or 4.4% of revenue, compared to \$80.3 million for the year ended December 31, 2018, or 4.2% of revenue.

**Interest expense.** Interest expense was \$187.3 million for the year ended December 31, 2019 compared to \$185.4 million for the year ended December 31, 2018. The increase in interest expense was primarily a result of higher interest rates applicable to our variable-rate debt slightly offset by the lower interest rates as a result of the Second Repricing Facilities Amendment to the Amended and Restated Credit Agreement.

**Debt extinguishment costs.** Debt extinguishment costs for the year ended December 31, 2018 represented \$0.6 million of cash charges and \$0.3 million of non-cash charges recorded in connection with the Repricing Facilities Amendments to the Amended and Restated Credit Agreement and \$0.9 million of cash charges in connection with the redemption of the 9.0% and 9.5% Revenue Bonds.

**Legal settlements expense.** Legal settlement costs of \$22.1 million for the year ended December 31, 2018 represent \$19.0 million related to the government investigation of the Company's billing for lab services in West Virginia and \$3.1 million related to the resolution of the shareholder class action lawsuit filed in 2011 in connection with our merger with PHC, Inc. d/b/a Pioneer Behavioral Health.

**Loss on impairment.** Loss on impairment of \$27.2 million for the year ended December 31, 2019 represents a non-cash long-lived asset impairment charge of \$27.2 million related to two closed U.S. Facilities.

**Transaction-related expenses.** Transaction-related expenses were \$21.2 million for the year ended December 31, 2019 compared to \$29.7 million for the year ended December 31, 2018. Transaction-related expenses represent costs incurred in the respective periods primarily related to termination, restructuring, strategic review, management transition and other similar costs incurred in the respective periods, as summarized below (in thousands):

	Year Ended December 31,	
	2019	2018
Termination, restructuring and strategic review costs	\$ 12,598	\$ 12,534
Management transition costs	5,529	14,033
Legal, accounting and other acquisition-related costs	3,030	3,152
	<u>\$ 21,157</u>	<u>\$ 29,719</u>

**Discontinued Operations.** Income from discontinued operations for the year ended December 31, 2019 was \$56.8 million compared to loss from discontinued operations of \$233.0 million for the year ended December 31, 2018. The year ended December 31, 2019 included a non-cash long-lived asset impairment charge of \$27.2 million related to the closure of certain U.K. facilities. The year ended December 31, 2018 included a non-cash goodwill impairment charge of \$325.9 million and a non-cash long-lived asset impairment charge of \$12.0 million related to certain U.K. facilities.

**Provision for income taxes.** For the year ended December 31, 2019, the provision for income taxes was \$25.1 million, reflecting an effective tax rate of 32.0%, compared to \$9.9 million, reflecting an effective tax rate of 14.7%, for 2018. The change in the effective tax rate for the year ended December 31, 2019 was primarily attributable to the disparity in the accounting treatment and the tax treatment of the loss on impairment recorded in 2018.

## Liquidity and Capital Resources

Cash provided by continuing operating activities for the year ended December 31, 2020 was \$502.8 million compared to \$183.4 million for the year ended December 31, 2019. The increase in cash provided by continuing operating activities primarily attributable to an increase in earnings, benefits related to the CARES Act and a decrease in net cash paid for taxes and interest. Days sales outstanding at December 31, 2020 was 47 compared to 53 at December 31, 2019.

Cash used in continuing investing activities for the year ended December 31, 2020 was \$238.2 million compared to \$147.8 million for the year ended December 31, 2019. Cash used in continuing investing activities for the year ended December 31, 2020 primarily consisted of \$216.6 million of cash paid for capital expenditures, \$8.3 million of cash paid for real estate and other of \$13.4 million offset by proceeds from the sale of property and equipment of \$0.1 million. Cash paid for capital expenditures for the year ended December 31, 2020 consisted of \$40.7 million of routine capital expenditures and \$175.9 million of expansion capital expenditures. We define expansion capital expenditures as those that increase the capacity of our facilities or otherwise enhance revenue. Routine or maintenance capital expenditures were approximately 2% of revenue for the year ended December 31, 2020. Cash used in continuing investing activities for the year ended December 31, 2019 primarily consisted of \$225.1 million of cash paid for capital expenditures, \$44.9 million of cash paid for acquisitions and \$7.6 cash paid for real estate acquisitions offset by \$105.0 million from settlement of foreign currency derivatives, \$11.8 million from proceeds from sale of property and equipment and other of \$13.0 million. Cash paid for capital expenditures for the year ended December 31, 2019 consisted of \$41.5 million of routine capital expenditures and \$183.6 million of expansion capital expenditures.

Cash used in continuing financing activities for the year ended December 31, 2020 was \$48.2 million compared to \$59.2 million for the year ended December 31, 2019. Cash used in continuing financing activities for the year ended December 31, 2020 primarily consisted of repayment of long-term debt of \$909.8 million, principal payments on revolving credit facility of \$100.0 million, principal payments on long-term debt of \$41.3 million, payment of debt issuance costs of \$18.3 million, other of \$3.1 million and distributions to noncontrolling interests of \$0.9 million offset by borrowing on long-term debt of \$925.0 million, borrowings on revolving credit facility of \$100.0 million and common stock withheld for minimum statutory taxes of \$0.2 million. Cash used in continuing financing activities for the year ended December 31, 2019 primarily consisted of principal payments on long-term debt of \$53.0 million, principal payments on revolving credit facility of \$76.6 million, common stock withheld for minimum statutory taxes of \$1.6 million, distributions to noncontrolling interest of \$1.7 and other of \$4.4 million offset by borrowings on revolving credit facility of \$76.6 million.

We had total available cash and cash equivalents of \$378.7 million, \$99.5 million and \$50.5 million at December 31, 2020, 2019 and 2018, respectively, of which approximately \$17.0 million, \$4.2 million and \$4.5 million was held by our foreign subsidiaries, respectively. Our strategic plan does not require the repatriation of foreign cash in order to fund our operations in the U.S., and it is our current intention to permanently reinvest our foreign cash and cash equivalents outside of the U.S.



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

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

On March 22, 2018, we entered into a Second Repricing Facilities Amendment to the Amended and Restated Credit Agreement. The Second Repricing Facilities Amendment (i) replaced the Tranche B-1 Facility and the Tranche B-2 Facility with a new Tranche B-3 Facility and a new Tranche B-4 Facility, respectively, and (ii) reduced the Applicable Rate from 2.75% to 2.50% in the case of Eurodollar Rate loans and reduced the Applicable Rate from 1.75% to 1.50% in the case of Base Rate Loans.

On March 29, 2018, we entered into a Third Repricing Facilities Amendment to the Amended and Restated Credit Agreement. The Third Repricing Facilities Amendment replaced the existing revolving credit facility and TLA Facility with a new revolving credit facility and TLA Facility, respectively. Our line of credit on the revolving credit facility remains at \$500.0 million and the Third Repricing Facility Amendment reduced the size of the TLA Facility from \$400.0 million to \$380.0 million to reflect the then current outstanding principal. The Third Repricing Facilities Amendment reduced the Applicable Rate for the revolving credit facility and the TLA Facility by amending the definition of "Applicable Rate" and replacing the rate table therein with the table set forth below. In connection with the Repricing Facilities Amendments, we recorded a debt extinguishment charge of \$0.9 million, including the discount and write-off of deferred financing costs, which was recorded in debt extinguishment costs in the consolidated statements of operations.

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

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

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

On November 13, 2020, we entered into the Fourth Repricing Facilities Amendment to the Amended and Restated Credit Agreement. The Fourth Repricing Facilities Amendment extended the maturity date of each of the existing revolving line of credit and the existing TLA Facility from November 30, 2021 to November 30, 2022. The Fourth Repricing Facilities Amendment also (1) replaced the revolving line of credit in an aggregate committed amount of \$500.0 million to an aggregate committed amount of approximately \$459.0 million and (2) replaced the TLA Facility aggregate outstanding principal amount of approximately \$352.4 million to an aggregate principal amount of approximately \$318.9 million. The interest rate margin applicable to both facilities remains unchanged from the prior facilities, and the commitment fee applicable to the new revolving line of credit also remains unchanged from the prior revolving line of credit. In connection with the Fourth Repricing Facilities Amendment, we recorded a debt extinguishment charge of \$1.0 million, including the write-off of discount and deferred financing costs, which was recorded in debt extinguishment costs in the consolidated statements of operations.

On January 5, 2021, we made a voluntary payment of \$105.0 million on our Tranche B-4 Facility. On January 19, 2021, we used a portion of the net proceeds from the U.K. Sale to repay \$311.7 million of our TLA Facility and \$767.9 million of our Tranche B-4 Facility of the Amended and Restated Credit Agreement. Such repayments served to repay in full the outstanding balances of the TLA Facility and the Tranche B-4 Facility, at which point we had no variable-rate debt.

We had \$441.6 million of availability under the revolving line of credit and had standby letters of credit outstanding of \$17.4 million related to security for the payment of claims required by our workers' compensation insurance program at December 31, 2020. Borrowings under the revolving line of credit are subject to customary conditions precedent to borrowing. The Amended and Restated Credit Agreement requires quarterly term loan principal repayments of our TLA Facility of \$9.5 million for March 31, 2021 to September 30, 2022, with the remaining principal balance of the TLA Facility due on the maturity date of November 30, 2022. We are required to repay the Tranche B-4 Facility in equal quarterly installments of approximately \$2.3 million on the last business day of each March, June, September and December, with the outstanding principal balance of the Tranche B-4 Facility due on February 16, 2023. On April 17, 2018, we made an additional payment of \$15.0 million, including \$5.1 million on the Tranche B-3 Facility and \$9.9 million on the Tranche B-4 Facility. On November 15, 2019, we made an additional payment of \$20.0 million, including \$7.0 million on the Tranche B-3 Facility and \$13.0 million on the Tranche B-4 Facility.



Borrowings under the Amended and Restated Credit Agreement are guaranteed by each of our wholly-owned domestic subsidiaries (other than certain excluded subsidiaries) and are secured by a lien on substantially all of our and such subsidiaries' assets. Borrowings with respect to the TLA Facility and our revolving credit facility (collectively, "Pro Rata Facilities") under the Amended and Restated Credit Agreement bear interest at a rate tied to Acadia's Consolidated Leverage Ratio (defined as consolidated funded debt net of up to \$50.0 million of unrestricted and unencumbered cash to consolidated EBITDA). The Applicable Rate for the Pro Rata Facilities was 2.5% for Eurodollar Rate Loans and 1.5% for Base Rate Loans at December 31, 2020. Eurodollar Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the Eurodollar Rate (based upon the LIBOR Rate prior to commencement of the interest rate period). Base Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. At December 31, 2020, the Pro Rata Facilities bore interest at a rate of LIBOR plus 2.5%. In addition, we are required to pay a commitment fee on undrawn amounts under our revolving credit facility.

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

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

The Tranche B-4 Facility bore interest as follows: Eurodollar Rate Loans bore interest at the Applicable Rate (as defined below) plus the Eurodollar Rate (based upon the LIBOR Rate prior to commencement of the interest rate period) and Base Rate Loans bore interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As used herein, the term "Applicable Rate" means, with respect to Eurodollar Rate Loans, 2.50%, and with respect to Base Rate Loans, 1.50%. At December 31, 2020, the Tranche B-4 bore interest rate at a rate of LIBOR plus 2.5%.

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

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

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

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c) The financial covenants include maintenance of the following:

- the fixed charge coverage ratio may not be less than 1.25:1.00 as of the end of any fiscal quarter;
- the total leverage ratio may not be greater than the following levels as of the end of each fiscal quarter listed below:

	March 31	June 30	September 30	December 31
2020	5.75x	6.50x	6.50x	6.25x
2021	5.25x	5.25x	5.00x	5.00x
2022	5.00x	5.00x	5.00x	5.00x

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

At December 31, 2020, we were in compliance with all of the above covenants.

## Senior Notes

### 6.125% Senior Notes Due 2021

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

### 5.125% Senior Notes due 2022

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

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

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

### 5.625% Senior Notes due 2023

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

### 6.500% Senior Notes due 2024

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

### Redemption of 5.265% Senior Notes and 6.500% Senior Notes

On January 29, 2021, we issued conditional notices of full redemption providing for the redemption in full of \$650 million of 5.265% Senior Notes and \$390 million of 6.500% Senior Notes to the holders of such notes. The redemption of this \$1,040 million of additional debt, along with the payment of breakage costs of \$6 million and estimated transaction costs of \$9 million, is expected to be completed in early March 2021 and to be funded from cash from the balance sheet of \$430 million and proceeds from a new senior secured credit facility of \$625 million. We expect to enter into a new term loan and revolver as part of a five-year senior secured credit facility.

### 5.500% Senior Notes due 2028

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

### 5.000% Senior Notes due 2029

On October 14, 2020, we issued \$475.0 million of 5.000% Senior Notes due 2029. 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. We used the net proceeds of the 5.000% Senior Note to prepay approximately \$453.3 million of the outstanding borrowings on our existing Tranche B-3 Facility and used the remaining net proceeds for general corporate purposes and to pay related fees and expenses in connection with the offering. In connection with the 5.000% Senior Notes, we recorded a debt extinguishment charge of \$2.9 million, including the write-off of discount and deferred financing cost, which was recorded in debt extinguishment costs in the consolidated statements of operations.

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

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

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

### 9.0% and 9.5% Revenue Bonds

On November 11, 2012, in connection with the acquisition of The Pavilion at HealthPark, LLC ("Park Royal"), we assumed debt of \$23.0 million. The fair market value of the debt assumed was \$25.6 million and resulted in a debt premium balance being recorded as of the acquisition date. The debt consisted of \$7.5 million and \$15.5 million of 9.0% and 9.5% Revenue Bonds, respectively.

On December 1, 2018, we exercised the option to redeem in whole the 9.0% and 9.5% Revenue Bonds at a redemption price equal to the sum of 104% of the principal amount of the 9.0% and 9.5% Revenue Bonds plus accrued and unpaid interest. In connection with the redemption of the 9.0% and 9.5% Revenue Bonds, we recorded a debt extinguishment charge of \$0.9 million, which was recorded in debt extinguishment costs in the consolidated statements of operations.

### Contractual Obligations

The following table presents a summary of contractual obligations (dollars in thousands):

	Payments Due by Period				Total
	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	
Long-term debt (1)	\$ 191,888	\$ 2,020,499	\$ 469,088	\$ 1,094,250	\$ 3,775,725
Operating leases	25,015	38,368	26,932	52,867	143,182
Purchase and other obligations (2)	32,909	1,980	2,096	24,000	60,985
Total obligations and commitments	<u>\$ 249,812</u>	<u>\$ 2,060,847</u>	<u>\$ 498,116</u>	<u>\$ 1,171,117</u>	<u>\$ 3,979,892</u>

(1) Amounts include required principal and interest payments. The projected interest payments reflect interest rates in place on our variable-rate debt at December 31, 2020.

(2) Amounts exclude variable components of lease payments.



## **Off-Balance Sheet Arrangements**

At December 31, 2020, we had standby letters of credit outstanding of \$17.4 million related to security for the payment of claims as required by our workers' compensation insurance program.

## **Market Risk**

### **Interest Rate Risk**

Our interest expense is sensitive to changes in market interest rates. Our long-term debt outstanding at December 31, 2020 was composed of \$1,947.0 million of fixed-rate debt and \$1,175.4 million of variable-rate debt with interest based on LIBOR plus an applicable margin. A hypothetical 10% increase in interest rates (which would equate to a 0.27% higher rate on our variable-rate debt) would decrease our net income and cash flows by \$2.6 million on an annual basis based upon our borrowing level at December 31, 2020. On January 5, 2021 we made a voluntary payment of \$105.0 million on our Tranche B-4 Facility. On January 19, 2021 we paid in full balances of the TLA Facility and Tranche B-4 Facility, at which point we had no variable-rate debt.

## **Critical Accounting Policies**

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. In preparing our financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses included in the financial statements. Estimates are based on historical experience and other available information, the results of which form the basis of such estimates. While management believes our estimation processes are reasonable, actual results could differ from our estimates. The following accounting policies are considered critical to the portrayal of our financial condition and operating performance and involve highly subjective and complex assumptions and assessments:

### **Revenue and Accounts Receivable**

In May 2014, the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board issued Accounting Standards Update ("ASU") 2014-09. ASU 2014-09's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. We adopted ASU 2014-09 using the modified retrospective method effective January 1, 2018. As a result of certain changes required by ASU 2014-09, the majority of our provision for doubtful accounts are recorded as a direct reduction to revenue instead of being presented as a separate line item on the consolidated statements of operations. The adoption of ASU 2014-09 did not have a significant impact on our consolidated financial statements.

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

We derive a significant portion of our revenue from Medicare, Medicaid and other payors that receive discounts from established billing rates. The Medicare and Medicaid regulations and various managed care contracts under which these discounts must be calculated are complex, subject to interpretation and adjustment, and may include multiple reimbursement mechanisms for different types of services provided in the Company's inpatient facilities and cost settlement provisions. Management estimates the transaction price on a payor-specific basis given its interpretation of the applicable regulations or contract terms. The services authorized and provided and related reimbursement are often subject to interpretation that could result in payments that differ from our estimates. Additionally, updated regulations and contract renegotiations occur frequently, necessitating regular review and assessment of the estimation process by management.

Settlements under cost reimbursement agreements with third-party payors are estimated and recorded in the period in which the related services are rendered and are adjusted in future periods as final settlements are determined. Final determination of amounts earned under the Medicare and Medicaid programs often occurs in subsequent years because of audits by such programs, rights of appeal and the application of numerous technical provisions. In the opinion of management, adequate provision has been made for any adjustments and final settlements. However, there can be no assurance that any such adjustments and final settlements will not have a material effect on the Company's financial condition or results of operations. Our cost report receivables were \$5.8 million and \$13.7 million at December 31, 2020 and 2019, respectively, and were included in other current assets in the consolidated balance sheets. Management believes that these receivables are properly stated and are not likely to be settled for a significantly different amount. The



net adjustments to estimated cost report settlements resulted in a decrease to revenue of \$1.3 million and \$0.4 million, respectively, for the years ended December 31, 2020 and 2019 and an increase of \$0.5 million for the year ended December 31, 2018.

The following table presents revenue by payor type and as a percentage of revenue in our U.S. Facilities for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	Year Ended December 31,					
	2020		2019		2018	
	Amount	%	Amount	%	Amount	%
Commercial	\$ 596,698	28.5%	\$ 565,350	28.2%	\$ 573,089	30.1%
Medicare	330,070	15.8%	294,691	14.7%	280,340	14.7%
Medicaid	1,037,852	49.7%	1,007,102	50.1%	893,644	46.9%
Self-Pay	98,302	4.7%	118,716	5.9%	134,054	7.1%
Other	27,007	1.3%	22,522	1.1%	23,568	1.2%
Revenue	<u>\$2,089,929</u>	100.0%	<u>\$2,008,381</u>	100.0%	<u>\$1,904,695</u>	100.0%

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

#### December 31, 2020

	Current	30-90	90-150	>150	Total
Commercial	19.8%	5.6%	2.2%	6.3%	33.9%
Medicare	12.0%	1.2%	0.6%	1.5%	15.3%
Medicaid	27.4%	4.7%	2.7%	8.6%	43.4%
Self-Pay	1.5%	1.4%	1.3%	2.5%	6.7%
Other	0.0%	0.3%	0.1%	0.3%	0.7%
Total	60.7%	13.2%	6.9%	19.2%	100.0%

#### December 31, 2019

	Current	30-90	90-150	>150	Total
Commercial	16.7%	6.8%	4.3%	6.9%	34.7%
Medicare	11.3%	1.6%	0.5%	1.0%	14.4%
Medicaid	25.6%	6.4%	3.7%	7.4%	43.1%
Self-Pay	1.7%	1.5%	1.5%	2.7%	7.4%
Other	0.1%	0.1%	0.1%	0.1%	0.4%
Total	55.4%	16.4%	10.1%	18.1%	100.0%

Medicaid accounts receivable at December 31, 2020 and 2019 included approximately \$1.2 million and \$1.4 million, respectively, of accounts pending Medicaid approval.

#### Insurance

We are subject to medical malpractice and other lawsuits due to the nature of the services we provide. A portion of our professional liability risks are insured through a wholly-owned insurance subsidiary. We are self-insured for professional liability claims up to \$3.0 million per claim and have obtained reinsurance coverage from a third party to cover claims in excess of the retention limit. The reinsurance policy has a coverage limit of \$75.0 million in the aggregate. Our 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. The reserve for professional and general liability risks was estimated based on historical claims, demographic factors, industry trends, severity factors, and other actuarial assumptions. The estimated accrual for professional and general liabilities could be significantly affected should current and future occurrences differ from historical claim trends and expectations. While claims are monitored closely when estimating professional and general liability accruals, the complexity of the claims and wide range of potential outcomes often hampers timely adjustments to the assumptions used in these estimates. The professional and general liability reserve was \$77.5 million at December 31, 2020, of which \$9.7 million was included in other accrued liabilities and \$67.8 million was included in other long-term liabilities. The professional and general liability reserve was \$52.6 million at December 31, 2019, of which \$4.7 million was included in other accrued liabilities and \$47.9 million was included in other long-term liabilities. We estimate receivables for the portion of professional and general liability reserves that are recoverable under our insurance policies. Such receivable was \$27.2 million at December 31, 2020, of which \$6.8 million was included in other current assets and \$20.4 million was included in other assets, and such receivable was \$8.5 million at December 31, 2019, of which \$3.0 million was included in other current assets and \$5.5 million was included in other assets.

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Our statutory workers' compensation program is fully insured with a \$0.5 million deductible per accident. The workers' compensation liability was \$23.0 million at December 31, 2020, of which \$12.0 million was included in accrued salaries and benefits and \$11.0 million was included in other long-term liabilities, and such liability was \$20.8 million at December 31, 2019, of which \$10.0 million was included in accrued salaries and benefits and \$10.8 million was included in other long-term liabilities. The reserve for workers compensation claims was based upon independent actuarial estimates of future amounts that will be paid to claimants. Management believes that adequate provisions have been made for workers' compensation and professional and general liability risk exposures.

### ***Property and Equipment and Other Long-Lived Assets***

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets, which typically range from 10 to 50 years for buildings and improvements, three to seven years for equipment and the shorter of the lease term or estimated useful lives for leasehold improvements. When assets are sold or retired, the corresponding cost and accumulated depreciation are removed from the related accounts and any gain or loss is recorded in the period of sale or retirement. Repair and maintenance costs are expensed as incurred. Depreciation expense was \$95.3 million, \$87.9 million and \$80.3 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The carrying values of long-lived assets are reviewed for possible impairment whenever events, circumstances or operating results indicate that the carrying amount of an asset may not be recoverable. If this review indicates that the asset will not be recoverable, as determined based upon the undiscounted cash flows of the operating asset over the remaining useful lives, the carrying value of the asset will be reduced to its estimated fair value. Fair value estimates are based on independent appraisals, market values of comparable assets or internal evaluations of future net cash flows.

We performed an impairment review of long-lived assets in the fourth quarter of 2020, which indicated the carrying amounts of certain of our long-lived assets in the U.S. Facilities may not be recoverable. This created a non-cash impairment of \$4.2 million for the year ended December 31, 2020. A 2019 impairment review resulted in a non-cash loss on impairment of \$27.2 million for the year ended December 31, 2019. These items were recorded in loss on impairment on our consolidated statements of operations. No impairment was recorded for the year ended December 31, 2018.

### ***Goodwill and Indefinite-Lived Intangible Assets***

Our goodwill and other indefinite-lived intangible assets, which consist of licenses and accreditations, trade names and certificates of need intangible assets that are not amortized, are evaluated for impairment annually during the fourth quarter or more frequently if events indicate the carrying value of a reporting unit may not be recoverable. As of our annual impairment test on October 1, 2020, we had two operating segments for segment reporting purposes, U.S. Facilities and U.K. Facilities, each of which represents a reporting unit for purposes of our goodwill impairment test.

Our annual goodwill impairment and other indefinite-lived intangible assets test performed as of October 1, 2020 considered recent financial performance, including the impacts of COVID-19 on certain portions of the U.K. business. The 2020 impairment test of the U.K. Facilities indicated carrying value of the reporting unit exceeded the estimated fair value and resulted in a non-cash loss on impairment of the remaining goodwill of the U.K. Facilities of \$356.2 million. The non-cash loss on impairment is included in loss on sale within discontinued operations in the consolidated statements of operations. As of our impairment test on October 1, 2020, the fair value of our U.S. Facilities reporting unit substantially exceeded its carrying value, and therefore no impairment was recorded. Additionally, for the year ended December 31, 2020, we recorded a non-cash impairment charge of \$0.6 million related to indefinite-lived assets related to closed facilities in the U.S., which is included in loss on impairment in the consolidated statements of operations.

Due to the classification of the U.K. Facilities in discontinued operations at December 31, 2020, we have one operating segment, behavioral health services, for segment reporting purposes. The behavioral healthcare services operating segment represents one reporting unit for future goodwill impairment tests.

### ***Income Taxes***

We use the asset and liability method of accounting for income taxes. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and net operating loss and tax credit carryforwards. The amount of deferred taxes on these temporary differences is determined using the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, as applicable, based on tax rates and laws in the respective tax jurisdiction enacted as of the balance sheet date.

We review our deferred tax assets for recoverability and establish a valuation allowance based on historical taxable income, projected future taxable income, applicable tax strategies, and the expected timing of the reversals of existing temporary differences.

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A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

We also have accruals for taxes and associated interest that may become payable in future years as a result of audits by tax authorities. We accrue for tax contingencies when it is more likely than not that a liability to a taxing authority has been incurred and the amount of the contingency can be reasonably estimated. Although we believe that the positions taken on previously filed tax returns are reasonable, we nevertheless have established tax and interest reserves in recognition that various taxing authorities may challenge the positions taken by us resulting in additional liabilities for taxes and interest. These amounts are reviewed as circumstances warrant and adjusted as events occur that affect our potential liability for additional taxes, such as lapsing of applicable statutes of limitations, conclusion of tax audits, additional exposure based on current calculations, identification of new issues, release of administrative guidance, or rendering of a court decision affecting a particular tax issue.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Information with respect to this Item is provided under the caption "Market Risk" under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

### **Item 8. Financial Statements and Supplementary Data**

Information with respect to this Item is contained in our consolidated financial statements beginning on Page F-1 of this Annual Report on Form 10-K.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. 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 Securities Exchange Act of 1934, as amended (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.

#### **Reports on Internal Control Over Financial Reporting**

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have included a report of management's assessment of the design and operating effectiveness of our internal controls as part of this report. Our independent registered public accounting firm also reported on the effectiveness of internal control over financial reporting. Management's report and the independent registered public accounting firm's report are included in our consolidated financial statements beginning on page F-1 of this report under the captions entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm."

#### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2020 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

### **Item 9B. Other Information.**

None.

**Item 10. Directors, Executive Officers and Corporate Governance.****Directors**

The information with respect to our directors set forth under the caption “Election of Directors” in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 6, 2021 is incorporated herein by reference.

**Audit Committee**

The information with respect to our Audit Committee and our audit committee financial experts serving on the Audit Committee is set forth under the caption “Corporate Governance – Committees of the Board of Directors – Audit Committee” in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 6, 2021 is incorporated herein by reference.

**Executive Officers**

The information with respect to our executive officers set forth under the caption “Management – Executive Officers” in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 6, 2021 is incorporated herein by reference.

**Section 16(a) Compliance**

The information with respect to compliance with Section 16(a) of the Exchange Act set forth under the caption “Security Ownership of Certain Beneficial Owners and Management—Delinquent Section 16(a) Reports” in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 6, 2021 is incorporated herein by reference.

**Stockholder Nominees**

The information with respect to the procedures by which stockholders may recommend nominees to the board of directors set forth under the caption “Corporate Governance – Nomination of Directors – Nominations by Our Stockholders” in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 6, 2021 is incorporated herein by reference.

**Corporate Governance Documents**

We have adopted a Code of Conduct that applies to all of our directors, officers and employees and a Code of Ethics for Senior Financial Officers. These documents, as well as the charters of the Audit Committee, Compensation Committee and Nominating and Governance Committee, are available on our website at [www.acadiahealthcare.com](http://www.acadiahealthcare.com) on the Investors webpage under the caption “Corporate Governance.” Upon the written request of any person, we will furnish, without charge, a copy of any of these documents. Requests should be directed to Acadia Healthcare Company, Inc., 6100 Tower Circle, Suite 1000, Franklin, Tennessee 37067, Attention: Christopher L. Howard, Esq. We intend to disclose any amendments to our Code of Ethics and any waiver from a provision of our code, as required by the SEC, on our website.

**Item 11. Executive Compensation**

The information with respect to the compensation of our executive officers set forth under the captions “Executive Compensation” and “Compensation Discussion and Analysis” and the information set forth under the captions “Director Compensation,” “Corporate Governance – Compensation Committee Interlocks and Insider Participation,” and “Compensation Committee Report” in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 6, 2021 is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information with respect to security ownership of certain beneficial owners and management and related stockholder matters set forth under the caption “Security Ownership of Certain Beneficial Owners and Management” in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 6, 2021 is incorporated herein by reference.



## Equity Compensation Plan Information

The following table provides information at December 31, 2020 with respect to compensation plans (including individual compensation arrangements) under which shares of Common Stock are authorized for issuance:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (1)
Equity Compensation Plans Approved by Stockholders (2)	3,606,364 (3)	\$ 37.56	974,746
Equity Compensation Plans Not Approved by Stockholders	—	\$ —	—
<b>Total</b>	<b>3,606,364</b>		<b>974,746</b>

(1) Excludes shares to be issued upon exercise of outstanding options and vesting of outstanding restricted stock units.

(2) Represents securities issued or available for issuance under the Acadia Healthcare Company, Inc. Incentive Compensation Plan.

(3) Includes 1,073,062 shares that may be issued upon vesting of outstanding restricted stock units that vest over three years, assuming that maximum performance goals are attained in all three years.

## Item 13. Certain Relationships and Related Transactions, and Director Independence

The information with respect to certain relationships and related transactions and director independence set forth under the captions “Certain Relationships and Related Transactions” and “Corporate Governance – Independence of the Board of Directors” in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 6, 2021 is incorporated herein by reference.

## Item 14. Principal Accountant Fees and Services

The information with respect to the fees paid to and services provided by our principal accountants set forth under the caption “Ratification of Appointment of Independent Registered Public Accounting Firm” in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be held May 6, 2021 is incorporated herein by reference.

**Item 15. Exhibits and Financial Statement Schedules.**

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. *Consolidated Financial Statements* :

The consolidated financial statements required to be included in Part II, Item 8, Financial Statements and Supplementary Data, begin on Page F-1 and are submitted as a separate section of this report.

2. *Financial Statement Schedules* :

All schedules are omitted because they are not applicable or are not required, or because the required information is included in the consolidated financial statements or notes in this report.

3. *Exhibits* :

<b>Exhibit No.</b>	<b>Exhibit Description</b>
2.1*	<u>Put and Call Option Deed, dated as of December 30, 2020, by and between RemedcoUK Limited and the Company.</u>
2.2*	<u>Share Purchase Agreement, dated as of January 7, 2021, by and between RemedcoUK Limited and the Company.</u>
3.1	<u>Amended and Restated Certificate of Incorporation, as filed on October 28, 2011 with the Secretary of State of the State of Delaware, as amended by the Certificate of Amendment filed on May 25, 2017 (y)</u>
3.2	<u>Amended and Restated Bylaws of the Company, as amended May 25, 2017 (y)</u>
4.1	<u>Indenture, dated February 11, 2015, by and among the Company, the Guarantors named therein and U.S. Bank National Association, as Trustee (f)</u>
4.2	<u>Form of 5.625% Senior Note due 2023. (Included in Exhibit 4.1)</u>
4.3	<u>Indenture, dated February 16, 2016, by and among the Company, the Guarantors named therein and U.S. Bank National Association, as Trustee (i)</u>
4.4	<u>Form of 6.500% Senior Note due 2024. (Included in Exhibit 4.3)</u>
4.5	<u>Indenture, dated June 24, 2020, by and among the Company, the Guarantors named therein and U.S. Bank National Association, as Trustee (gg)</u>
4.6	<u>Form of 5.500% Senior Note due 2028. (Included in Exhibit 4.5)</u>
4.7	<u>Indenture, dated October 14, 2020, by and among the Company, the Guarantors named therein and U.S. Bank National Association, as Trustee (hh)</u>
4.8	<u>Form of 5.000% Senior Note due 2029. (Included in Exhibit 4.7)</u>
4.9	<u>Amended and Restated Stockholders Agreement, dated as of October 29, 2014, by and among the Company and each of the stockholders named therein (c)</u>
4.10	<u>Specimen Acadia Healthcare Company, Inc. Common Stock Certificate to be issued to holders of Acadia Healthcare Company, Inc. Common Stock (g)</u>
4.11	<u>Third Amended and Restated Registration Rights Agreement, dated as of December 31, 2015, by and among the Company and each of the parties named therein (r)</u>
4.12	<u>Joinder, dated February 16, 2016, to the Third Amended and Restated Registration Rights Agreement dated as of December 31, 2015, by and among the Company and each of the parties named therein (t)</u>
4.13*	<u>Description of the Company's Securities.</u>

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10.1	<u>Amended and Restated Credit Agreement, dated December 31, 2012, by and among Bank of America, NA (Administrative Agent, Swing Line Lender and I/C Issuer) and the Company (f/k/a Acadia Healthcare Company, LLC), the guarantors listed on the signature pages thereto, and the lenders listed on the signature pages thereto (the "Credit Agreement") (b)</u>
10.2	<u>First Amendment, dated March 11, 2013, to the Credit Agreement (e)</u>
10.3	<u>Second Amendment, dated June 28, 2013, to the Credit Agreement (b)</u>
10.4	<u>Third Amendment, dated September 30, 2013, to the Credit Agreement (i)</u>
10.5	<u>Fourth Amendment, dated February 13, 2014, to the Credit Agreement (j)</u>
10.6	<u>Fifth Amendment, dated June 16, 2014, to the Credit Agreement (k)</u>
10.7	<u>Sixth Amendment, dated December 15, 2014, to the Credit Agreement (l)</u>
10.8	<u>Seventh Amendment, dated February 6, 2015, to the Credit Agreement (f)</u>
10.9	<u>First Incremental Facility Amendment, dated February 11, 2015, to the Credit Agreement (f)</u>
10.10	<u>Eighth Amendment, dated April 22, 2015, to the Credit Agreement (q)</u>
10.11	<u>Ninth Amendment, dated January 25, 2016, to the Credit Agreement (s)</u>
10.12	<u>Second Incremental Facility Amendment, dated February 16, 2016, to the Credit Agreement (t)</u>
10.13	<u>Tranche B-1 Repricing Amendment, dated May 26, 2016, to the Credit Agreement (u)</u>
10.14	<u>Tranche B-2 Repricing Amendment, dated September 21, 2016, to the Credit Agreement (v)</u>
10.15	<u>Tenth Amendment, dated November 22, 2016, to the Credit Agreement (w)</u>
10.16	<u>Refinancing Facilities Amendment, dated November 30, 2016, to the Credit Agreement (w)</u>
10.17	<u>Third Repricing Amendment, dated May 10, 2017, to the Credit Agreement (x)</u>
10.18	<u>Second Refinancing Facilities Amendment, dated March 22, 2018, to the Credit Agreement (z)</u>
10.19	<u>Third Refinancing Facilities Amendment, dated March 29, 2018, to the Credit Agreement (aa)</u>
10.20	<u>Eleventh Amendment, dated February 6, 2019, to the Credit Agreement (dd)</u>
10.21	<u>Twelfth Amendment, dated February 27, 2019, to the Credit Agreement (dd)</u>
10.22	<u>Thirteenth Amendment, dated April 1, 2020, to the Credit Agreement (ii)</u>
10.23	<u>Fourth Refinancing Facilities Amendment, dated November 13, 2020, to the Credit Agreement (jj)</u>
†10.24	<u>Employment Agreement, dated as of January 19, 2021, by and between Acadia Management Company, Inc. and Debra K. Osteen (bb)</u>
†10.25	<u>Amended and Restated Employment Agreement, dated April 7, 2014, among the Company, Acadia Management Company, Inc. and Christopher L. Howard (m)</u>
†10.26	<u>Employment Agreement, dated April 7, 2014, by and among the Company, Acadia Management Company, Inc. and David M. Duckworth (m)</u>
†10.27	<u>Employment Agreement, dated July 31, 2019, by and between Acadia Management Company, Inc. and John S. Hollinsworth (ee)</u>
†10.28	<u>Employment Agreement, dated August 6, 2019, by and between Acadia Management Company, Inc. and Laurence L. Harrod (ff)</u>
†10.29	<u>Acadia Healthcare Company, Inc. Incentive Compensation Plan, effective May 23, 2013 (n)</u>
†10.30	<u>First Amendment, effective May 19, 2016, to the Acadia Healthcare Company, Inc. Incentive Compensation Plan (o)</u>
†10.31	<u>Form of Restricted Stock Unit Agreement (cc)</u>



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†10.32	<a href="#"><u>Form of Incentive Stock Option Agreement (a)</u></a>
†10.33	<a href="#"><u>Form of Non-Qualified Stock Option Agreement (a)</u></a>
†10.34	<a href="#"><u>Form of Restricted Stock Agreement (cc)</u></a>
†10.35	<a href="#"><u>Form of Stock Appreciation Rights Agreement (a)</u></a>
†10.36	<a href="#"><u>Acadia Healthcare Company, Inc. Nonqualified Deferred Compensation Plan, effective February 1, 2013 (p)</u></a>
†10.37	<a href="#"><u>Nonmanagement Director Compensation Program, effective January 1, 2013 (p)</u></a>
10.38	<a href="#"><u>Form of Indemnification Agreement (for directors and officers affiliated with Waud Capital Partners or Bain Capital) (d)</u></a>
10.39	<a href="#"><u>Form of Indemnification Agreement (for directors and officers not affiliated with Waud Capital Partners or Bain Capital) (d)</u></a>
21*	<a href="#"><u>Subsidiaries of the Company.</u></a>
22*	<a href="#"><u>List of Subsidiary Guarantors and Issuers of Guaranteed Securities.</u></a>
23*	<a href="#"><u>Consent of Independent Registered Public Accounting Firm.</u></a>
31.1*	<a href="#"><u>Rule 13a-14(a) Certification of the Chief Executive Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2*	<a href="#"><u>Rule 13a-14(a) Certification of the Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1*	<a href="#"><u>Section 1350 Certification of Chief Executive Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2*	<a href="#"><u>Section 1350 Certification of Chief Financial Officer of the Company pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS**	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH**	Inline XBRL Taxonomy Extension Schema Document.
101.CAL**	Inline XBRL Taxonomy Calculation Linkbase Document.
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	Inline XBRL Taxonomy Labels Linkbase Document.
101.PRE**	Inline XBRL Taxonomy Presentation Linkbase Document.
104	The cover page from the Company's Annual Report on Form 10-K for the year ended December 31, 2020, has been formatted in Inline XBRL.
†	Indicates management contract or compensatory plan or arrangement.
*	Filed herewith.
**	The XBRL related information in Exhibit 101 to this Annual Report on Form 10-K 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.
(a)	Incorporated by reference to exhibits filed with the Company's registration statement on Form S-4, as amended (File No. 333-175523), originally filed with the SEC on July 13, 2011.
(b)	Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 2, 2013 (File No. 001-35331).
(c)	Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed October 30, 2014 (File No. 001-35331).
(d)	Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed November 1, 2011 (File No. 001-35331).
(e)	Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed March 12, 2013 (File No. 001-35331).



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- (f) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed February 12, 2015 (File No. 001-35331).
- (g) Incorporated by reference to exhibits filed with the Company's registration statement on Form S-1, as amended (File No. 333-175523), originally filed with the SEC on November 23, 2011.
- (h) Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2013 (File No. 001-35331).
- (i) Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2013 (File No. 001-35331).
- (j) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed February 19, 2014 (File No. 001-35331).
- (k) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed June 17, 2014 (File No. 001-35331).
- (l) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed December 15, 2014 (File No. 001-35331).
- (m) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed April 11, 2014 (File No. 001-35331).
- (n) Incorporated by reference to exhibits filed with the Company's registration statement on Form S-8 filed July 30, 2013 (File No. 333-190232).
- (o) Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2016 (File No. 001-35331).
- (p) Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2013 (File No. 001-35331).
- (q) Incorporated by reference to exhibits filed with the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2015 (File No. 001-35331).
- (r) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 4, 2016 (File No. 001-35331).
- (s) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 27, 2016 (File No. 001-35331).
- (t) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed February 16, 2016 (File No. 001-35331).
- (u) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed May 26, 2016 (File No. 001-35331).
- (v) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed September 21, 2016 (File No. 001-35331).
- (w) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed November 30, 2016 (File No. 001-35331).
- (x) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed May 10, 2017 (File No. 001-35331).
- (y) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed May 25, 2017 (File No. 001-35331).
- (z) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed March 27, 2018 (File No. 001-35331).
- (aa) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed April 2, 2018 (File No. 001-35331).
- (bb) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed January 22, 2021 (File No. 001-35331).
- (cc) Incorporated by reference to exhibits filed with the Company's Current Report on Form 10-Q for the three months ended March 31, 2018 (File No. 001-35331).
- (dd) Incorporated by reference to exhibits filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 001-35331).
- (ee) Incorporated by reference to exhibits filed with the Company's Amendment No. 1 to the Current Report on Form 8-K filed August 6, 2019 (File No. 001-35331).
- (ff) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed August 6, 2019 (File No. 001-35331).
- (gg) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed June 24, 2020 (File No. 001-35331).
- (hh) Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed October 14, 2020 (File No. 001-35331).

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(ii)

Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed April 22, 2020 (File No. 001-35331).

(jj)

Incorporated by reference to exhibits filed with the Company's Current Report on Form 8-K filed November 13, 2020 (File No. 001-35331).

**Item 16. Form 10-K Summary.**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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/ DEBRA K. OSTEEN

Debra K. Osteen

*Chief Executive Officer and Director*

Dated: February 26, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ DEBRA K. OSTEEN</u> Debra K. Osteen	Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2021
<u>/s/ DAVID M. DUCKWORTH</u> David M. Duckworth	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 26, 2021
<u>/s/ REEVE B. WAUD</u> Reeve B. Waud	Chairman of the Board	February 26, 2021
<u>/s/ JASON R. BERNHARD</u> Jason R. Bernhard	Director	February 26, 2021
<u>/s/ E. PEROT BISSELL</u> E. Perot Bissell	Director	February 26, 2021
<u>/s/ MICHAEL J. FUCCI</u> Michael J. Fucci	Director	February 26, 2021
<u>/s/ VICKY B. GREGG</u> Vicky B. Gregg	Director	February 26, 2021
<u>/s/ WILLIAM F. GRIECO</u> William F. Grieco	Director	February 26, 2021
<u>/s/ WADE D. MIQUELON</u> Wade D. Miquelon	Director	February 26, 2021
<u>/s/ WILLIAM M. PETRIE</u> William M. Petrie	Director	February 26, 2021

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**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting at December 31, 2020 based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective at December 31, 2020.

Our accompanying consolidated financial statements have been audited by the independent registered public accounting firm of Ernst & Young LLP. Reports of the independent registered public accounting firm, including the independent registered public accounting firm's report on our internal control over financial reporting, are included in this report.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of Acadia Healthcare Company, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Acadia Healthcare Company, Inc. (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive (loss) income, equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 26, 2021 expressed an unqualified opinion thereon.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

**Revenue Recognition**

*Description of the Matter* For the year ended December 31, 2020 the Company recognized \$2.1 billion of revenue from continuing operations. As discussed in Note 3 of the consolidated financial statements, the Company determines the transaction price for services to patients in its U.S. Facilities 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 primarily on historical collection experience.

For the U.S. Facilities, auditing management's revenue recognition and its estimates of contractual adjustments, discounts and implicit price concessions was complex and judgmental due to the significant data inputs and subjective assumptions utilized in estimating the related amounts. Various reimbursement programs under which these amounts must be estimated are complex and subject to interpretation and adjustment. Additionally, updated regulations and contract renegotiations occur frequently, necessitating regular review and assessment of the estimation process by management.

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*How We Addressed the Matter in Our Audit* We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's revenue recognition, including controls over key data inputs to the contractual adjustment, discount and implicit price concession estimates and management's review and consideration of retrospective analyses of historical expected cash collections compared to subsequent actual collections.

To test the revenue recognized, we performed audit procedures that included, among others, testing the validity of a sample of revenue transactions and the completeness and accuracy of data inputs to the estimates of contractual adjustments, discounts and implicit price concessions, including payor contractual terms and historical collection experience. We assessed the historical accuracy of management's estimates based on subsequent collection experience and used the assessment as a source of potential corroborative or contrary evidence supporting management's assumptions of future collections of existing accounts receivable.

### **Valuation of Goodwill**

*Description of the Matter* At December 31, 2020, the Company had goodwill recorded of \$2.1 billion associated with the U.S. Facilities. As discussed in Note 2 of the consolidated financial statements, impairment of goodwill is evaluated at least annually at the reporting unit level or more frequently if events indicate that the carrying value of a reporting unit may not be recoverable. During 2020 the Company had two reporting units, U.S. Facilities and U.K. Facilities. During 2020, the Company recorded an impairment charge of \$356.2 million to fully impair the remaining goodwill associated with the U.K. Facilities. This impairment charge is presented within loss from discontinued operations in the consolidated statement of operations.

Auditing management's goodwill impairment evaluation was complex and judgmental due to the significant estimation required in determining the fair value of the reporting units. In particular, the fair value estimates were sensitive to significant assumptions around (i) internal forecast of future cash flows, which included estimates of growth rates and profitability over future periods, plus a terminal value, discounted to present value using a risk-adjusted rate of return, and (ii) comparisons to trading multiples of guideline companies actively traded in public markets, which included estimates of control premiums based on acquisition premiums of similar companies.

*How We Addressed the Matter in Our Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's goodwill impairment review process, including controls over management's review of the significant assumptions described above. To test the estimated fair value of the Company's reporting units, we performed audit procedures that included, among others, involving our valuation specialists to assist in assessing the appropriateness of the valuation methodologies utilized and testing the significant assumptions discussed above. We tested the completeness and accuracy of the underlying data used by the Company in its evaluation. We compared the significant assumptions used by management to past performance and assessed the historical accuracy of management's forecasts. We performed sensitivity analyses of the impact of changes to the assumptions on the resulting estimate of the fair value of the reporting units. Additionally, in order to evaluate the reasonableness of the fair value estimates, we tested management's reconciliation of the fair value of the reporting units to the market capitalization of the Company and to the proceeds received in the subsequent divestiture of the U.K. Facilities in early 2021.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2006.

Nashville, Tennessee

February 26, 2021

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of  
Acadia Healthcare Company, Inc.

**Opinion on Internal Control over Financial Reporting**

We have audited Acadia Healthcare Company, Inc.'s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Acadia Healthcare Company, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Acadia Healthcare Company, Inc. as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income (loss), equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated February 26, 2021 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Nashville, Tennessee  
February 26, 2021



**Acadia Healthcare Company, Inc.**  
**Consolidated Balance Sheets**

December 31,			
2020		2019	
(In thousands, except share and per share amounts)			
\$	378,697	\$	99,535
	273,551		288,863
	61,332		64,967
	1,809,815		88,846
	2,523,395		542,211
	1,622,896		1,499,587
	2,105,264		2,085,104
	68,535		68,826
	3,209		3,339
	96,937		97,795
	79,126		55,106
	—		2,527,174
\$	6,499,362	\$	6,879,142
\$	153,478	\$	43,679
	87,815		90,257
	124,912		93,595
	18,916		18,119
	178,453		69,234
	84,584		—
	660,027		148,692
	1,308,185		463,576
	2,968,948		3,105,420
	50,017		22,820
	84,029		85,643
	—		68,915
	133,412		107,152
	—		487,084
	4,544,591		4,340,610
	55,315		33,151
	—		—
	880		877
	2,580,327		2,557,642
	(371,365)		(414,884)
	(310,386)		361,746
	1,899,456		2,505,381
\$	6,499,362	\$	6,879,142

See accompanying notes.

**Acadia Healthcare Company, Inc.**  
**Consolidated Statements of Operations**

	Year Ended December 31,		
	2020	2019	2018
	(In thousands, except per share amounts)		
Revenue	\$ 2,089,929	\$ 2,008,381	\$ 1,904,695
Salaries, wages and benefits (including equity-based compensation expense of \$22,504, \$17,307 and \$22,001, respectively)	1,154,522	1,107,357	1,049,317
Professional fees	120,489	118,451	110,049
Supplies	87,241	85,534	81,462
Rents and leases	37,362	35,486	34,315
Other operating expenses	262,272	259,536	243,671
Other income	(32,819)	—	—
Depreciation and amortization	95,256	87,923	80,342
Interest expense, net	158,105	187,325	184,534
Debt extinguishment costs	7,233	—	1,815
Legal settlements expense	—	—	22,076
Loss on impairment	4,751	27,217	—
Transaction-related expenses	11,720	21,157	29,719
Total expenses	<u>1,906,132</u>	<u>1,929,986</u>	<u>1,837,300</u>
Income from continuing operations before income taxes	183,797	78,395	67,395
Provision for income taxes	40,606	25,085	9,907
Income from continuing operations	143,191	53,310	57,488
(Loss) income from discontinued operations, net of taxes	(812,390)	56,812	(232,974)
Net (loss) income	(669,199)	110,122	(175,486)
Net income attributable to noncontrolling interests	(2,933)	(1,199)	(264)
Net (loss) income attributable to Acadia Healthcare Company, Inc.	<u>\$ (672,132)</u>	<u>\$ 108,923</u>	<u>\$ (175,750)</u>
Basic earnings (loss) per share attributable to Acadia Healthcare Company, Inc. stockholders:			
Income from continuing operations attributable to Acadia Healthcare Company, Inc.	\$ 1.60	\$ 0.59	\$ 0.66
(Loss) income from discontinued operations	(9.25)	0.65	(2.67)
Net (loss) income attributable to Acadia Healthcare Company, Inc.	<u>\$ (7.65)</u>	<u>\$ 1.24</u>	<u>\$ (2.01)</u>
Diluted earnings (loss) per share attributable to Acadia Healthcare Company, Inc. stockholders:			
Income from continuing operations attributable to Acadia Healthcare Company, Inc.	\$ 1.58	\$ 0.59	\$ 0.65
(Loss) income from discontinued operations	(9.17)	0.65	(2.66)
Net (loss) income attributable to Acadia Healthcare Company, Inc.	<u>\$ (7.59)</u>	<u>\$ 1.24</u>	<u>\$ (2.01)</u>
Weighted-average shares outstanding:			
Basic	87,875	87,612	87,288
Diluted	88,595	87,816	87,415

See accompanying notes.

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

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Net (loss) income	\$ (669,199)	\$ 110,122	\$ (175,486)
Other comprehensive income (loss):			
Foreign currency translation gain (loss)	61,247	69,811	(127,521)
(Loss) gain on derivative instruments, net of tax of \$(3.9) million, \$(3.6) million and \$12.7 million, respectively	(11,272)	(19,008)	36,799
Pension liability adjustment, net of tax of \$(0.8) million, \$(0.6) million and \$0.3 million, respectively	(6,456)	(3,310)	2,463
Other comprehensive income (loss)	43,519	47,493	(88,259)
Comprehensive (loss) income	(625,680)	157,615	(263,745)
Comprehensive (income) loss attributable to noncontrolling interests	(2,933)	(1,199)	(264)
Comprehensive (loss) income attributable to Acadia Healthcare Company, Inc.	<u>\$ (628,613)</u>	<u>\$ 156,416</u>	<u>\$ (264,009)</u>

See accompanying notes.

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

	Common Stock		Additional Paid- in Capital	Accumulated Other Comprehensive Loss	(Accumulated Deficit) Retained Earnings	Total
	Shares	Amount				
Balance at January 1, 2018	87,060	\$ 871	\$ 2,517,545	\$ (374,118)	\$ 428,573	\$ 2,572,871
Common stock issued under stock incentive plans	384	3	371	—	—	374
Common stock withheld for minimum statutory taxes	—	—	(3,781)	—	—	(3,781)
Equity-based compensation expense	—	—	22,001	—	—	22,001
Other comprehensive income	—	—	—	(88,259)	—	(88,259)
Other	—	—	5,851	—	—	5,851
Net loss attributable to Acadia Healthcare Company, Inc. stockholders	—	—	—	—	(175,750)	(175,750)
Balance at December 31, 2018	87,444	874	2,541,987	(462,377)	252,823	2,333,307
Common stock issued under stock incentive plans	271	3	566	—	—	569
Common stock withheld for minimum statutory taxes	—	—	(2,218)	—	—	(2,218)
Equity-based compensation expense	—	—	17,307	—	—	17,307
Other comprehensive income	—	—	—	47,493	—	47,493
Net income attributable to Acadia Healthcare Company, Inc. stockholders	—	—	—	—	108,923	108,923
Balance at December 31, 2019	87,715	877	2,557,642	(414,884)	361,746	2,505,381
Common stock issued under stock incentive plans	309	3	2,024	—	—	2,027
Common stock withheld for minimum statutory taxes	—	—	(1,843)	—	—	(1,843)
Equity-based compensation expense	—	—	22,504	—	—	22,504
Other comprehensive income	—	—	—	43,519	—	43,519
Net loss attributable to Acadia Healthcare Company, Inc. stockholders	—	—	—	—	(672,132)	(672,132)
Balance at December 31, 2020	88,024	\$ 880	\$ 2,580,327	\$ (371,365)	\$ (310,386)	\$ 1,899,456

See accompanying notes.



**Acadia Healthcare Company, Inc.**  
**Consolidated Statements of Cash Flows**

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
<b>Operating activities:</b>			
Net (loss) income	\$ (669,199)	\$ 110,122	\$ (175,486)
<b>Adjustments to reconcile net income (loss) to net cash provided by continuing operating activities:</b>			
Depreciation and amortization	95,256	87,923	80,342
Amortization of debt issuance costs	12,636	11,987	10,456
Equity-based compensation expense	22,504	17,307	22,001
Deferred income taxes	53,108	1,089	(6,737)
Loss (income) from discontinued operations, net of taxes	812,390	(56,812)	232,974
Debt extinguishment costs	7,233	—	1,815
Legal settlements expense	—	—	22,076
Loss on impairment	4,751	27,217	—
Other	1,041	3,916	12,505
Change in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable, net	15,340	(18,714)	(19,702)
Other current assets	9,675	(501)	14,447
Other assets	1,519	(2,372)	2,725
Accounts payable and other accrued liabilities	77,993	(20,135)	7,701
Accrued salaries and benefits	9,632	5,540	15,883
Other liabilities	48,965	16,862	4,941
Net cash provided by continuing operating activities	502,844	183,429	225,941
Net cash provided by discontinued operating activities	155,963	149,475	188,139
Net cash provided by operating activities	658,807	332,904	414,080
<b>Investing activities:</b>			
Cash paid for acquisitions, net of cash acquired	—	(44,900)	—
Cash paid for capital expenditures	(216,615)	(225,061)	(253,187)
Cash paid for real estate acquisitions	(8,349)	(7,618)	(18,383)
Proceeds from sale of property and equipment	92	11,765	—
Settlement of foreign currency derivatives	—	105,008	—
Other	(13,365)	12,975	(4,198)
Net cash used in continuing investing activities	(238,237)	(147,831)	(275,768)
Net cash used in discontinued investing activities	(43,602)	(53,310)	(85,196)
Net cash used in investing activities	(281,839)	(201,141)	(360,964)
<b>Financing activities:</b>			
Borrowings on long-term debt	925,000	—	—
Borrowings on revolving credit facility	100,000	76,573	—
Principal payments on revolving credit facility	(100,000)	(76,573)	—
Principal payments on long-term debt	(41,291)	(52,984)	(39,738)
Repayment of long-term debt	(909,785)	—	(21,920)
Payment of debt issuance costs	(18,295)	—	—
Common stock withheld for minimum statutory taxes, net	184	(1,648)	(3,407)
Distributions to noncontrolling interests	(916)	(154)	—
Other	(3,146)	(4,369)	828
Net cash used in continuing financing activities	(48,249)	(59,155)	(64,237)
Net cash used in discontinued financing activities	(3,250)	(2,472)	(3,093)
Net cash used in financing activities	(51,499)	(61,627)	(67,330)
Effect of exchange rate changes on cash	4,087	3,546	(2,566)
Net increase (decrease) in cash and cash equivalents, including cash classified within current assets held for sale	329,556	73,682	(16,780)
Less: cash classified within current assets held for sale	(75,051)	(24,657)	(20,318)
Net increase in cash and cash equivalents	254,505	49,025	(37,098)
Cash and cash equivalents at beginning of the period	124,192	50,510	67,290
Cash and cash equivalents at end of the period	\$ 378,697	\$ 99,535	\$ 30,192
<b>Supplemental Cash Flow Information:</b>			
Cash paid for interest	\$ 137,578	\$ 173,239	\$ 175,204
Cash (received) paid for income taxes	\$ (16,486)	\$ 31,915	\$ 6,136
<b>Effect of acquisitions:</b>			
Assets acquired, excluding cash	\$ 20,200	\$ 48,594	\$ —
Liabilities assumed	(53)	(3,694)	—
Redeemable noncontrolling interest resulting from an acquisition	(20,147)	—	—
Cash paid for acquisitions, net of cash acquired	\$ —	\$ 44,900	\$ —

See accompanying notes.

**Acadia Healthcare Company, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020**

**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 in which the Company operates. At December 31, 2020, the Company operated 572 behavioral healthcare facilities with approximately 18,100 beds in 40 states, the United Kingdom ("U.K.") and Puerto Rico.

On January 19, 2021, the Company completed the sale of its U.K. operations to RemedcoUK Limited, a company organized under the laws of England and Wales and owned by funds managed or advised by Waterland Private Equity Fund VII (the "U.K. Sale"). The U.K. Sale allows us to reduce our indebtedness and focus on our United States ("U.S.") operations. As a result of the U.K. Sale, the Company reported, for all periods presented, results of operations and cash flows of the U.K. operations as discontinued operations in the accompanying financial statements. See Note 3 – U.K. Sale.

***Basis of Presentation***

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

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). 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. The majority of the Company's expenses are "cost of revenue" items. Costs that could be classified as general and administrative expenses include the Company's corporate office costs, which were \$97.8 million, \$90.4 million and \$86.6 million for the years ended December 31, 2020, 2019 and 2018, respectively.

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

**2. Summary of Significant Accounting Policies**

***Cash and Cash Equivalents***

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. At times, cash and cash equivalent balances may exceed federally insured limits. Management believes that the Company mitigates any risks by depositing cash and investing in cash equivalents with major financial institutions.

***Insurance***

The Company is subject to medical malpractice and other lawsuits due to the nature of the services the Company provides. A portion of the Company's professional liability risks are insured through a wholly-owned insurance subsidiary. The Company is self-insured for professional liability claims up to \$3.0 million per claim and has obtained reinsurance coverage from a third party to cover claims in excess of the retention limit. The reinsurance policy has a coverage limit of \$75.0 million in the aggregate. The Company's reinsurance receivables are recognized consistent with the related liabilities and include known claims and any incurred but not reported claims that are covered by current insurance policies in place. The reserve for professional and general liability risks was estimated based on historical claims, demographic factors, industry trends, severity factors, and other actuarial assumptions. The estimated accrual for professional and general liabilities could be significantly affected should current and future occurrences differ from historical claim trends and expectations. While claims are monitored closely when estimating professional and general liability accruals, the complexity of the claims and wide range of potential outcomes often hampers timely adjustments to the assumptions used in these estimates. The professional and general liability reserve was \$77.5 million at December 31, 2020, of which \$9.7 million was included in other accrued liabilities and \$67.8 million was included in other long-term liabilities. The professional and general liability reserve was \$52.6 million at December 31, 2019, of which \$4.7 million was included in other accrued liabilities and \$47.9 million was included in other long-term liabilities. The Company estimates receivables for the portion of professional and general liability reserves that are recoverable under the Company's insurance policies. Such receivable was

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\$27.2 million at December 31, 2020, of which \$6.8 million was included in other current assets and \$20.4 million was included in other assets, and such receivable was \$8.5 million at December 31, 2019, of which \$3.0 million was included in other current assets and \$5.5 million was included in other assets.

The Company's statutory workers' compensation program is fully insured with a \$0.5 million deductible per accident. The workers' compensation liability was \$23.0 million at December 31, 2020, of which \$12.0 million was included in accrued salaries and benefits and \$11.0 million was included in other long-term liabilities, and such liability was \$20.8 million at December 31, 2019, of which \$10.0 million was included in accrued salaries and benefits and \$10.8 million was included in other long-term liabilities. The reserve for workers compensation claims was based upon independent actuarial estimates of future amounts that will be paid to claimants. Management believes that adequate provisions have been made for workers' compensation and professional and general liability risk exposures.

### ***Property and Equipment and Other Long-Lived Assets***

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets, which typically range from 10 to 50 years for buildings and improvements, three to seven years for equipment and the shorter of the lease term or estimated useful lives for leasehold improvements. When assets are sold or retired, the corresponding cost and accumulated depreciation are removed from the related accounts and any gain or loss is recorded in the period of sale or retirement. Repair and maintenance costs are expensed as incurred. Depreciation expense was \$95.3 million, \$87.9 million and \$80.3 million for the years ended years ended December 31, 2020, 2019 and 2018, respectively.

The carrying values of long-lived assets are reviewed for possible impairment whenever events, circumstances or operating results indicate that the carrying amount of an asset may not be recoverable. If this review indicates that the asset will not be recoverable, as determined based upon the undiscounted cash flows of the operating asset over the remaining useful lives, the carrying value of the asset will be reduced to its estimated fair value. Fair value estimates are based on independent appraisals, market values of comparable assets or internal evaluations of future net cash flows.

The Company performed an impairment review of long-lived assets in the fourth quarters of 2020 and 2019, which indicated the carrying amounts of certain of the Company's long-lived assets in facilities in the U.S. (the "U.S. Facilities") may not be recoverable. This created a non-cash impairment of \$4.2 million and \$27.2 million for the years ended December 31, 2020 and 2019, respectively. These items were recorded in loss on impairment on our consolidated statements of operations. No impairment was recorded for the year ended December 31, 2018.

### ***Goodwill and Indefinite-Lived Intangible Assets***

The Company's goodwill and other indefinite-lived intangible assets, which consist of licenses and accreditations, trade names and certificates of need intangible assets that are not amortized, are evaluated for impairment annually during the fourth quarter or more frequently if events indicate the carrying value of a reporting unit may not be recoverable. As of the Company's annual impairment test on October 1, 2020, we had two operating segments for segment reporting purposes, U.S. Facilities and facilities in the U.K. (the "U.K. Facilities"), each of which represents a reporting unit for purposes of the Company's goodwill impairment test.

The Company's annual goodwill impairment and other indefinite-lived intangible assets test performed as of October 1, 2020 considered recent financial performance, including the impacts of COVID-19 on certain portions of the U.K. business. The 2020 impairment test of the U.K. Facilities indicated carrying value of the reporting unit exceeded the estimated fair value and resulted in a non-cash loss on impairment of the remaining goodwill of the U.K. Facilities of \$356.2 million. The non-cash loss impairment is included in loss on sale within discontinued operations in the consolidated statements of operations. As of the Company's impairment test on October 1, 2020, the fair value of our U.S. Facilities reporting unit substantially exceeded its carrying value, and therefore no impairment was recorded. Additionally, for the year ended December 31, 2020, the Company recorded a non-cash impairment charge of \$0.6 million related to indefinite-lived assets related to closed facilities in the U.S., which is included in loss on impairment in the consolidated statements of operations.

Due to the classification of the U.K. Facilities in discontinued operations at December 31, 2020, the Company now has one operating segment, behavioral health services, for segment reporting purposes. The behavioral healthcare services operating segment represents one reporting unit for future goodwill impairment tests.

### Other Current Assets

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

	December 31,	
	2020	2019
Prepaid expenses	\$ 19,480	\$ 17,343
Workers' compensation deposits – current portion	12,000	10,000
Other receivables	10,025	10,661
Insurance receivable – current portion	6,792	3,030
Cost report receivable	5,818	13,723
Inventory	4,851	4,075
Income taxes receivable	897	4,786
Other	1,469	1,349
Other current assets	<u>\$ 61,332</u>	<u>\$ 64,967</u>

### Other Accrued Liabilities

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

	December 31,	
	2020	2019
Accrued interest	\$ 40,479	\$ 33,323
Unearned income	35,946	1,895
Finance lease liabilities	32,188	3,765
Accrued expenses	28,452	18,595
Income taxes payable	16,345	—
Insurance liability – current portion	9,700	4,731
Accrued property taxes	6,763	4,755
Government relief funds	5,495	—
Other	3,085	2,170
Other accrued liabilities	<u>\$ 178,453</u>	<u>\$ 69,234</u>

### Stock Compensation

The Company measures and recognizes the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 718, “*Compensation—Stock Compensation*.” The Company uses the Black-Scholes valuation model to determine grant-date fair value for stock options and recognizes straight-line amortization of share-based compensation expense over the requisite service period of the respective awards. The fair values of restricted stock units are determined based on the closing price of the Company’s common stock on the trading date immediately prior to the grant date for units subject to performance conditions, or at their Monte-Carlo simulation value for units subject to market conditions.

### Earnings Per Share

Basic and diluted earnings per share are calculated in accordance with FASB ASC 260, “*Earnings Per Share*,” based on the weighted-average number of shares outstanding in each period and dilutive stock options and non-vested shares, to the extent such securities have a dilutive effect on earnings per share.

### Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and net operating loss and tax credit carryforwards. The amount of deferred taxes on these temporary differences is determined using the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, as applicable, based on tax rates and laws in the respective tax jurisdiction enacted as of the balance sheet date.



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The Company reviews its deferred tax assets for recoverability and establishes a valuation allowance based on historical taxable income, projected future taxable income, applicable tax strategies, and the expected timing of the reversals of existing temporary differences. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company records a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

The Company has accruals for taxes and associated interest that may become payable in future years as a result of audits by tax authorities. The Company accrues for tax contingencies when it is more likely than not that a liability to a taxing authority has been incurred and the amount of the contingency can be reasonably estimated. Although Management believes that the positions taken on previously filed tax returns are reasonable, we nevertheless have established tax and interest reserves in recognition that various taxing authorities may challenge the positions taken by us resulting in additional liabilities for taxes and interest. These amounts are reviewed as circumstances warrant and adjusted as events occur that affect our potential liability for additional taxes, such as lapsing of applicable statutes of limitations, conclusion of tax audits, additional exposure based on current calculations, identification of new issues, release of administrative guidance, or rendering of a court decision affecting a particular tax issue.

### **Recent Accounting Pronouncements**

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

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" ("ASU 2020-04"). ASU 2020-04 provides optional guidance for a limited period of time to ease the potential burden in accounting for or recognizing the effects of reference rate reform on financial reporting and applies only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-04 is effective as of March 12, 2020 through December 31, 2022. Entities may adopt ASU 2020-04 as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020 or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Management is evaluating the impact of ASU 2020-04 on the Company's consolidated financial statements.

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

In August 2017, FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"). ASU 2017-12 amends the hedge accounting model to enable entities to better portray the economics of their risk management activities in the financial statements and simplifies the application of hedge accounting in certain situations. ASU 2017-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company adopted ASU 2017-12 on January 1, 2019. There is no significant impact on the Company's consolidated financial statements.

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

### 3. U.K. Sale

On January 19, 2021, the Company completed the U.K. Sale pursuant to a Share Purchase Agreement in which it sold all of the securities of AHC-WW Jersey Limited, a private limited liability company incorporated in Jersey and a subsidiary of the Company, which constitutes the entirety of our U.K. business operations. The U.K. Sale resulted in approximately \$1,525 million of gross proceeds before deducting the settlement of existing foreign currency hedging liabilities of \$85 million based on the current British Pounds ("GBP") to US Dollars ("USD") exchange rate, cash retained by the buyer of approximately \$75 million and transaction costs of \$16 million. The Company used the net proceeds of approximately \$1,425 million (or \$1,350 million, net of cash retained by the buyer) to repay in full the outstanding balances of its Term Loan A Facility (the "TLA Facility") of \$312 million and its Term Loan B facility Tranche B-4 (the "Tranche B-4 Facility") of \$768 million of the Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") and added \$345 million of cash to the Company's balance sheet. In addition to reducing its indebtedness, the U.K. Sale allows the Company to focus on U.S. operations.

As a result of the U.K. Sale, the Company reported, for all periods presented, results of operations and cash flows of the U.K. operations as discontinued operations in the accompanying financial statements. In December 2020, the Company's U.K. operations met the criteria to be classified as assets held for sale. The carrying value of the U.K. operations was written down to fair value less costs to sell in the consolidated balance sheets at December 31, 2020. This resulted in a loss on sale of \$867.3 million, which includes approximately \$356.2 million of non-cash goodwill impairment, within discontinued operations in the consolidated statements of operations.

For the years ended December 31, 2020, 2019 and 2018, results of operations of the U.K. operations were as follows (in thousands):

	Year Ended December 31,		
	2020	2019	2018
Revenue	\$ 1,119,768	\$ 1,099,081	\$ 1,107,747
Salaries, wages and benefits	632,134	609,823	610,031
Professional fees	127,291	122,532	117,376
Supplies	38,285	37,527	37,852
Rents and leases	47,748	46,743	45,967
Other operating expenses	113,534	115,897	110,827
Depreciation and amortization	74,935	76,121	78,490
Interest expense, net	(417)	(231)	876
Loss on sale	867,324	—	—
Loss on impairment	20,239	27,169	337,889
Transaction-related expenses	8,719	5,907	4,788
Total expenses	1,929,792	1,041,488	1,344,096
(Loss) income from discontinued operations before income taxes	(810,024)	57,593	(236,349)
Provision for (benefit from) income taxes	2,366	781	(3,375)
(Loss) income from discontinued operations	\$ (812,390)	\$ 56,812	\$ (232,974)

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The major classes of assets and liabilities for the U.K. operations are shown below (in thousands):

	December 31,	
	2020	2019
Cash and cash equivalents	\$ 75,051	\$ 24,657
Accounts receivable, net	52,196	50,912
Other current assets	13,361	13,277
Current assets of discontinued operations	140,608	88,846
Property and equipment, net	1,297,923	1,724,447
Goodwill	—	364,027
Intangible assets, net	22,289	21,531
Operating lease right-of-use assets	341,289	404,042
Other assets	7,706	13,127
Total assets of discontinued operations	1,809,815	2,616,020
Current liabilities:		
Accounts payable	\$ 44,929	\$ 36,788
Current portion of operating lease liabilities	11,141	11,021
Other current liabilities	136,895	100,883
Current liabilities of discontinued operations	192,965	148,692
Operating lease liabilities	387,607	416,609
Deferred tax liabilities	57,230	49,040
Other liabilities	22,225	21,435
Total liabilities of discontinued operations	\$ 660,027	\$ 635,776

As part of the acquisition of Partnerships in Care on July 1, 2014, the Company assumed a frozen contributory defined benefit retirement plan ("Partnerships in Care Pension Plan") covering substantially all of the employees of Partnerships in Care and its subsidiaries prior to May 1, 2005 at which time, the Partnerships in Care Plan was frozen to new participants. Effective May 2015, the active participants no longer accrue benefits. The Company recognizes the unfunded liability of the Partnerships in Care Pension Plan on the Company's consolidated balance sheet and unrecognized gains (losses) and prior service credits (costs) as changes in other comprehensive income (loss). The measurement date of the Partnerships in Care Pension Plan's assets and liabilities coincides with the Company's year-end. The Company's pension benefit obligation is measured using actuarial calculations that incorporate discount rates, rate of compensation increases, when applicable, expected long-term returns on plan assets and consider expected age of retirement and mortality. Expected return on plan assets is determined by using the specific asset distribution at the measurement date.

The following table summarizes the funded status (unfunded liability) of the Partnerships in Care Pension Plan based upon actuarial valuations prepared at December 31, 2020 and 2019 (in thousands). The unfunded liability for the Partnership in Care Pension Plan is included in current liabilities held for sale and noncurrent liabilities held for sale, respectively, on the consolidated balance sheets at December 31, 2020 and 2019. The Company's obligation to maintain the Partnership in Care Pension Plan terminated effective January 19, 2021 in connection with the U.K. Sale.

	2020	2019
Projected benefit obligation	\$ 80,158	\$ 66,468
Fair value of plan assets	71,979	62,207
Unfunded liability	\$ 8,179	\$ 4,261

The consolidated cash flows for the years ended December 31, 2020 and 2019 related to the discontinued U.K. operations includes cash paid for capital expenditures of \$48.4 million and \$59.6 million, respectively.

#### 4. The CARES Act

As part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), the U.S. government announced it would offer \$100 billion of relief to eligible healthcare providers. On April 24, 2020, President Trump signed into law the Paycheck Protection Program and Health Care Enhancement Act (the "New PPP Act"). Among other things, the New PPP Act allocates \$75 billion to eligible healthcare providers to help offset COVID-19 related losses and expenses. The \$75 billion allocated under the New PPP Act is in addition to the \$100 billion allocated to healthcare providers for the same purposes in the CARES Act and has been disbursed to providers under terms and conditions similar to the CARES Act funds. During the three months ended June 30, 2020, the Company participated in certain relief programs offered through the CARES Act, including receipt of approximately \$19.7 million relating to the initial portions of the Public Health and Social Services Emergency Fund ("PHSSE Fund"), also known as the Provider Relief Fund, and approximately \$45 million of payments from the Centers for Medicare and Medicaid Services' ("CMS") Accelerated and Advance Payment Program. The Company expects to repay these funds over a 12-month period beginning in April 2021. Once repayment begins, the amount will be recouped from the Company's new Medicare claims. In August 2020, the Company received approximately \$12.8 million of additional funds from the PHSSE Fund. In addition, the Company received a 2% increase in facilities' Medicare reimbursement rate as a result of the temporary suspension of Medicare sequestration from May 1, 2020, to March 31, 2021.

The CARES Act also provides for certain federal income and other tax changes, including an increase in the interest expense tax deduction limitation and bonus depreciation of qualified improvement property. Furthermore, under the CARES Act, (i) for taxable years beginning before 2021, net operating loss ("NOL") carryforwards and carrybacks may offset 100% of taxable income and (ii) NOLs arising in 2018, 2019 and 2020 taxable years may be carried back to each of the preceding five years to generate a refund. As a result, in 2019 and 2020 the Company received a benefit, in the form of refunds and lower future tax payments, of \$51.6 million, consisting of \$22.8 million related to interest expense, \$20.5 million related to qualified improvement property legislation and an \$8.3 million permanent benefit due to the loss being able to be carried back at a 35% tax rate to offset income in tax years prior to 2018 (21% for tax years after 2017). The Company also received a cash benefit of approximately \$39 million for 2020 relating to the delay of payment of the employer portion of Social Security payroll taxes, as enacted by the CARES Act.

During the fourth quarter of 2020, the Company recorded \$32.8 million of other income in the consolidated statement of operations related to \$34.9 million of PHSSE funds received from April through December 2020. The Company's recognition of this income was based on revised guidance in the Consolidated Appropriations Act, 2021 enacted in December 2020. The Company continues to evaluate its compliance with the terms and conditions to, and the financial impact of, funds received under the CARES Act and other government relief programs.

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

At December 31, 2020 and 2019, estimated implicit price concessions of \$62.1 million and \$45.9 million, respectively, had been recorded as reductions to our accounts receivable balances to enable us to record our revenues and accounts receivable at the estimated amounts we expected to collect. The adoption of ASU 2014-09 did not have a significant impact on the Company's consolidated statements of operations.

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



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

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

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

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

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

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

	Year Ended December 31,		
	2020	2019	2018
Acute inpatient psychiatric facilities	\$ 984,609	\$ 912,097	\$ 814,124
Specialty treatment facilities	802,022	788,232	761,017
Residential treatment centers	281,158	286,959	293,053
Outpatient community-based facilities	22,140	21,093	36,501
Revenue	<u>\$ 2,089,929</u>	<u>\$ 2,008,381</u>	<u>\$ 1,904,695</u>

The Company receives payments from the following sources for services rendered in our U.S. Facilities: (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers; (iii) the federal government under the Medicare program administered by 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 our U.S. Facilities have contracts containing variable consideration. However, it is unlikely a significant reversal of revenue will occur when the uncertainty is resolved, and therefore, the Company has included the variable consideration in the estimated transaction price. Subsequent changes resulting from a patient's ability to pay are recorded as bad debt expense, which is included as a component of other operating expenses in the consolidated statements of operations. Bad debt expense for the years ended December 31, 2020 and 2019 was not significant.

The Company derives a significant portion of its revenue from Medicare, Medicaid and other payors that receive discounts from established billing rates. The Medicare and Medicaid regulations and various managed care contracts under which these discounts must be estimated are complex, subject to interpretation and adjustment, and may include multiple reimbursement mechanisms for different types of services provided in the Company's facilities and cost settlement provisions. Management estimates the transaction price on a payor-specific basis given its interpretation of the applicable regulations or contract terms. The services authorized and provided and related reimbursement are often subject to interpretation that could result in payments that differ from the Company's estimates. Additionally, updated regulations and contract renegotiations occur frequently, necessitating regular review and assessment of the estimation process by management.

Settlements under cost reimbursement agreements with third-party payors are estimated and recorded in the period in which the related services are rendered and are adjusted in future periods as final settlements are determined. Final determination of amounts earned under the Medicare and Medicaid programs often occurs in subsequent years because of audits by such programs, rights of appeal and the application of numerous technical provisions. In the opinion of management, adequate provision has been made for any adjustments and final settlements. However, there can be no assurance that any such adjustments and final settlements will not have a material effect on the Company's financial condition or results of operations. The Company's cost report receivables were \$5.8 million and \$13.7 million for the years ended December 31, 2020 and 2019, respectively, and were included in other

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current assets in the consolidated balance sheets. Management believes that these receivables are properly stated and are not likely to be settled for a significantly different amount. The net adjustments to estimated cost report settlements resulted in a decrease to revenue of \$1.3 million and \$0.4 million for the years ended December 31, 2020 and 2019, respectively, and an increase to revenue of \$0.5 million for the year ended December 31, 2018.

The Company provides care without charge to patients who are financially unable to pay for the healthcare services they receive based on Company policies and federal and state poverty thresholds. Such amounts determined to qualify as charity care are not reported as revenue. The cost of providing charity care services were \$4.4 million, \$4.3 million and \$4.7 million for the years ended December 31, 2020, 2019 and 2018, respectively. The estimated cost of charity care services was determined using a ratio of cost to gross charges determined from our most recently filed Medicare cost reports and applying that ratio to the gross charges associated with providing charity care for the period.

The following table presents revenue by payor type and as a percentage of revenue in our U.S. Facilities for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	Year Ended December 31,					
	2020		2019		2018	
	Amount	%	Amount	%	Amount	%
Commercial	\$ 596,698	28.5%	\$ 565,350	28.2%	\$ 573,089	30.1%
Medicare	330,070	15.8%	294,691	14.7%	280,340	14.7%
Medicaid	1,037,852	49.7%	1,007,102	50.1%	893,644	46.9%
Self-Pay	98,302	4.7%	118,716	5.9%	134,054	7.1%
Other	27,007	1.3%	22,522	1.1%	23,568	1.2%
Revenue	<u>\$ 2,089,929</u>	<u>100.0%</u>	<u>\$ 2,008,381</u>	<u>100.0%</u>	<u>\$ 1,904,695</u>	<u>100.0%</u>

Contract liabilities in the U.S. Facilities primarily consisted of unearned revenue from CMS' Accelerated and Advance Payment Program. In April 2020, the Company received approximately \$45 million from CMS' Accelerated and Advance Payment Program for Medicare providers, which the Company expects to repay over the 12 month period beginning in April 2021. Once repayment begins, the amount will be recouped from the provider's or supplier's new Medicare claims. Approximately \$35.9 million and \$11.3 million of contract liabilities are included in other accrued liabilities and other liabilities, respectively, on the consolidated balance sheets. A summary of the activity in unearned revenue in the U.S. Facilities is as follows (in thousands):

Balance at December 31, 2019	\$ 1,895
Payments received	51,044
Revenue recognized	(5,743)
Balance at December 31, 2020	<u>\$ 47,196</u>

## 6. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share for the years ended December 31, 2020, 2019 and 2018 (in thousands, except per share amounts):

	Year Ended December 31,		
	2020	2019	2018
<b>Numerator:</b>			
Income from continuing operations attributable to Acadia Healthcare Company, Inc.	\$ 140,258	\$ 52,111	\$ 57,224
(Loss) income from discontinued operations	(812,390)	56,812	(232,974)
Net (loss) income attributable to Acadia Healthcare Company, Inc.	<u>\$ (672,132)</u>	<u>\$ 108,923</u>	<u>\$ (175,750)</u>
<b>Denominator:</b>			
Weighted average shares outstanding for basic earnings per share	87,875	87,612	87,288
Effects of dilutive instruments	720	204	127
Shares used in computing diluted earnings per common share	<u>88,595</u>	<u>87,816</u>	<u>87,415</u>
<b>Basic earnings (loss) per share attributable to Acadia Healthcare Company, Inc. stockholders:</b>			
Income from continuing operations attributable to Acadia Healthcare Company, Inc.	\$ 1.60	\$ 0.59	\$ 0.66
(Loss) income from discontinued operations	(9.25)	0.65	(2.67)
Net (loss) income attributable to Acadia Healthcare Company, Inc.	<u>\$ (7.65)</u>	<u>\$ 1.24</u>	<u>\$ (2.01)</u>
<b>Diluted earnings (loss) per share attributable to Acadia Healthcare Company, Inc. stockholders:</b>			
Income from continuing operations attributable to Acadia Healthcare Company, Inc.	\$ 1.58	\$ 0.59	\$ 0.65
(Loss) income from discontinued operations	(9.17)	0.65	(2.66)
Net (loss) income attributable to Acadia Healthcare Company, Inc.	<u>\$ (7.59)</u>	<u>\$ 1.24</u>	<u>\$ (2.01)</u>

Approximately 1.9 million, 2.2 million and 1.9 million shares of common stock issuable upon exercise of outstanding stock options were excluded from the calculation of diluted earnings per share for the years ended December 31, 2020, 2019 and 2018, respectively, because their effect would have been anti-dilutive.

## 7. Acquisitions

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

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

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

## Goodwill

The following table summarizes changes in goodwill for the years 2019 and 2020 (in thousands):

Balance at January 1, 2019	\$	2,044,837
Increase from contribution of redeemable noncontrolling interests		3,300
Increase from 2019 acquisitions		36,967
Goodwill at December 31, 2019		2,085,104
Increase from contribution of redeemable noncontrolling interests		20,200
Adjustments related to 2019 acquisitions		(40)
Goodwill at December 31, 2020	\$	2,105,264

## Transaction-related expenses

Transaction-related expenses represent costs primarily related to termination, restructuring, strategic review, management transition and other acquisition-related costs. Transaction-related expenses comprised the following costs for the years ended years ended December 31, 2020, 2019 and 2018 (in thousands):

	Year Ended December 31,		
	2020	2019	2018
Legal, accounting and other acquisition-related costs	\$ 8,252	\$ 3,030	\$ 3,152
Termination, restructuring and strategic review costs	3,468	12,598	12,534
Management transition costs	—	5,529	14,033
	<u>\$ 11,720</u>	<u>\$ 21,157</u>	<u>\$ 29,719</u>

## 8. Property and Equipment

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

	December 31,	
	2020	2019
Land	\$ 144,221	\$ 138,325
Building and improvements	1,490,149	1,275,610
Equipment	220,690	199,264
Construction in progress	217,479	247,467
	<u>2,072,539</u>	<u>1,860,666</u>
Less: accumulated depreciation	(449,643)	(361,079)
Property and equipment, net	<u>\$ 1,622,896</u>	<u>\$ 1,499,587</u>

During the years ended December 31, 2020 and 2019, the Company recorded non-cash impairment charges of \$4.2 million and \$27.2 million, respectively, related to the closure of certain facilities. The Company has recorded assets held for sale within other assets on the consolidated balance sheets for closed U.S. properties actively marketed of \$17.1 million and \$18.9 million at December 31, 2020 and 2019, respectively.



## 9. Other Intangible Assets

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

	Gross Carrying Amount		Accumulated Amortization	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Intangible assets subject to amortization:				
Contract intangible assets	\$ —	\$ 2,100	\$ —	\$ (2,100)
Non-compete agreements	1,131	1,131	(1,131)	(1,131)
	<u>1,131</u>	<u>3,231</u>	<u>(1,131)</u>	<u>(3,231)</u>
Intangible assets not subject to amortization:				
Licenses and accreditations	11,873	12,020	—	—
Trade names	39,526	39,735	—	—
Certificates of need	17,136	17,071	—	—
	<u>68,535</u>	<u>68,826</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 69,666</u>	<u>\$ 72,057</u>	<u>\$ (1,131)</u>	<u>\$ (3,231)</u>

All the Company's definite-lived intangible assets are fully amortized. The Company's licenses and accreditations, trade names and certificate of need intangible assets have indefinite lives and are, therefore, not subject to amortization. For the year ended December 31, 2020, the Company recorded a non-cash impairment charge of \$0.6 million related to indefinite-lived assets related to closed facilities in the U.S., which is included in loss on impairment in the consolidated statements of operations.

## 10. Leases

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

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

Operating lease liabilities are recorded at the present value of remaining lease payments not yet paid for the lease term discounted using the incremental borrowing rate associated with each lease. Operating lease right-of-use assets represent operating lease liabilities adjusted for prepayments, accrued lease payments, lease incentives and initial direct costs. Certain of the Company's leases include renewal or termination options. Calculation of operating lease right-of-use assets and liabilities include the initial lease term unless it is reasonably certain a renewal or termination option will be exercised. Variable components of lease payments fluctuating with a future index or rate, as well as those related to common area maintenance costs, are not included in determining lease payments and are expensed as incurred. Most of the Company's leases do not contain implicit borrowing rates, and therefore, incremental borrowing rates were calculated based on information available at the later of the lease commencement date. The Company reviews service agreements for embedded leases and records right-of-use assets and liabilities as necessary.

## Lease Position

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

Right-of-Use Assets	Balance Sheet Classification	December 31, 2020	December 31, 2019
Finance lease right-of-use assets	Property and equipment, net	\$ 34,621	\$ 35,489
Operating lease right-of-use assets	Operating lease right-of-use assets	96,937	97,795
Total		<u>\$ 131,558</u>	<u>\$ 133,284</u>

  

Lease Liabilities	Balance Sheet Classification	December 31, 2020	December 31, 2019
Current:			
Finance lease liabilities	Other accrued liabilities	\$ 32,188	\$ 3,765
Operating lease liabilities	Current portion of operating lease liabilities	18,916	18,119
Noncurrent:			
Finance lease liabilities	Other liabilities	10,744	39,719
Operating lease liabilities	Operating lease liabilities	84,029	85,643
Total		<u>\$ 145,877</u>	<u>\$ 147,246</u>

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

	December 31,	
	2020	2019
Weighted-average remaining lease term (in years):		
Finance	6.7	6.5
Operating	8.5	8.6
Weighted-average discount rate:		
Finance	5.9%	5.3%
Operating	6.5%	6.5%

## Lease Costs

The Company recorded the following lease costs at December 31, 2020 and 2019 (in thousands):

	December 31,	
	2020	2019
Finance lease costs:		
Depreciation of leased assets	868	907
Interest of lease liabilities	3,214	3,226
Total finance lease costs	<u>\$ 4,082</u>	<u>\$ 4,133</u>
Operating lease costs	27,050	25,630
Variable lease costs	2,501	1,966
Short term lease costs	3,558	4,790
Other lease costs	4,253	3,101
Total rents and leases	<u>\$ 37,362</u>	<u>\$ 35,487</u>
Total lease costs	<u>\$ 41,444</u>	<u>\$ 39,620</u>

**Other**

Undiscounted cash flows for finance and operating leases recorded on the consolidated balance sheet were as follows at December 31, 2020 (in thousands):

	Finance Leases	Operating Leases
2021	\$ 32,909	\$ 25,015
2022	990	21,032
2023	990	17,336
2024	1,007	14,832
2025	1,089	12,101
Thereafter	23,999	52,866
Total minimum lease payments	60,984	143,182
Less: amount of lease payments representing interest	18,052	40,237
Present value of future minimum lease payments	42,932	102,945
Less: Current portion of lease liabilities	32,188	18,916
Noncurrent lease liabilities	\$ 10,744	\$ 84,029

Supplemental data for the years ended December 31, 2020 and 2019 were as follows (in thousands):

	December 31,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 26,810	\$ 25,086
Operating cash flows for finance leases	\$ 3,214	\$ 3,226
Financing cash flows for finance leases	\$ 551	\$ 862
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 21,285	\$ 21,809
Finance leases	\$ -	\$ -

**11. Long-Term Debt**

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

	December 31,	
	2020	2019
Amended and Restated Senior Credit Facility:		
Senior Secured Term A Loan	\$ 311,733	\$ 346,750
Senior Secured Term B Loans	872,870	1,338,928
Senior Secured Revolving Line of Credit	—	—
6.125% Senior Notes due 2021	—	150,000
5.125% Senior Notes due 2022	—	300,000
5.625% Senior Notes due 2023	650,000	650,000
6.500% Senior Notes due 2024	390,000	390,000
5.500% Senior Notes due 2028	450,000	—
5.000% Senior Notes due 2029	475,000	—
Other long-term debt	3,625	4,821
Less: unamortized debt issuance costs, discount and premium	(30,802)	(31,400)
	3,122,426	3,149,099
Less: current portion	(153,478)	(43,679)
Long-term debt	\$ 2,968,948	\$ 3,105,420

**Amended and Restated Senior Credit Facility**

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

On March 22, 2018, the Company entered into a Second Repricing Facilities Amendment (the “Second Repricing Facilities Amendment”) to the Amended and Restated Credit Agreement. The Second Repricing Facilities Amendment (i) replaced the Term Loan B facility Tranche B-1 (the “Tranche B-1 Facility”) and the Term Loan B facility Tranche B-2 (the “Tranche B-2 Facility”) with a new Term Loan B facility Tranche B-3 (the “Tranche B-3 Facility”) and a new Term Loan B facility Tranche B-4 (the “Tranche B-4 Facility”), respectively, and (ii) reduced the Applicable Rate from 2.75% to 2.50% in the case of Eurodollar Rate loans and reduced the Applicable Rate from 1.75% to 1.50% in the case of Base Rate Loans.

On March 29, 2018, the Company entered into a Third Repricing Facilities Amendment to the Amended and Restated Credit Agreement (the “Third Repricing Facilities Amendment”, and together with the Second Repricing Facilities Amendment, the “Repricing Facilities Amendments”). The Third Repricing Facilities Amendment replaced the existing revolving credit facility and Term Loan A facility (“TLA Facility”) with a new revolving credit facility and TLA Facility, respectively. The Company’s line of credit on its revolving credit facility remains at \$500.0 million and the Third Repricing Facility Amendment reduced the size of the TLA Facility from \$400.0 million to \$380.0 million to reflect the then current outstanding principal. The Third Repricing Facilities Amendment reduced the Applicable Rate by 25 basis points for the revolving credit facility and the TLA Facility by amending the definition of “Applicable Rate.” In connection with the Repricing Facilities Amendments, the Company recorded a debt extinguishment charge of \$0.9 million, including the discount and write-off of deferred financing costs, which was recorded in debt extinguishment costs in the consolidated statements of operations.

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

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

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

On November 13, 2020, the Company entered into the Fourth Repricing Facilities Amendment (the “Fourth Repricing Facilities Amendment”) to the Amended and Restated Credit Agreement. The Fourth Repricing Facilities Amendment extended the maturity date of each of the existing revolving line of credit and the existing TLA Facility from November 30, 2021 to November 30, 2022. The Fourth Repricing Facilities Amendment also (1) replaced the revolving line of credit in an aggregate committed amount of \$500.0 million to an aggregate committed amount of approximately \$459.0 million and (2) replaced the TLA Facility aggregate outstanding principal amount of approximately \$352.4 million to an aggregate principal amount of approximately \$318.9 million. The interest rate margin applicable to both facilities remains unchanged from the prior facilities, and the commitment fee applicable to the new revolving line of credit also remains unchanged from the prior revolving line of credit. In connection with the Fourth Repricing Facilities Amendment, the Company recorded a debt extinguishment charge of \$1.0 million, including the write-off of discount and deferred financing costs, which was recorded in debt extinguishment costs in the consolidated statements of operations.

On January 5, 2021, the Company made a voluntary payment of \$105.0 million on the Tranche B-4 Facility. On January 19, 2021, the Company used a portion of the net proceeds from the U.K. Sale to repay \$311.7 million of its TLA Facility and \$767.9 million of its Tranche B-4 Facility of the Amended and Restated Credit Agreement.

The Company had \$441.6 million of availability under the revolving line of credit and had standby letters of credit outstanding of \$17.4 million related to security for the payment of claims required by its workers’ compensation insurance program at December 31, 2020. Borrowings under the revolving line of credit are subject to customary conditions precedent to borrowing. The Amended and Restated Credit Agreement requires quarterly term loan principal repayments of our TLA Facility of \$9.5 million



for March 31, 2021 to September 30, 2022, with the remaining principal balance of the TLA Facility due on the maturity date of November 30, 2022. The Company is required to repay the Tranche B-4 Facility in equal quarterly installments of approximately \$2.3 million on the last business day of each March, June, September and December, with the outstanding principal balance of the Tranche B-4 Facility due on February 16, 2023. On April 17, 2018, the Company made an additional payment of \$15.0 million, including \$5.1 million on the Tranche B-3 Facility and \$9.9 million on the Tranche B-4 Facility. On November 15, 2019, the Company made an additional payment of \$20.0 million, including \$7.0 million on the Tranche B-3 Facility and \$13.0 million on the Tranche B-4 Facility.

Borrowings under the Amended and Restated Senior Credit Facility are guaranteed by each of the Company's wholly-owned domestic subsidiaries (other than certain excluded subsidiaries) and are secured by a lien on substantially all of the assets of the Company and such subsidiaries. Borrowings with respect to the TLA Facility and the Company's revolving credit facility (collectively, "Pro Rata Facilities") under the Amended and Restated Credit Agreement bear interest at a rate tied to Acadia's Consolidated Leverage Ratio (defined as consolidated funded debt net of up to \$50.0 million of unrestricted and unencumbered cash to consolidated EBITDA). The Applicable Rate for the Pro Rata Facilities was 2.5% for Eurodollar Rate Loans and 1.5% for Base Rate Loans at December 31, 2020. Eurodollar Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the Eurodollar Rate (based upon the LIBOR Rate prior to commencement of the interest rate period). Base Rate Loans with respect to the Pro Rata Facilities bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. At December 31, 2020, the Pro Rata Facilities bore interest at a rate of LIBOR plus 2.5%. In addition, the Company is required to pay a commitment fee on undrawn amounts under the revolving line of credit.

The Amended and Restated Credit Agreement requires the Company and its subsidiaries to comply with customary affirmative, negative and financial covenants, including a fixed charge coverage ratio, consolidated total leverage ratio and senior secured leverage ratio. The Company may be required to pay all of its indebtedness immediately if it defaults on any of the numerous financial or other restrictive covenants contained in any of its material debt agreements. As of December 31, 2020, the Company was in compliance with such covenants.

#### **Senior Notes**

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

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

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

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

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

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

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

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

#### **6.500% Senior Notes due 2024**

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

#### **Redemption of 5.265% Senior Notes and 6.500% Senior Notes**

On January 29, 2021, the Company issued conditional notices of full redemption providing for the redemption in full of \$650 million of 5.265% Senior Notes and \$390 million of 6.500% Senior Notes to the holders of such notes. The redemption of this \$1,040 million of additional debt, along with the payment of breakage costs of \$6 million and estimated transaction costs of \$9 million, is expected to be completed in early March 2021 and to be funded from cash from the balance sheet of \$430 million and proceeds from a new senior secured credit facility of \$625 million. The Company expects to enter into a new term loan and revolver as part of a five-year senior secured credit facility.

#### **5.500% Senior Notes due 2028**

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

#### **5.000% Senior Notes due 2029**

On October 14, 2020, the Company issued \$475.0 million of 5.000% Senior Notes due 2029 (the “5.000% Senior Notes”). The 5.000% Senior Notes mature on April 15, 2029 and bear interest at a rate of 5.000% per annum, payable semi-annually in arrears on April 15 and October 15 of each year, commencing on April 15, 2021. The Company used the net proceeds of the 5.000% Senior Note to prepay approximately \$453.3 million of the outstanding borrowings on our existing Tranche B-3 Facility and used the remaining net proceeds for general corporate purposes and to pay related fees and expenses in connection with the offering. In connection with the 5.000% Senior Notes, the Company recorded a debt extinguishment charge of \$2.9 million, including the write-off of discount and deferred financing cost, which was recorded in debt extinguishment costs in the consolidated statements of operations.

The indentures governing the 5.625% Senior Notes, 6.500% Senior Notes, 5.500% Senior Notes and 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 Amended and Restated Senior Credit Facility. The guarantees are full and unconditional and joint and several.

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

#### **9.0% and 9.5% Revenue Bonds**

On November 11, 2012, in connection with the acquisition of The Pavilion at HealthPark, LLC (“Park Royal”), the Company assumed debt of \$23.0 million. The fair market value of the debt assumed was \$25.6 million and resulted in a debt premium balance being recorded as of the acquisition date. The debt consisted of \$7.5 million and \$15.5 million of Lee County (Florida) Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 with stated interest rates of 9.0% and 9.5% (“9.0% and 9.5% Revenue Bonds”), respectively.

On December 1, 2018, the Company exercised the option to redeem in whole the 9.0% and 9.5% Revenue Bonds at a redemption price equal to the sum of 104% of the principal amount of the 9.0% and 9.5% Revenue Bonds plus accrued and unpaid interest. In connection with the redemption of the 9.0% and 9.5% Revenue Bonds, the Company recorded a debt extinguishment charge of \$0.9 million, which was recorded in debt extinguishment costs in the consolidated statements of operations.

**Debt Issuance Costs**

Debt issuance costs are deferred and amortized to interest expense over the term of the related debt. Debt issuance costs at December 31, 2020 were \$29.8 million, net of accumulated amortization of \$56.0 million. Debt issuance costs at December 31, 2019 were \$29.0 million, net of accumulated amortization of \$46.2 million. Amortization expense related to debt issuance costs, which is included in interest expense on the consolidated statements of operations, was \$9.8 million, \$9.7 million and \$9.0 million, respectively, for the years ended December 31, 2020, 2019 and 2018.

**Other**

The aggregate maturities of long-term debt at December 31, 2020 were as follows (in thousands):

2021	\$ 153,478
2022	284,282
2023	1,400,468
2024	390,000
2025	—
Thereafter	925,000
Total	<u>\$ 3,153,228</u>

**12. Equity****Preferred Stock**

The Company's amended and restated certificate of incorporation provides that up to 10,000,000 shares of preferred stock may be issued. The board of directors has the authority to issue preferred stock in one or more series and to fix for each series the voting powers (full, limited or none), and the designations, preferences and relative participating, optional or other special rights and qualifications, limitations or restrictions on the stock and the number of shares constituting any series and the designations of this series, without any further vote or action by the stockholders.

**Common Stock**

The Company's amended and restated certificate of incorporation provides that up to 180,000,000 shares of common stock may be issued. Holders of the Company's common stock are entitled to one vote for each share held of record on all matters on which stockholders may vote. There are no preemptive, conversion, redemption or sinking fund provisions applicable to shares of the Company's common stock. In the event of liquidation, dissolution or winding up, holders of the Company's common stock are entitled to share ratably in the assets available for distribution, subject to any prior rights of any holders of preferred stock then outstanding. Delaware law prohibits the Company from paying any dividends unless it has capital surplus or net profits available for this purpose. In addition, the Amended and Restated Senior Credit Facility imposes restrictions on the Company's ability to pay dividends.

**13. 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 December 31, 2020, a maximum of 8,200,000 shares of the Company's common stock were authorized for issuance as stock options, restricted stock and restricted stock units or other share-based compensation under the Equity Incentive Plan, of which 974,746 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 closing price of the Company's common stock on the most recent trading date prior to the date of grant.

The Company recognized \$22.5 million, \$17.3 million and \$22.0 million in equity-based compensation expense for the years ended December 31, 2020, 2019 and 2018, respectively. Stock compensation expense for the years ended December 31, 2020, 2019 and 2018 included forfeiture adjustments and restricted stock unit adjustments based on actual performance compared to vesting

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targets of \$0.5 million, \$(6.4) million and \$(5.5) million, respectively. At December 31, 2020, there was \$36.9 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 1.2 years.

At December 31, 2020, there were no warrants outstanding. The Company recognized a deferred income tax benefit of \$5.5 million, \$4.0 million and \$6.6 million for the years ended December 31, 2020, 2019 and 2018, respectively, related to equity-based compensation expense.

### Stock Options

Stock option activity during 2018, 2019 and 2020 was as follows (aggregate intrinsic value in thousands):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2018	974,566	\$ 47.89	7.46	\$ 3,802
Options granted	374,700	37.54	9.21	246
Options exercised	(20,989)	17.83	N/A	383
Options cancelled	(128,737)	50.83	N/A	N/A
Options outstanding at December 31, 2018	1,199,540	44.64	7.26	2,717
Options granted	605,200	28.50	9.21	1,343
Options exercised	(55,671)	19.05	N/A	658
Options cancelled	(389,001)	40.84	N/A	N/A
Options outstanding at December 31, 2019	1,360,068	39.40	7.57	1,650
Options granted	507,600	33.13	9.18	157
Options exercised	(68,700)	29.15	N/A	854
Options cancelled	(288,662)	39.67	N/A	N/A
Options outstanding at December 31, 2020	1,510,306	\$ 37.56	7.35	\$ 1,414
Options exercisable at December 31, 2019	513,290	\$ 48.08	5.88	\$ 512
Options exercisable at December 31, 2020	596,606	\$ 45.37	5.55	\$ 543

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 years ended December 31, 2020, 2019 and 2018:

	Year Ended December 31,		
	2020	2019	2018
Weighted average grant-date fair value of options	\$ 12.37	\$ 17.59	\$ 13.67
Risk-free interest rate	1.6%	2.4%	2.2%
Expected volatility	41%	38%	37%
Expected life (in years)	5.0	5.0	5.1

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



**Other Stock-Based Awards**

Restricted stock activity during 2018, 2019 and 2020 was as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value
Unvested at January 1, 2018	809,868	\$ 50.19
Granted	480,137	36.84
Cancelled	(88,989)	47.57
Vested	(395,959)	50.41
Unvested at December 31, 2018	805,057	\$ 42.40
Granted	700,937	28.77
Cancelled	(389,684)	33.50
Vested	(311,174)	44.23
Unvested at December 31, 2019	805,136	\$ 34.14
Granted	637,312	25.82
Cancelled	(129,683)	34.56
Vested	(289,769)	35.88
Unvested at December 31, 2020	1,022,996	\$ 28.41

Restricted stock unit activity during 2018, 2019 and 2020 was as follows:

	Number of Units	Weighted Average Grant-Date Fair Value
Unvested at January 1, 2017	360,909	\$ 50.04
Granted	285,358	42.26
Cancelled	(89,173)	55.44
Vested	(72,983)	49.64
Unvested at December 31, 2018	484,111	\$ 44.52
Granted	234,408	34.54
Cancelled	(271,162)	45.17
Vested	—	—
Unvested at December 31, 2019	447,357	\$ 38.89
Granted	583,680	10.60
Performance adjustment	117,772	13.50
Cancelled	(63,056)	43.35
Vested	(12,691)	42.09
Unvested at December 31, 2020	1,073,062	\$ 20.15

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

Restricted stock units are granted to employees and are subject to Company performance compared to pre-established targets and Company performance compared to peers. In addition to Company performance, these performance-based restricted stock units are subject to the continuing service of the employee during the two- or three-year period covered by the awards. The performance condition for the restricted stock units is based on the Company's achievement of annually established targets for diluted earnings per share. Additionally, the number of shares issuable pursuant to restricted stock units granted during 2020 and 2019 are subject to adjustment based on the Company's three-year annualized total stockholder return relative to a peer group consisting of S&P 1500 companies within the Healthcare Providers & Services 6 digit GICS industry group and selected other companies deemed to be peers. The number of shares issuable at the end of the applicable vesting period of restricted stock units ranges from 0% to 200% of the targeted units based on the Company's actual performance compared to the targets and, for 2020 and 2019 awards, performance compared to peers.

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The fair values of restricted stock units were determined based on the closing price of the Company's common stock on the trading date immediately prior to the grant date for units subject to performance conditions, or at its Monte-Carlo simulation value for units subject to market conditions.

#### 14. Income Taxes

Provision for income taxes consists of the following for the periods presented (in thousands):

	Year Ended December 31,		
	2020	2019	2018
Current:			
Federal	\$ (18,215)	\$ 18,954	\$ 13,962
State	4,981	3,440	1,113
Foreign	732	1,602	1,569
Total current	(12,502)	23,996	16,644
Deferred:			
Federal	46,442	(1,572)	(7,176)
State	564	2,509	(10)
Foreign	6,102	152	449
Total deferred provision	53,108	1,089	(6,737)
Provision for income taxes	\$ 40,606	\$ 25,085	\$ 9,907

A reconciliation of the U.S. federal statutory rate to the effective tax rate is as follows for the periods presented:

	Year Ended December 31,		
	2020	2019	2018
U.S. federal statutory rate on income before income taxes	21.0%	21.0%	21.0%
Impact of foreign operations	(0.5)	1.1	0.6
Effects of statutory rate change	3.2	—	—
Impacts of SAB 118	—	—	(16.4)
State income taxes, net of federal tax effect	5.1	5.8	3.4
Permanent differences	1.5	3.3	9.2
Change in valuation allowance	127.4	0.6	(0.3)
Unrecognized tax benefit release	(0.4)	0.5	(0.9)
Federal tax credits	(1.0)	(2.2)	(2.3)
Basis recognition related to foreign divestiture	(129.9)	—	—
CARES Act impacts to net operating losses	(4.5)	—	—
Other	0.2	1.9	0.4
Effective income tax rate	22.1%	32.0%	14.7%

For the year ended December 31, 2020, the provision for income taxes was \$40.6 million, reflecting an effective tax rate of 22.1%, compared to \$25.1 million, reflecting an effective tax rate of 32.0%, for the year ended December 31, 2019. The decrease in the effective tax rate for the year ended December 31, 2020 was primarily attributable to the release of a state valuation allowance and permanent benefits generated from the application of federal net operating loss carryback provisions within the CARES Act. The federal net operating loss legislation within the CARES Act allows net operating losses generated in tax years 2018 through 2020 to be carried back at a 35% tax rate to offset income in tax years prior to 2018 (21% for tax years after 2017), resulting in a permanent benefit.

The domestic and foreign components of income from continuing operations before income taxes for continuing operations are as follows (in thousands):

	Year Ended December 31,		
	2020	2019	2018
Foreign	\$ 9,904	\$ 6,070	\$ 9,947
Domestic	173,893	72,325	57,448
Income from continuing operations before income taxes	\$ 183,797	\$ 78,395	\$ 67,395

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities of the Company at December 31, 2020 and December 31, 2019 were as follows (in thousands):

	December 31,	
	2020	2019
Deferred tax assets:		
Net operating losses and tax credit carryforwards – federal and state	\$ 7,682	\$ 9,913
Bad debt allowance	1,243	996
Accrued compensation and severance	20,889	14,241
Insurance reserves	18,497	16,485
Leases	846	800
Accrued expenses	11,817	1,020
Interest carryforwards	3,374	40,792
Lease right-of-use liabilities	24,402	26,375
Fixed asset basis difference	—	14,714
Basis in foreign subsidiary	239,073	—
Other assets	13,251	2,777
Total gross deferred tax assets	341,074	128,113
Less: valuation allowance	(241,225)	(6,859)
Deferred tax assets	99,849	121,254
Deferred tax liabilities:		
Fixed asset basis difference	(5,553)	—
Prepaid items	(2,960)	(2,163)
Intangible assets	(115,196)	(100,881)
Lease right-of-use assets	(22,948)	(24,898)
Other liabilities	—	(12,793)
Total deferred tax liabilities	(146,657)	(140,735)
Total net deferred tax liability	\$ (46,808)	\$ (19,481)

The Company has established a deferred tax asset related to the Company's investment in a foreign subsidiary in the amount of \$239.1 million, resulting from the divestiture of the U.K. business. This deferred tax asset was not recognized in prior years under the exception within ASC 740-30-25-9 that limits the recognition of deferred tax assets for the excess of tax basis over book basis in an investment in a subsidiary to only instances when it is apparent that the difference will reverse in the foreseeable future. As a result of the divestiture of the U.K. business, and the classification of the U.K. business as discontinued operations during the year, the Company no longer meets this exception and accordingly recognized the deferred tax asset as a component of income tax expense. Further, as this deferred tax asset is expected to result in a capital loss upon the finalization of the divestiture, the Company has concluded a full valuation allowance of \$239.1 million is necessary due to the limitations in realizing the asset via offsetting capital gains in the future. The recognition of the valuation allowance on this deferred tax asset has also been recognized as a component of income tax expense.

As of December 31, 2020, no deferred taxes have been provided on the accumulated undistributed earnings of our continuing foreign operations within Puerto Rico. An actual repatriation of earnings from our foreign operations could still be subject to additional foreign withholding and U.S. state taxes. Based upon evaluation of our foreign operations, undistributed earnings are intended to remain permanently reinvested to finance anticipated future growth and expansion, and accordingly, deferred taxes have not been recorded. If undistributed earnings of our foreign operations were not considered permanently reinvested as of December 31, 2020, an immaterial amount of additional deferred taxes would have been recorded. Our foreign subsidiary in Puerto Rico has been granted a tax exemption for which a tax credit of up to 15% of eligible payroll expenses is available to offset up to 50% of the income taxes attributed to that entity. The impact of this tax exemption is not material to the tax provision.

The Company records a valuation allowance to reduce its net deferred tax assets to the amount that is more likely than not to be realized. At December 31, 2020 and 2019, the Company carried a valuation allowance against deferred tax assets of \$241.2 million and \$6.9 million, respectively. These amounts are primarily related to deferred tax assets related to the Company's investment in a foreign subsidiary and certain state net operating losses.

As of December 31, 2020 and 2019, the Company had no federal net operating loss carryforwards. The foreign net operating loss carryforwards at December 31, 2020 and 2019 are approximately \$0.1 million and \$0.1 million, respectively, and have no expiration.

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The Company has state net operating loss carryforwards at December 31, 2020 and 2019 of approximately \$170.0 million and \$220.8 million, respectively. These net operating loss carryforwards, if not used to offset future taxable income, will expire from 2022 to 2035. In addition, the Company has certain state tax credits of \$0.6 million which will begin to expire in 2030 if not utilized.

Income taxes receivable was \$0.9 million and \$4.8 million at December 31, 2020 and 2019, respectively, and was included in other current assets in the consolidated balance sheets. Income taxes payable of \$16.3 million at December 31, 2020 was included in other accrued liabilities in the consolidated balance sheets.

The Company recorded income taxes payable related to unrecognized tax benefits of \$2.5 million and \$3.1 million at December 31, 2020 and December 31, 2019, respectively. These amounts are inclusive of any interest and penalties, which is included in other liabilities on the consolidated balance sheets. A reconciliation of the beginning and ending amount of unrecognized income tax benefits, net of the federal benefit, is as follows (in thousands):

	2020	2019
Balance at January 1	\$ 2,441	\$ 713
Additions based on tax positions related to the current year	—	3,001
Reductions as a result of the lapse of applicable statutes of limitations and settlements with tax authorities	(381)	(1,273)
Balance at December 31	\$ 2,060	\$ 2,441

At December 31, 2020 and 2019, the cumulative amounts of interest and penalties recognized were \$0.5 million and \$0.6 million, respectively. Unrecognized tax benefits of \$0.4 million would affect the effective rate if recognized. It is possible the amount of unrecognized tax benefit could change in the next twelve months as a result of a lapse of the statute of limitations and settlements with taxing authorities; however, management does not anticipate the change will have a material impact on the Company's consolidated financial statements.

The Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant taxing authorities. The Company and its subsidiaries file income tax returns in federal and in many state and local jurisdictions as well as foreign jurisdictions. The Company may be subject to examination by the Internal Revenue Service ("IRS") for calendar year 2017 through 2019. Additionally, any net operating losses that were generated in prior years and utilized in these years may also be subject to examination by the IRS. While no other foreign jurisdictions are presently under examination, the Company may be subject to examination for calendar years 2016 through 2019. Generally, for state tax purposes, the Company's 2014 through 2019 tax years remain open for examination by the tax authorities. At the date of this report there were no audits or inquiries that had progressed sufficiently to predict their ultimate outcome.

On December 22, 2017, Public Law 115-97, informally referred to as The Tax Cuts and Jobs Act (the "Tax Act") was enacted into law. The Tax Act provided for significant changes to the U.S. tax code that has impacted businesses. ASC 740 "Income Taxes" ("ASC 740") requires the Company to recognize the effect of tax law changes in the period of enactment. However, the SEC staff issued Staff Accounting Bulletin 118 ("SAB 118") which allowed the Company to record provisional amounts during a measurement period similar to the measurement period used when accounting for business combinations. As part of the analysis of the Tax Act, the Company made an adjustment regarding the treatment of foreign dividends of \$10.9 million during the year ended December 31, 2018, impacting the effective tax rate.

## 15. Derivatives

The Company entered into foreign currency forward contracts during the years ended December 31, 2020 and 2019 in connection with certain transfers of cash between the U.S. and U.K. under the Company's cash management and foreign currency risk management programs. Foreign currency forward contracts limit the economic risk of changes in the exchange rate between US Dollars ("USD") and British Pounds ("GBP") associated with cash transfers.

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



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

The Company has designated the cross currency swap agreements and certain forward contracts entered into during 2019 and 2020 as qualifying hedging instruments and is accounting for these as net investment hedges. The fair values of these derivatives at December 31, 2020 and 2019 of \$84.6 million and \$68.9 million, respectively, are recorded as derivative instrument liabilities and noncurrent derivative instrument liabilities, respectively, on the consolidated balance sheets. During the year ended 2020, the Company elected the spot method for recording its net investment hedges. Gains and losses resulting from the settlement of the excluded components are recorded in interest expense on the consolidated statements of operations. Gains and losses resulting from fair value adjustments to the cross currency swap agreements are recorded in accumulated other comprehensive loss as the swaps are effective in hedging the designated risk. Cash flows related to the cross currency swap derivatives are included in operating activities in the consolidated statements of cash flows.

In conjunction with the U.K. Sale in January 2021, the Company settled its cross currency swap liability and outstanding forward contracts.

## 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 Company's Amended and Restated Senior Credit Facility, 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes, 6.500% Senior Notes, 5.500% Senior Notes, 5.000% Senior Notes, other long-term debt and derivative instruments at December 31, 2020 and 2019 were as follows (in thousands):

	Carrying Amount		Fair Value	
	December 31,		December 31,	
	2020	2019	2020	2019
Amended and Restated Senior Credit Facility	\$ 1,175,437	\$ 1,668,062	\$ 1,175,437	\$ 1,668,062
6.125% Senior Notes due 2021	\$ —	\$ 149,254	\$ —	\$ 149,441
5.125% Senior Notes due 2022	\$ —	\$ 297,761	\$ —	\$ 299,994
5.625% Senior Notes due 2023	\$ 646,344	\$ 644,771	\$ 647,960	\$ 655,249
6.500% Senior Notes due 2024	\$ 385,636	\$ 384,430	\$ 393,850	\$ 398,366
5.500% Senior Notes due 2028	\$ 443,139	\$ —	\$ 475,931	\$ —
5.000% Senior Notes due 2029	\$ 468,245	\$ —	\$ 499,852	\$ —
Other long-term debt	\$ 3,625	\$ 4,821	\$ 3,625	\$ 4,821
Derivative instruments	\$ 84,584	\$ 68,915	\$ 84,584	\$ 68,915

The Company's Amended and Restated Senior Credit Facility, 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes, 6.500% Senior Notes, 5.500% Senior Notes, 5.000% Senior Notes and other long-term debt were categorized as Level 2 in the GAAP fair value hierarchy. Fair values were based on trading activity among the Company's lenders and the average bid and ask price as determined using published rates.

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

## 17. Commitments and Contingencies

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

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

On February 21, 2019, a purported stockholder filed a related derivative action on behalf of the Company against certain former and current officers and directors in the lawsuit styled *Davydov v. Joey A. Jacobs, et al.*, Case No. 3:19-cv-00167, which is pending in the United States District Court for the Middle District of Tennessee. The complaint alleges claims for violations of Section 10(b) and 14(a) of the Exchange Act, breach of fiduciary duty, waste of corporate assets, and unjust enrichment. On May 23, 2019, a purported stockholder filed a second related derivative action on behalf of the Company against certain former and current officers and directors in the lawsuit styled *Beard v. Jacobs, et al.*, Case No. 3:19-cv-0441, which is pending the United States District Court for the Middle District of Tennessee. The complaint alleges claims for violations of Sections 10(b), 14(a), and 21D of the Exchange Act, breach of fiduciary duty, waste of corporate assets, unjust enrichment, and insider selling. On June 11, 2019, the *Davydov* and *Beard* actions were consolidated. On February 16, 2021, the parties filed a stipulation 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. At this time, we are not able to quantify any potential liability in connection with this litigation because the cases are in their early stages.

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

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. 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 December 31, 2020, the Company operated six facilities through non-wholly owned subsidiaries. The Company owns between approximately 60% and 86% of the equity interests of these entities and noncontrolling partners own the remaining equity interests. The initial value of the noncontrolling interests is based on the fair value of contributions, and the Company consolidates the operations of each facility based on its equity ownership and its control of the entity. The noncontrolling interests are reflected as redeemable noncontrolling interests on the accompanying 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 January 1, 2019	\$	28,806
Acquisition of redeemable noncontrolling interests		3,300
Net income attributable to noncontrolling interests		1,199
Distributions to noncontrolling interests		(154)
Balance at December 31, 2019		33,151
Acquisition of redeemable noncontrolling interests		20,147
Net income attributable to noncontrolling interests		2,933
Distributions to noncontrolling interests		(916)
Balance at December 31, 2020	\$	<u>55,315</u>

**19. Employee Benefit Plans**

The Company maintains a qualified defined contribution 401(k) plan covering substantially all of its employees in the U.S. The Company may, at its discretion, make contributions to the plan. The Company recorded expense of \$3.8 million, \$4.1 million, and \$3.5 million related to the 401(k) plan for the years ended December 31, 2020, 2019 and 2018, respectively.

## 20. Accumulated Other Comprehensive Loss

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

	Foreign Currency Translation Adjustments	Change in Fair Value of Derivative Instruments	Pension Plan	Total
Balance at January 1, 2018	\$ (376,740)	\$ 7,167	\$ (4,545)	\$ (374,118)
Foreign currency translation (loss) gain	(127,788)	—	267	(127,521)
Gain on derivative instruments, net of tax of \$12.7 million	—	36,799	—	36,799
Pension liability adjustment, net of tax of \$0.3 million	—	—	2,463	2,463
Balance at December 31, 2018	(504,528)	43,966	(1,815)	(462,377)
Foreign currency translation gain (loss)	69,895	—	(84)	69,811
Loss on derivative instruments, net of tax of \$(3.6) million	—	(19,008)	—	(19,008)
Pension liability adjustment, net of tax of \$(0.6) million	—	—	(3,310)	(3,310)
Balance at December 31, 2019	(434,633)	24,958	(5,209)	(414,884)
Foreign currency translation gain (loss)	61,532	—	(285)	61,247
Loss on derivative instruments, net of tax of \$(3.9) million	—	(11,272)	—	(11,272)
Pension liability adjustment, net of tax of \$(0.8) million	—	—	(6,456)	(6,456)
Balance at December 31, 2020	<u>\$ (373,101)</u>	<u>\$ 13,686</u>	<u>\$ (11,950)</u>	<u>\$ (371,365)</u>

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## 21. Quarterly Information (Unaudited)

The tables below present summarized unaudited quarterly results of operations for the years ended December 31, 2020 and 2019. Management believes that all necessary adjustments have been included in the amounts stated below for a fair presentation of the results of operations for the periods presented when read in conjunction with the Company's consolidated financial statements for the years ended December 31, 2020 and 2019. Results of operations for a particular quarter are not necessarily indicative of results of operations for an annual period and are not predictive of future periods.

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands except per share amounts)			
<b>2020:</b>				
Revenue	\$ 509,217	\$ 491,475	\$ 547,961	\$ 541,276
Income from continuing operations, net of taxes	\$ 21,251	\$ 30,721	\$ 45,063	\$ 46,156
Income (loss) from discontinued operations, net of taxes	\$ 12,816	\$ 10,993	\$ (7,502)	\$ (828,697) (1)
Net income (loss) attributable to Acadia Healthcare Company, Inc. stockholders	\$ 33,463	\$ 41,079	\$ 36,998	\$ (783,672) (1)
Basic earnings per share attributable to Acadia Healthcare Company, Inc. stockholders:				
Income from continuing operations attributable to Acadia Healthcare Company, Inc.	\$ 0.24	\$ 0.34	\$ 0.51	\$ 0.51
Income (loss) from discontinued operations	\$ 0.14	\$ 0.13	\$ (0.09)	\$ (9.42) (1)
Net (loss) income attributable to Acadia Healthcare Company, Inc.	\$ 0.38	\$ 0.47	\$ 0.42	\$ (8.91) (1)
Diluted earnings per share attributable to Acadia Healthcare Company, Inc. stockholders:				
Income from continuing operations attributable to Acadia Healthcare Company, Inc.	\$ 0.23	\$ 0.34	\$ 0.50	\$ 0.50
Income (loss) from discontinued operations	\$ 0.15	\$ 0.12	\$ (0.08)	\$ (9.28) (1)
Net (loss) income attributable to Acadia Healthcare Company, Inc.	\$ 0.38	\$ 0.46	\$ 0.42	\$ (8.78) (1)
<b>2019:</b>				
Revenue	\$ 487,960	\$ 509,813	\$ 509,383	\$ 501,225
Income (loss) from continuing operations, net of taxes	\$ 13,618	\$ 26,964	\$ 24,920	\$ (12,192) (2)
Income from discontinued operations, net of taxes	\$ 15,893	\$ 21,237	\$ 17,803	\$ 1,879 (2)
Net income (loss) attributable to Acadia Healthcare Company, Inc. stockholders	\$ 29,471	\$ 48,140	\$ 42,566	\$ (11,254) (2)
Basic earnings per share attributable to Acadia Healthcare Company, Inc. stockholders:				
Income (loss) from continuing operations attributable to Acadia Healthcare Company, Inc.	\$ 0.16	\$ 0.31	\$ 0.28	\$ (0.15) (2)
Income from discontinued operations	\$ 0.18	\$ 0.24	\$ 0.21	\$ 0.02 (2)
Net income (loss) attributable to Acadia Healthcare Company, Inc.	\$ 0.34	\$ 0.55	\$ 0.49	\$ (0.13) (2)
Diluted earnings per share attributable to Acadia Healthcare Company, Inc. stockholders:				
Income (loss) from continuing operations attributable to Acadia Healthcare Company, Inc.	\$ 0.15	\$ 0.31	\$ 0.28	\$ (0.15) (2)
Income from discontinued operations	\$ 0.19	\$ 0.24	\$ 0.20	\$ 0.02 (2)
Net income (loss) attributable to Acadia Healthcare Company, Inc.	\$ 0.34	\$ 0.55	\$ 0.48	\$ (0.13) (2)

(1) Includes U.K. loss on sale of \$867.3 million which includes approximately \$356.2 million of non-cash goodwill impairment.

(2) Includes loss on impairment of \$27.2 million in continuing operations and \$27.2 million in discontinued operations.

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

The Company conducts substantially all of its business through its subsidiaries. The 6.125% Senior Notes, 5.125% Senior Notes, 5.625% Senior Notes, 6.500% Senior Notes, 5.500% Senior Notes and 5.000% Senior Notes are jointly and severally guaranteed on an unsecured senior basis by all of the Company's subsidiaries that guarantee the Company's obligations under the Amended and Restated Senior Credit Facility. Summarized financial information presented below is consistent with the consolidated financial statements of the Company, except transactions between combining entities have been eliminated. Financial information for the combined non-guarantor entities has been excluded. Presented below is consolidated financial information for Acadia Healthcare Company, Inc. and the combined wholly-owned subsidiary guarantors at December 31, 2020 and 2019, and for the December 31, 2020.

Summarized balance sheet information (in thousands):

	December 31,	
	2020	2019
Current assets	\$ 654,735	\$ 421,653
Property and equipment, net	1,421,875	1,313,830
Goodwill	1,992,305	1,992,344
Total noncurrent assets	3,640,809	3,516,967
Current liabilities	626,419	305,131
Long-term debt	2,786,125	2,877,602
Total noncurrent liabilities	3,045,981	3,159,489
Redeemable noncontrolling interests	—	—
Total equity	623,144	474,000

Summarized operating results information (in thousands):

	For the Year Ended December 31, 2020
Revenue	\$ 1,943,734
Income from continuing operations before income taxes	161,293
Net loss	(269,231)
Net loss attributable to Acadia Healthcare Company, Inc.	(269,231)

## 23. Subsequent Events

On January 19, 2021, the Company completed the U.K. Sale pursuant to a Share Purchase Agreement in which it sold all of the securities of AHC-WW Jersey Limited, a private limited liability company incorporated in Jersey and a subsidiary of the Company, which constitutes the entirety of our U.K. business operations. The U.K. Sale resulted in approximately \$1,525 million of gross proceeds before deducting the settlement of existing foreign currency hedging liabilities of \$85 million based on the current GBP to USD exchange rate, cash retained by the buyer of approximately \$75 million and transaction costs of \$16 million. The Company used the net proceeds of \$1,425 million (or \$1,350 million, net of cash retained by the buyer) to repay in full the outstanding balances of its TLA Facility of \$312 million and its Tranche B-4 Facility of \$768 million of the Amended and Restated Credit Agreement and added \$345 million of cash to the balance sheet. In addition to reducing its indebtedness, the U.K. Sale allows the Company to focus on U.S. operations. As a result of the U.K. Sale, the Company reported, for all periods presented, results of operations and cash flows of the U.K. operations as discontinued operations in the accompanying financial statements.

On January 29, 2021, the Company issued conditional notices of full redemption proving for the redemption in full of \$650 million of 5.265% Senior Notes and \$390 million of 6.500% Senior Notes to the holders of such notes. The redemption of this \$1,040 million of additional debt, along with the payment of breakage costs of \$6 million and estimated transaction costs of \$9 million, is expected to be completed in early March 2021 and to be funded from cash from the balance sheet of \$430 million and proceeds from a new senior secured credit facility of \$625 million. The Company expects to enter into a new term loan and revolver as part of a five-year senior secured credit facility.

RemedcoUK Limited  
 1 Bartholomew Lane  
 London  
 United Kingdom  
 EC2N 2AX

(the "Purchaser", "we" or "us")

Acadia Healthcare Company Inc.  
 6100 Tower Circle  
 Suite 1000  
 Franklin, Tennessee 37067  
 USA

(the "Seller")

## STRICTLY PRIVATE AND CONFIDENTIAL

### Project Prince – Put and Call Option Deed

Dear Sirs,

We refer to our discussions relating to the contemplated acquisition by us of all the securities issued by AHC-WW Jersey Limited from the Seller (the "Transaction").

Capitalised terms and expressions used and not otherwise defined in this deed shall have the meaning given to them in the SPA (as defined below).

#### **1 Put and Call Options**

1.1 The parties hereby agree as follows:

- (a) the Purchaser irrevocably commits to acquire the Shares from the Seller (the "Put Option"); and
- (b) the Seller irrevocably commits to sell the Shares to the Purchaser (the "Call Option"),

in each case in accordance with and subject at all times to the terms of the Share Purchase Agreement, a copy of which is attached hereto as Schedule 1 (the "SPA"), and this letter.

1.2 In each case, the aggregate consideration to be paid by the Purchaser to the Seller for the Shares in the event the Put Option or the Call Option (as applicable) is exercised shall be as detailed in the SPA.

- 1.3 By signing this deed, the Seller accepts the Put Option and the Purchaser accepts the Call Option, in each case solely as an option without any undertaking to exercise it.
- 1.4 Both the Put Option and the Call Option shall remain valid from 0.01 GMT on 7 January 2021 until 23.59 GMT on 08 January 2021 (the "Option Period"). For the avoidance of doubt, neither the Put Option nor the Call Option shall become valid or capable of being exercised prior to the commencement of the Option Period.
- 1.5 The Put Option may be exercised at any time until the end of the Option Period by written notice in the form attached hereto as Schedule 2 sent by the Seller to the Purchaser in accordance with the provisions of Clause 12 (*Notices*) of the SPA (the "Put Option Exercise Notice").
- 1.6 The Call Option may be exercised at any time until the end of the Option Period by written notice in the form attached hereto as Schedule 3 sent by the Purchaser to the Seller in accordance with the provisions of Clause 12 (*Notices*) of the SPA (the "Call Option Exercise Notice").
- 1.7 If neither a Put Option Exercise Notice nor a Call Option Exercise Notice has been sent by the end of the Option Period, both the Put Option and the Call Option shall automatically lapse without any action on the part of either party, and each party shall be released from its obligations under this deed with no costs, indemnity or penalties of any kind payable to or by any party save in the case of a prior breach of this deed, save for the provisions of paragraphs 8 (*Confidentiality*), 9 (*Reference to the provisions of the SPA*) and 10 (*Governing Law – Disputes*) below.
- 1.8 If either a Put Option Exercise Notice or Call Option Exercise Notice has been sent by the end of the Option Period and:
- (a) in the case of a Put Option Exercise Notice having been sent, the SPA has been duly signed and entered into by the Seller, the Purchaser hereby irrevocably and unconditionally undertakes to sign and enter into the SPA within one (1) Business Day as from receipt of the Put Option Exercise Notice; or
  - (b) in the case of a Call Option Exercise Notice having been sent, the SPA has been duly signed and entered into by us, the Seller hereby irrevocably and unconditionally undertakes to sign and enter into the SPA within one (1) Business Day as from receipt of the Call Option Exercise Notice.
- 1.9 If either a Put Option Exercise Notice or a Call Option Exercise Notice has been sent on or prior to the end of the Option Period and the SPA has been duly signed and entered into by the Seller (in the case of a Put Option Exercise Notice) or the Purchaser (in the case of a Call Option Exercise Notice) but the Purchaser (in the case of a Put Option Exercise Notice) or the Seller (in the case of a Call Option Exercise Notice) does not sign and enter into the SPA within one (1) Business Day from receipt of the Put Option Exercise Notice or Call Option Exercise Notice (as applicable) pursuant to the terms of this deed, the parties to this deed agree that the SPA shall automatically come into effect as if it had been executed on the date falling one (1) Business Day from receipt of the Put Option Exercise Notice or Call Option Exercise Notice (as applicable) (the "Effective Date") and any references to "the date of this Agreement" or any similar



expression within the SPA shall be deemed to be references to the Effective Date and the SPA shall be binding and enforceable from such date.

1.10 The Purchaser hereby acknowledges that by countersigning this deed, the Seller will not be bound by any obligation of any nature whatsoever in connection with the Transaction other than its obligations under this deed.

1.11 The Seller hereby acknowledges that by signing this deed, the Purchaser will not be bound by any obligation of any nature whatsoever in connection with the Transaction other than its obligations under this deed.

## **2 Financing of the Transaction**

2.1 The Purchaser confirms that its obligations under this deed and the SPA are not subject to any conditions regarding its or any other person's ability to obtain financing for the consummation of the Transaction.

2.2 The Purchaser hereby gives, as at the date hereof, to the Seller the warranty set forth in Clause 7.5.10 (*Purchaser's warranties*) of the SPA as if such Clause was set out in this deed and any reference to "this Agreement" (or a similar expression) shall be deemed to include a reference to this deed. In connection with the Financing, the Purchaser has delivered to the Seller the Purchaser Debt Documents.

2.3 The Purchaser agrees to comply with the provisions of Clauses 7.7 to 7.10 (inclusive) (*Purchaser's Undertakings*) of the SPA as from the date hereof as if such Clauses and such Schedule were set out in this deed and any reference to "this Agreement" (or a similar expression) shall be deemed to include a reference to this deed.

## **3 Other covenants**

3.1 Until the expiry of the Option Period, the parties agree to comply with Clause 5.1 of the SPA (*Pre-Completion Undertakings*) as if the same was in effect as from the date hereof.

3.2 The Seller further agrees to comply with the provisions of Clause 5.4 of the SPA (*Release of Specified Security Interests*) as if the same was in effect as from the date hereof.

## **4 Warranties and undertakings of the Purchaser**

The Purchaser hereby gives, as at the date hereof, to the Seller the warranties set forth in Clause 7.5 (*Purchaser's warranties*) the SPA as if such Clause was set out in this deed and any reference therein to "this Agreement" (or a similar expression) shall be deemed to include a reference to this deed.

## **5 Warranties of the Seller**

5.1 The Seller hereby gives, as at the date hereof, the warranties set forth in Clause 7.1, Clause 7.3 and Schedule 6 of the SPA as if such Clauses and Schedule were set out in this deed and any reference therein to "this Agreement" (or a similar expression) shall be deemed to include a reference to this deed.

- 5.2 Paragraphs 4 and 5.1 above shall be subject to Clause 8 (*Limitation of liability*) and Part C of Schedule 6 of the SPA and the provisions of that Clause and that Schedule shall be incorporated by reference into this deed and any reference therein to "this Agreement" (or a similar expression) shall be deemed to include a reference to this deed.

## **6 Enforcement**

- 6.1 The parties expressly agree that (i) their obligations under this deed, in particular their undertakings to sign and enter into the SPA and to acquire the Shares in accordance with, but at all times subject to, the terms of the SPA and this letter, are irrevocable and unconditional and may not be withdrawn for any reason whatsoever (including, for the avoidance of doubt, prior to the exercise of the Put Option or the Call Option) and that (ii) the sale of the Shares in accordance with, and subject expressly to, the terms of the SPA and this letter shall be definitive upon exercise of the Put Option or the Call Option (as applicable), or upon the date falling one (1) Business Day following receipt of the Put Option Exercise Notice or Call Option Exercise Notice in accordance with paragraph 1.5 or 1.6 (as applicable) (in each case, whether or not the SPA is executed by the Purchaser or the Seller (as applicable) on the date and at the location indicated in the Put Option Exercise Notice or Call Option Exercise Notice).
- 6.2 Without prejudice to any other rights or remedies which either party may have, the parties acknowledge and agree that damages may not be an adequate remedy for any breach by either party of the provisions of this deed and either party may be entitled to the remedies of injunction, specific performance and other equitable relief for any threatened or actual breach of any such provision of this letter and no proof of special damages shall be necessary for the enforcement by such party of the rights under this deed.

## **7 Merger regulation**

Notwithstanding any other provision of this deed, if at the point of exercise of the Put Option or the Call Option, the transaction contemplated under the SPA would constitute, or would be deemed to constitute, a concentration with a Union dimension within the scope of Council Regulation (EC) 139/2004, the parties shall negotiate in good faith and agree such amendments to this deed and the SPA (including, without limitation, clause 5.1 and Schedule 1 to the SPA) prior to entering into the SPA as are necessary to reflect the extension of the period of time between execution of the SPA and Completion whilst the Purchaser agrees to obtain on a best efforts basis clearance from the European Commission for such transaction to proceed.

## **8 Agreed form documents**

The parties agree that all documents that are referred to in the SPA as being in the Agreed Form are in final form and have been signed or initialled for identification or otherwise identified (including by the exchange of emails) by or on behalf of the Seller and the Purchaser upon execution of this deed, and shall in such form, subject to the exercise of the Put Option or Call Option and the execution of the SPA, be in the Agreed Form for the purposes of the SPA upon it being executed.

**9 Confidentiality**

The provisions of clause 11 (*Announcements and confidentiality*) of the SPA shall apply *mutatis mutandis* to this deed from the date hereof (and any references therein to “this Agreement” (or similar expression) shall be deemed to be references to this deed).

**10 Reference to the provisions of the SPA**

The provisions of Clauses 12 (*Notices*), 14.9 (*Costs*), 14.10 - 14.14 (inclusive) (*Assignment*), 14.15 (*Variation*), 14.16 - 14.18 (inclusive, (*Rights of Third Parties*), 14.19 (*Entire Agreement*) and 14.28 (*Severance*) of the SPA shall apply *mutatis mutandis* to this deed from the date hereof (and any references therein to “this Agreement” (or a similar expression) shall be deemed to be references to this deed).

**11 Governing Law - Disputes**

11.1 This deed and any non-contractual obligations arising out of or in connection with this deed shall be governed by English law.

11.2 Each of the parties irrevocably agrees that the courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this deed and the documents to be entered into pursuant to it, and that accordingly any proceedings arising out of or in connection with this deed and the documents to be entered into pursuant to it shall be brought in such courts. Each of the parties irrevocably submits to the jurisdiction of such courts and waives any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

**12 Appointment of agent for service**

The provisions of Clauses 14.32 and 14.33 (*Agent for service of process*) of the SPA shall apply *mutatis mutandis* to this deed (and any references therein to “this Agreement” (or similar expression) shall be deemed to be references to this deed).

*[signature page to follow]*

IN WITNESS WHEREOF this deed has been executed and delivered as a deed by the parties on the date first written above.

**The Purchaser**

EXECUTED and DELIVERED as a DEED for and on )  
behalf of REMEDCOUK LIMITED acting by )  
Wenda Adriaanse (Director) )

/s/WENDA ADRIAANSE  
Wenda Adriaanse

Arun Vivek (Director)

/s/ARUN VIVEK  
Arun Vivek

[Signature page - Put/Call Option Deed]

---



**The Seller**

**EXECUTED** and **DELIVERED** as a **DEED** for and on behalf of **ACADIA HEALTHCARE COMPANY INC.** acting by Debra Osteen a person who, in accordance with the laws of Delaware is acting under the authority of Acadia Healthcare Company Inc.

)  
)  
)

/s/ DEBRA K. OSTEEN

Debra K. Osteen

*[Signature page - Put/Call Option Deed]*

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**Schedule 1**

**SPA**

See Exhibit 2.2 filed with Acadia Healthcare Company, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2020 (File No. 001-35331).

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**Schedule 2**

**Form of Put Option Exercise Notice**

**[Date]**

To: **RemedcoUK Limited**  
1 Bartholomew Lane  
London  
United Kingdom  
EC2N 2AX

Attention: [●]

**STRICTLY PRIVATE AND CONFIDENTIAL**

**Project Prince – Put Option Exercise Notice**

Dear Sirs

Reference is made to the agreement executed by you and Acadia Healthcare Company Inc. dated \_\_\_\_\_ 2020 with respect to the Transaction (the "~~Put and Call Option Agreement~~").

Capitalised terms and expressions used and not otherwise defined herein shall have the meaning ascribed to them in the Put and Call Option Agreement.

This is the Put Option Exercise Notice referred to in paragraph 1.5 of the Put and Call Option Agreement.

We hereby irrevocably and unconditionally exercise the Put Option.

As agreed, the execution of the SPA will take place on [●] at [●].

Yours faithfully,

Acadia Healthcare Company Inc.

By:

---

**Schedule 3**  
**Call Option Exercise Notice**

**[Date]**

To: **Acadia Healthcare Company Inc.**  
6100 Tower Circle  
Suite 1000  
Franklin, Tennessee 37067  
USA

Attention: [●]

**STRICTLY PRIVATE AND CONFIDENTIAL**

**Project Prince – Call Option Exercise Notice**

Dear Sirs

Reference is made to the agreement executed by you and RemedcoUK Limited dated \_\_\_\_\_ 2020 with respect to the Transaction (the "~~Put and Call Option Agreement~~").

Capitalised terms and expressions used and not otherwise defined herein shall have the meaning ascribed to them in the Put and Call Option Agreement.

This is the Call Option Exercise Notice referred to in paragraph 1.6 of the Put and Call Option Agreement.

We hereby irrevocably and unconditionally exercise the Call Option.

As agreed, the execution of the SPA will take place on [●] at [●].

Yours faithfully,

RemedcoUK Limited

By:



Date: 7 January 2021

**SHARE PURCHASE AGREEMENT**

**relating to**

**AHC - WW JERSEY LIMITED**

**between**

**ACADIA HEALTHCARE COMPANY INC (AS SELLER)**

**and**

**REMEDCOUK LIMITED (AS PURCHASER)**

**KIRKLAND & ELLIS INTERNATIONAL LLP**

30 St. Mary Axe  
London EC3A 8AF  
Tel: +44 (0)20 7469 2000  
Fax: +44 (0)20 7469 2001  
[www.kirkland.com](http://www.kirkland.com)

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**Agreed Form Documents**

1. Director Resignation Letters
2. Data Room Index
3. Draft Completion Schedule
4. Press Announcement
5. Form UCC-3
6. Deed of Release



**PARTIES:**

- (1) **ACADIA HEALTHCARE COMPANY INC.**, a corporation incorporated in Delaware with registered office at 6100 Tower Circle, Suite 1000, Franklin, Tennessee 37067, USA (the "Seller"); and
- (2) **REMEDCOUK LIMITED**, a private limited liability company incorporated in England and Wales with registered office at 1 Bartholomew Lane, London EC2N 2AX and registered number 13086239 (the "Purchaser").

**INTRODUCTION:**

- (A) The Seller has agreed to sell the Shares and to assume the obligations imposed on the Seller under this Agreement.
- (B) The Purchaser has agreed to purchase the Shares, procure repayment of the Existing Shareholder Debt Repayment Amount and to assume the obligations imposed on the Purchaser under this Agreement.
- (C) The Seller is, at the date of this Agreement, the beneficial and registered holder of the Shares.

**IT IS AGREED:**

**1 Definitions and interpretation**

Definitions

- 1.1 In this Agreement, the capitalised terms set out below have the following meanings:

"Acadia Released Person" has the meaning given in Clause 9.3;

"Additional Seller Warranties" means the warranties set out in Part B of Schedule 6;

"Affiliate" means:

- (a) in the case of a person which is a body corporate, any subsidiary undertaking or parent undertaking of that person and any subsidiary undertaking of any such parent undertaking, or any entity which manages and/or advises any of the foregoing persons, or which is managed and/or advised by any of the foregoing persons, in each case from time to time;
- (b) in the case of a person which is an individual, any spouse, co-habitee and/or lineal descendants by blood or adoption or any person or persons acting in its or their capacity as trustee or trustees of a trust of which such individual is the settlor;
- (c) in the case of a person which is a limited partnership, the partners of the person or their nominees or a nominee or trustee for the person, or any investors in a fund which holds interests, directly or indirectly, in the limited partnership or any entity which manages and/or advises any such entity; and
- (d) any Affiliate of any person in paragraphs (a) to (c) above,

but shall not include any Group Company. For the avoidance of doubt and save for any Group Company, Waterland (and any of Waterland's group undertakings), any entity managed or advised by Waterland (or any of Waterland's group undertakings), and any group undertaking of any such entity, shall be deemed to be Affiliates of the Purchaser;

"Agreed Leakage" means an amount equal to £926,209.35, being the 2020 total trading bonus amount of £4,195,915.08 less (i) £1,789,013.73 of such 2020 total trading bonus amount already accounted for in the cash ticker; and (ii) £1,480,692 of such 2020 total trading bonus amount already accrued as at the Locked Box Date;

"Aggregate Notified Leakage Amount" means an amount equal to the aggregate of all Notified Leakage Amounts (if any);

"Agreed Form" means, in relation to a document, the form of that document which has been initialled and/or has been specifically identified in an email attachment as being in the "Agreed Form", in each case on the date of this Agreement for the purpose of identification by or on behalf of the Seller and the Purchaser (in each case with such amendments as may be agreed in writing by or on behalf of the Seller and the Purchaser);

"Agreement" means this share purchase agreement, including the Introduction and the Schedules, as amended or restated from time to time;

"Articles" means the articles of association of the Company;

"Business" means the business of the Group Companies from time to time;

"Business Day" means any day that is not a Saturday or Sunday or a public holiday in London, Jersey, Tennessee or the Netherlands;

"Closed Properties" the Properties that are currently closed, details of which are contained in the response to Q&A question 261 in the Data Room;

"Code" means the U.S. Internal Revenue Code of 1986, as amended;

"Companies Act 2006" means the UK Companies Act 2006;

"Company" means AHC - WW Jersey Limited, a private limited liability company incorporated in Jersey with registered number 122658 whose registered office is at 44 Esplanade, St Helier, Jersey JE4 9WG;

"Completion" means completion of the sale and purchase of the Shares in accordance with Clause 6;

"Completion Date" means the date on which Completion is to take place, determined in accordance with Clause 6.1;

"Confidential Information" means:

- (a) (in relation to the obligations of the Purchaser) any confidential information which is not generally available to the public received directly or indirectly or held by the Purchaser (or any of its Representatives) relating to the Seller and/or any of its Affiliates from time to time and, prior to Completion only, any of the Group Companies or the Business (including technical information, know-how, research and development, technical reports, computer software and passwords, trade secrets, customer/client/patient lists and data, financial projections, target details

and accounts, fee levels, pricing policies, commissions and commission charges, budgets, forecasts, reports, interpretations, records and corporate and business plans, planned products and services, marketing and advertising plans, requirements and materials, marketing surveys and research reports and market share and pricing statistics and computer software and passwords) (in each case which the Purchaser has obtained in connection with the Transaction); or

- (b) (in relation to the obligations of the Seller) any confidential information which is not generally available to the public received directly or indirectly or held by or on behalf of the Seller (or any of its Representatives) relating to the Purchaser's Group, MPT, any of MPT's group undertakings, any of the Group Companies or the Business (including technical information, know-how, research and development, technical reports, computer software and passwords, trade secrets, customer/client/patient lists and data, financial projections, target details and accounts, fee levels, pricing policies, commissions and commission charges, budgets, forecasts, reports, interpretations, records and corporate and business plans, planned products and services, marketing and advertising plans, requirements and materials, marketing surveys and research reports and market share and pricing statistics and computer software and passwords); and
- (c) the contents and existence of information detailed in and relating to, the provisions of, and negotiations leading to, this Agreement and the other Transaction Documents,

and includes written information and information transferred or obtained orally, visually, electronically or by any other means;

"Confidentiality Agreement" means the confidentiality agreement dated 7 November 2019 and made between the Seller and Waterland Private Equity Fund VII C.V.;

"Consideration" has the meaning given in Clause 3.1;

"Data Room" means the virtual data room administered by Donnelly Financial Solutions entitled "Project Prince" comprising the documents and other information relating to the Group Companies and the Business as at 8.30 a.m. on 23 December 2020, as reflected on a USB stick or other electronic medium delivered to the Purchaser on 24 December 2020;

"Data Room Index" means the index of the Data Room in the Agreed Form;

"Deed of Release" means the deed of release between (1) the Seller, (2) Priory Group UK 1 Limited and (3) Bank of America, N.A., in the Agreed Form;

"Default Interest" means interest at 8 per cent. per annum;

"Defaulting Party" has the meaning given in Clause 6.4;

"Director Resignation Letters" has the meaning given in paragraph 1(iv) of Schedule 2;

"Disclosed Seller Transaction Costs" means all of the Seller Transaction Costs (including any amounts in respect of VAT) notified to the Purchaser in the Final Completion Schedule in accordance with Clause 5.2.2;

"Disclosure Letter" means the disclosure letter from the Warrantors (as defined therein) to the Purchaser dated the date of this Agreement;

**"Draft Completion Schedule"** means the excel spreadsheet setting out the draft completion schedule, as at the date of this Agreement, in the Agreed Form;

**"Encumbrance"** means all security interests, mortgages, charges, pledges, liens, title retentions, options, equities, claims, interests, assignments, hypothecations, or other third party rights (including rights of pre-emption, conversion or rights to acquire) of any nature whatsoever, and any agreement or obligation howsoever arising to create any of the same;

**"Equity Commitment Letters"** means (i) the equity commitment letter from the Investor (as defined therein) and the Purchaser to the Seller, dated 30 December 2020, and (ii) the equity commitment letter from MPT and the Purchaser to the Seller, dated 30 December 2020;

**"Exchange Rate"** means, with respect to a particular currency for a particular day, the spot bid rate of exchange for that currency into GBP on such date, at the rate quoted by Reuters at 4.00 p.m. in London on such date;

**"Existing Shareholder Debt"** means any and all intercompany balances (including for the avoidance of doubt any interest accrued on the principal amount thereof) between a Group Company and the Seller;

**"Existing Shareholder Debt Repayment Amount"** means the redemption amount of the Existing Shareholder Debt as at Completion as set out in the Final Completion Schedule;

**"Final Completion Schedule"** has the meaning given in Clause 5.2;

**"Financing"** means the debt financing required by the Purchaser's Group in connection with the Transaction (including under the Purchaser Financing Documents);

**"Funds"** has the meaning given in Clause 7.4.10;

**"Governmental Entity"** means any supra national, national, state, municipal or local government (including any subdivision, court, administrative agency or commission or other authority thereof) or any Taxation Authority or quasi-governmental or private body exercising any regulatory, merger control, taxing, importing or other governmental or quasi-governmental authority, including the European Commission of the European Union;

**"Group"** means the Company and all of the other Group Companies, taken as a whole;

**"Group Companies"** means the Company and the Subsidiaries, each being a **"Group Company"**;

**"Information Memorandum"** means the confidential information memoranda dated February 2020 and October 2020 and issued by the Company to potential purchasers, including the Purchaser's Group, in connection with the sale of the Company;

**"Initial Consideration"** has the meaning given in Clause 3.1.1;

**"Leakage"** means:

- (a) in each case, to or on behalf of, or for the benefit of, the Seller or any of its Affiliates, or any of the Seller's or its Affiliates' respective directors, officers or employees;

- (i) any dividend or distribution (whether in cash or in kind) declared, paid or made (or deemed paid or made) by any Group Company;
  - (ii) any payments made (or deemed made) (whether in cash or in kind) by any Group Company in respect of any share capital or other securities of any Group Company being redeemed, purchased or repaid, or any other return of capital (whether by reduction of capital or redemption or purchase of shares) by any Group Company;
  - (iii) any Encumbrance granted over the assets of a Group Company;
  - (iv) the waiver, discount, settlement (other than on arm's length terms), deferral or release by any Group Company of any amount, right or benefit owed to that Group Company, the forgiveness of any outstanding claim or any assumption or discharge of any liability (including in relation to any recharging of costs of any kind or the granting of any guarantee, indemnity or security) by any Group Company; and
  - (v) any other payment made (or deemed made) by a Group Company, including any directors' fees, advisory fees, shareholder fees, management fees, monitoring fees, royalty fees, service fees, loan or debt payment or repayment, interest payment or other compensation of any kind or the provision of any benefit having monetary or financial value;
- (b) any Seller Transaction Costs paid or incurred, in each case, by any Group Company to any person other than another Group Company (but excluding, for the avoidance of doubt, any costs in connection with the Financing or any management incentive arrangements to be put in place on and/or following Completion which, in each case, have been approved in writing by the Purchaser);
  - (c) any transaction bonuses or other emolument or compensation to any director, officer, employee or consultant of any Group Company, payable, in each case, by any Group Company in connection with implementation of the Transaction, save to the extent that any such payment is increased as a result of any action or decision taken on or following Completion with the prior written consent of the Purchaser;
  - (d) the transfer, sale, assignment or surrender of any asset, or any right to any asset, by a Group Company to or on behalf of, or for the benefit of, the Seller or any of its Affiliates, or any of the Seller's or its Affiliates' respective directors, officers or employees, at a price below market value or which is not on arms' length terms;
  - (e) any agreement or arrangement made or entered into by any Group Company to do or give effect to any matter referred to in paragraphs (a) to (d) (inclusive) above; and
  - (f) without double counting, any Tax payable (or which would be payable but for the availability of a Relief) by any Group Company in respect of or in consequence of any of the matters referred to in paragraphs (a) to (e) inclusive above,

but, in each case does not include any Permitted Leakage;

"~~Leakage Claim~~" means a claim made by the Purchaser pursuant to Clause 4.2;

"~~Leakage Claim Period Date~~" has the meaning given in Clause 4.3;



"Locked Box Accounts" means the consolidated balance sheet of the Group as at the Locked Box Date, in the Agreed Form;

"Locked Box Date" means 30 June 2020;

"Management Warranty Deed" means the management warranty deed entered into on 30 December 2020 between the Warrantors (as defined therein) and the Purchaser;

"Material Completion Obligations" has the meaning given in Clause 6.5;

"MPT" means MPT Operating Partnership, L.P.;

"Normal Business Hours" has the meaning given in Clause 12.3;

"Notified Leakage Amount" has the meaning given in Clause 4.6;

"Permitted Leakage" means any payment set out or referred to in Schedule 3;

"Pre-Completion Event" has the meaning given in Clause 9.5;

"Pre-Completion Period" means the period from and including the date of this Agreement up to and including the Completion Date;

"Press Announcement" has the meaning given in Clause 11.2.1;

"Process Agent" has the meaning given in Clause 14.32;

"Properties" means the Properties listed in Schedule 5;

"Purchaser's Account" means such bank account as the Purchaser notifies the Seller in writing not less than three Business Days prior to any payment being due to the Purchaser under any of the Transaction Documents;

"Purchaser Claim" means any claim, proceeding, suit or action against the Purchaser in respect of any breach, indemnity, covenant, agreement, undertaking or other matter whatsoever under or pursuant to this Agreement;

"Purchaser Debt Documents" has the meaning given in Clause 7.5.10;

"Purchaser Financing Documents" has the meaning given in Clause 7.5.10;

"Purchaser's Group" means:

- (a) in the case of Clauses 4.2, 4.5, 4.6, 11.5.2, 11.5.8 and 14.11, the Purchaser, its Affiliates, and the Group Companies; and
- (b) in all other cases, the Purchaser and its Affiliates;

"Purchaser's Warranties" means the warranties given by the Purchaser pursuant to Clause 7.5;

"Related Person" has the meaning given in Clause 13.1.1;

"Released Person" has the meaning given in Clause 9.2;

**"Relief"** includes, unless the context otherwise requires, any relief loss, allowance, credit, deduction, exemption or set off in respect of any Tax or relevant to the computation of any income, profits or gains for the purposes of any Tax, or right to or actual repayment or refund of or saving of Tax (including any repayment supplement, fee or interest in respect of any Tax);

**"Representatives"** means, in relation to a Party, its respective Affiliates and the directors, officers, employees, agents, advisers, accountants, auditors, insurers and consultants of that Party and/or of its respective Affiliates;

**"Seller's Account"** means the bank account as notified by the Seller to the Purchaser in writing not less than three Business Days prior to the Completion Date;

**"Seller Claim"** means any claim, proceeding, suit or action against the Seller in respect of any breach, indemnity, covenant, agreement, undertaking or other matter whatsoever under or pursuant to this Agreement, but excluding, for the avoidance of doubt, any Leakage Claim;

**"Seller's Group"** means the Seller and its Affiliates;

**"Seller's Solicitors"** means Kirkland & Ellis International LLP of 30 St Mary Axe, London EC3A 8AF;

**"Seller Transaction Costs"** means any and all professional or other out-of-pocket fees, expenses or other costs paid or agreed to be paid or incurred or owing by any Group Company directly or indirectly in respect of the Transaction (including fees payable to each of Kirkland & Ellis International LLP, L.E.K. Consulting LLP, PricewaterhouseCoopers, Deloitte LLP, DLA Piper LLP and Knight Frank LLP, Rothschild & Co. and any Data Room costs and any costs relating to the discharge of the Share Pledge and the release of the Specified Security Interests) in each case since the Locked Box Date (including any VAT in respect of such fees, expenses and costs) but for the avoidance of doubt excluding any costs and expenses incurred by any Group Company in connection with the Financing or any management incentive arrangements (including any costs of Jamieson Corporate Finance) to be put in place on and/or following Completion which, in each case, have been approved in writing by the Purchaser;

**"Seller's Warranties"** means the warranties given by the Seller pursuant to Clause 7.1;

**"Shares"** means the 500,002 ordinary shares of £1.00 each in the capital of the Company, which together comprise the entire issued share capital of the Company;

**"Share Pledge"** means the pledge over 65 per cent. of the Shares in favour of Bank of America N.A.;

**"Specified Security Interests"** means the security interests listed in Schedule 7 and **"Specified Security Interest"** shall mean any one of them;

**"Subsidiaries"** has the meaning given in the Management Warranty Deed;

**"Surviving Provisions"** means Clauses 1, 8, 11, 12, 13, 14.2 to 14.6 and 14.10 to 14.33;

**"Tax"** or **"Taxation"** means: any form of tax, levy, impost, duty, charge, contribution, tariff, withholding, deduction, rate or other governmental charge (national or local) of a tax nature, whenever and wherever imposed, including U.S. federal, state, local income taxes and estimated taxes, which is collected or assessed by, or payable to, a Taxation Authority

or any other person as a result of any enactment relating to tax, or any amount paid or in respect of, or on account of, any of the foregoing, together with all related fines, penalties, interest, charges and surcharges and additions thereto, and in each case, whether payable directly or imposed by way of a withholding or deduction and in respect of any person whether their liability for the same is a primary or secondary liability or under Section 1.1502-6 of the U.S. Treasury Regulations;

"Tax Claim" shall mean any claim, action, audit, examination, investigation, contest, administrative proceeding or court proceeding relating to Taxes, including notice of a pending audit, made by any Taxation Authority;

"Tax Leakage" means any Leakage falling within paragraph (f) of the definition of Leakage;

"Tax Return" shall mean any report, return, election, statement, schedule or other document or similar filing (including any attachments thereto) filed or required to be filed with respect to Taxes, including any information return, claim for refund, amended return or declaration of estimated Taxes;

"Taxation Authority" means any taxing or other authority competent to impose any liability in respect of Taxation or responsible for the administration and/or collection of Taxation or enforcement of any law in relation to Taxation, including (without limitation) the U.S. Internal Revenue Service;

"Transaction" means the transactions contemplated by this Agreement and the Management Warranty Deed;

"Transaction Documents" means this Agreement, the Management Warranty Deed, the Disclosure Letter, the Equity Commitment Letters and each document in the Agreed Form and any other document entered into or to be entered into pursuant to this Agreement;

"Transfer Tax" has the meaning given in Clause 14.8;

"VAT" means any Tax chargeable under or imposed pursuant to or in compliance with EC Directive 2006/112/EC (as amended from time to time), and any other Tax of a similar nature whether imposed in any member state of the European Union in substitution for or levied in addition to such Tax, or any similar or comparable Tax imposed elsewhere;

"VAT Payee Party" has the meaning given in Clause 14.6;

"VAT Paying Party" has the meaning given in Clause 14.6; and

"Waterland" means Waterland Private Equity Investments B.V.

- 1.2 References to the "Parties" are to the parties to this Agreement, and each is a "Party".
- 1.3 References to "Clauses" are to the Clauses of this Agreement.
- 1.4 References to the "Introduction" and the "Schedules" are to the introduction and schedules to this Agreement, which form part of this Agreement and have the same force and effect as if set out in the body of this Agreement.
- 1.5 Where any capitalised term is defined within a particular Clause in the body of this Agreement, that term shall bear the meaning ascribed to it in that Clause wherever it is used in this Agreement.

- 1.6 The table of contents and headings to Clauses and Schedules and are included for ease of reference only, and are not to affect the interpretation of this Agreement.
- 1.7 In this Agreement, unless expressly stated otherwise:
- 1.7.1 the words “include” or “including” (or any similar term) are not to be construed as implying any limitation;
  - 1.7.2 general words shall not be given a restrictive meaning by reason of the fact that they are preceded or followed by words indicating a particular class of acts, matters or things;
  - 1.7.3 words indicating gender shall be treated as referring to the masculine, feminine or neuter as appropriate;
  - 1.7.4 a reference to a statute, statutory provision or subordinate legislation (“legislation”) refers to such legislation as amended and in force from time to time and to any legislation that (either with or without modification) re-enacts, consolidates or enacts in rewritten form any such legislation, provided that as between the Parties no such amendment, re-enactment or modification after execution of this Agreement shall apply for the purposes of this Agreement to the extent that it would impose any new or extended obligation, liability or restriction on, or would otherwise adversely affect the rights of, any Party;
  - 1.7.5 any reference to any document other than this Agreement is a reference to that other document as amended, varied, supplemented, or novated (in each case, other than in breach of the provisions of this Agreement) at any time;
  - 1.7.6 except as otherwise expressly provided in this Agreement, references to the time of day are to London time;
  - 1.7.7 references to GBP, sterling or pounds sterling are references to the lawful currency from time to time of England;
  - 1.7.8 for the purposes of applying a reference to a monetary sum expressed in sterling, an amount in a different currency shall be deemed to be an amount in sterling translated at the Exchange Rate at the relevant date (or, in respect of any amounts to be reflected in the Final Completion Schedule, at the date which is one Business Day prior to the delivery of the Final Completion Schedule to the Purchaser);
  - 1.7.9 a reference to something being “in writing” or “written” includes any mode of representing or reproducing words in visible form that is capable of reproduction in hard copy form, including words transmitted by email but excluding any other form of electronic or digital communication;
  - 1.7.10 a reference to a document or communication being “signed” by or on behalf of any person means signature by that person or his duly authorised agent or attorney (which may be electronic);
  - 1.7.11 any reference to a “person” includes any individual, body corporate, trust, partnership, joint venture, unincorporated association or governmental, quasi-governmental, judicial or regulatory entity (or any department, agency or political sub-division of any such entity), in each case whether or not having a separate legal personality, and any reference to a “company” includes any company, corporation

or other body corporate, but not any limited partnership wherever and however incorporated or established;

- 1.7.12 any reference to a "~~holding company~~" or a "~~subsidiary~~" means a "~~holding company~~" or "~~subsidiary~~" as defined in section 1159 of the Companies Act 2006, save that a company shall be treated for the purposes of the membership requirement contained in sections 1159(1)(b) and (c) as a member of another company even if its shares in that other company are registered in the name of (i) its nominee or (ii) another person (or its nominee) by way of security or in connection with the taking of security. Any reference to an "~~undertaking~~" or a "~~group undertaking~~" shall be construed in accordance with section 1161 of the Companies Act 2006 and any reference to a "~~parent undertaking~~" or a "~~subsidiary undertaking~~" means respectively a "~~parent undertaking~~" or "~~subsidiary undertaking~~" as defined in section 1162 of the Companies Act 2006, save that an undertaking shall be treated for the purposes of the membership requirement in sections 1162(2)(b) and (d) and section 1162(3)(a) as a member of another undertaking even if its shares in that other undertaking are registered in the name of (i) its nominee or (ii) another person (or its nominee) by way of security or in connection with the taking of security. Such references to an "~~undertaking~~", a "~~group undertaking~~", a "~~subsidiary undertaking~~" or a "~~parent undertaking~~" shall be amended, where appropriate, by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008;
- 1.7.13 in relation to a limited liability partnership, references to "~~directors~~" or "~~employees~~" shall be taken as a reference to the members and (where applicable) employees of that limited liability partnership;
- 1.7.14 any reference to "to the extent that" shall mean "to the extent that" and not solely "if", and similar expressions shall be construed in the same way;
- 1.7.15 any reference to any English legal term for any action, remedy, method of judicial proceeding, legal document, legal status, court, official or any legal concept or thing shall, in respect of any jurisdiction other than England, be deemed to include what most nearly approximates in that jurisdiction to the English legal term; and
- 1.7.16 in the event any claim is made by any Party relating to any conflict, omission or ambiguity in this Agreement, no presumption or burden of proof or persuasion shall be implied by virtue of the fact that this Agreement was prepared by or at the request of a particular Party or its advisers.

## **2 Sale and purchase**

### **~~Agreement to sell and purchase~~**

- 2.1 On and subject to the terms of this Agreement and upon Completion, the Seller shall sell the Shares, free from all Encumbrances and with full title guarantee and all rights attached or accruing to such Shares at the Completion Date, including the right to receive all distributions and dividends declared, paid or made after Completion and the Purchaser shall purchase the Shares on such terms.
- 2.2 The Seller waives (and shall procure the waiver of) all rights of pre-emption or similar rights over any of the Shares that may have been conferred on the Seller, howsoever arising.
- 2.3 Section 6 of the Law of Property (Miscellaneous Provisions) Act 1994 shall not apply to any disposition made under or pursuant to this Agreement.



### **3 Consideration**

#### **Amount**

3.1 The total consideration for the purchase of the Shares under this Agreement (the "Consideration") shall be an amount equal to the aggregate of:

- 3.1.1 GBP 1,160,000,000 (the "Initial Consideration"); less
- 3.1.2 an amount equal to the Agreed Leakage; less
- 3.1.3 an amount equal to the Disclosed Seller Transaction Costs; less
- 3.1.4 an amount equal to the Aggregate Notified Leakage Amount (if any).

3.2 Following the delivery of the Final Completion Schedule under Clause 5.2, the Consideration (including the Disclosed Seller Transaction Costs and the Aggregate Notified Leakage Amount) shall be deemed to be updated to reflect the relevant amounts detailed in the Final Completion Schedule.

#### **Consideration settlement**

3.3 The Consideration shall be satisfied by the Purchaser by the payments in cash set out in the Final Completion Schedule and payable in accordance with Clause 6.2 and Schedule 2.

3.4 Any payment made in satisfaction of a liability arising under a Seller Claim, a Leakage Claim or a Purchaser Claim, in each case, under the terms of this Agreement shall, to the extent possible, be deemed to adjust the price paid for the Shares, and the Parties and their Affiliates agree to treat for all applicable tax purposes any such payments as an adjustment to the price paid for the Shares unless otherwise required by applicable tax law.

### **4 Leakage**

4.1 The Seller warrants, covenants and undertakes to the Purchaser that there has been no Leakage from (but excluding) the Locked Box Date to (and including) the date of this Agreement.

4.2 The Seller warrants, covenants and undertakes to the Purchaser that if:

- 4.2.1 there has been Leakage from (but excluding) the Locked Box Date to the date of this Agreement or there is Leakage in the Pre-Completion Period; and/or
- 4.2.2 any arrangement or agreement has been made prior to the date of this Agreement or is made during the Pre-Completion Period that in either case has resulted or will result in any Leakage (i) from (but excluding) the Locked Box Date to the date of this Agreement; (ii) during the Pre-Completion Period; or (iii) at any time after the Completion Date,

then, the Seller shall, subject to Clauses 4.3 to 4.6 (inclusive), following Completion, pay in cash to the Purchaser on demand a sum equal (on a pound for pound basis) to the amount of (i) such Leakage (including, for the avoidance of doubt, any related Tax Leakage); and (ii) all reasonable costs properly incurred by the Purchaser's Group in connection with its recovery of such Leakage (including any Tax suffered by the Purchaser's Group as a result of any payment received under this Clause 4.2).

- 4.3 The liability of the Seller pursuant to Clause 4.2 shall terminate on the date falling six months after Completion (the "~~Leakage Claim Period Date~~") unless prior to that date the Purchaser has notified the Seller in writing of any Leakage.
- 4.4 Any notice provided pursuant to Clause 4.3 shall set out (to the extent such details are available at the time) the amount and reasonable details of the relevant Leakage (provided that failure to provide such details shall not invalidate notice), in which case, in relation to the relevant Leakage so notified, the Seller shall remain liable until any relevant claims have been satisfied, settled or withdrawn.
- 4.5 The aggregate liability of the Seller in respect of all and any Leakage Claims shall be limited to, and shall in no event exceed, an amount equal to sum of (i) any and all Leakage referred to in Clause 4.2; and (ii) all reasonable costs properly incurred by the Purchaser's Group in connection with its recovery of the relevant Leakage as referred to in Clause 4.2.
- 4.6 If the Seller notifies the Purchaser in writing prior to Completion of any Leakage (on its own behalf or on behalf of any of its Affiliates or any of the Seller's or its Affiliates' respective directors, officers or employees, and including any related Tax Leakage) and the amount of such Leakage (the "~~Notified Leakage Amount~~"), then, pursuant to Clause 3, the Consideration shall, so far as possible, be reduced by an amount equal to such Notified Leakage Amount, which shall discharge the Seller's obligation to make payment of such Notified Leakage Amount pursuant to Clause 4.2 to the extent of the reduction, but shall not relieve the Seller of any liability in respect of any Leakage (including any related Tax Leakage) which is not included within such Notified Leakage Amount or any reasonable costs properly incurred by the Purchaser's Group in its recovery of such Leakage as referred to in Clause 4.2.
- 5 Period before Completion**
- ~~Pre-Completion undertakings~~
- 5.1 From the date of this Agreement until the earlier of Completion or the termination of this Agreement, the Seller and the Purchaser shall comply with their respective obligations set out in Schedule 1.
- ~~Final Completion Schedule~~
- 5.2 At least five Business Days prior to the Completion Date, a schedule in substantially the same form (and containing the same information, save where such information is required to be adjusted in order to deliver to the Purchaser the information set out below) as the Draft Completion Schedule (the "~~Final Completion Schedule~~") shall be delivered to the Purchaser by or on behalf of the Seller, setting out, in each case as at the Completion Date:
- 5.2.1 the Existing Shareholder Debt Repayment Amount;
  - 5.2.2 all of the Seller Transaction Costs of which the Seller is aware, having made all reasonable enquiries, as at the date of preparation and delivery of the Final Completion Schedule;
  - 5.2.3 the Aggregate Notified Leakage Amount;
  - 5.2.4 the Consideration, reflecting the amounts of the Disclosed Seller Transaction Costs and the Aggregate Notified Leakage Amount (if any), each as set out in this statement and referred to in Clauses 5.2.2 and 5.2.3 above; and

5.2.5 the amount and relevant payee for items of Disclosed Seller Transaction Costs, including details of which Disclosed Seller Transaction Costs have not been and will not be paid prior to Completion.

5.3 The Final Completion Schedule shall take the same form and contain the same information as the Draft Completion Schedule in all respects save for any adjustments that need to be made in order for the Seller to deliver to the Purchaser the information referred to in Clauses 5.2.1 to 5.2.5 (inclusive).

#### **Release of Specified Security Interests**

5.4 Between the date of this Agreement and the Completion Date, the Seller shall use its reasonable efforts to effect a release of each Specified Security Interest in a form reasonably satisfactory to the Purchaser.

### **6 Completion**

#### **Date and place**

6.1 Completion shall take place at the offices of the Seller's Solicitors on 19 January 2021 or at such other date and time as the Seller and the Purchaser may agree in writing.

#### **Completion arrangements**

6.2 At Completion, the Seller and the Purchaser shall comply with their respective obligations as specified in Schedule 2.

6.3 Neither the Seller nor the Purchaser shall be obliged to complete the sale or purchase of any of the Shares unless all of the Shares are sold and purchased simultaneously.

#### **Breach of completion obligations**

6.4 If the Purchaser or the Seller (the "~~Defaulting Party~~") fails to comply with any of its Material Completion Obligations, then the Seller (in the event the Defaulting Party is the Purchaser) or the Purchaser (in the event the Defaulting Party is the Seller) may (in addition to and without prejudice to all its other rights and remedies) by written notice to the Defaulting Party on or before the date on which Completion would otherwise have taken place:

6.4.1 defer Completion to a date falling not more than five Business Days after the date Completion would otherwise have occurred (so that the provisions of this Clause 6 shall apply to Completion as so deferred);

6.4.2 proceed to Completion so far as practicable having regard to the defaults which have occurred (and without limiting its rights under this Agreement); or

6.4.3 subject to Completion having been deferred at least once under Clause 6.4.1 by such Party, terminate this Agreement (subject to Clause 6.6 and other than the Surviving Provisions) by notice in writing to the other Party to this Agreement,

it being understood that the right to terminate this Agreement under Clause 6.4.3 shall not be available to any Party who at such time is in breach of any of its Material Completion Obligations.

6.5 For the purposes of Clause 6.4, "~~Material Completion Obligations~~" shall mean

6.5.1 in the case of the Seller, the obligations set out in paragraphs 1(a)(i), 1(a)(ii) and 1(a)(vi) of Schedule 2; and

6.5.2 in the case of the Purchaser, the obligations set out in paragraph 2 of Schedule 2.

6.6 If this Agreement terminates in accordance with Clause 6.4.3, all of the provisions of this Agreement (save for the Surviving Provisions) shall lapse and cease to have effect (provided that neither the lapsing of those provisions nor their ceasing to have effect shall affect any accrued rights or liabilities of any Party in respect of damages for non-performance of any obligation falling due for performance prior to such lapse and cessation).

## 7 Warranties and undertakings

### Seller's Warranties

7.1 The Seller warrants to the Purchaser that as at the date of this Agreement:

7.1.1 the Shares comprise the whole of the allotted and issued share capital of the Company and all of the Shares are fully paid or credited as fully paid and there is no obligation to make further contributions on them, and the Shares and the Existing Shareholder Debt together comprise all of the interests of the Seller and its Affiliates in the Group;

7.1.2 it is the sole legal and beneficial owner of the Shares free from all Encumbrances (save for the Share Pledge which is to be released on Completion) and is entitled to sell and transfer the full legal and beneficial ownership of the Shares on the terms set out in this Agreement;

7.1.3 except as provided in this Agreement, there are no agreements or arrangements in force which call for the present or future creation, allotment, issue, transfer, redemption or repayment of, or grant to any person the right (whether exercisable now or in the future and whether conditional or not) to call for the creation, allotment, issue, transfer, redemption or repayment of any securities or loan capital (or rights or interests in them) of the Company (including by way of option or under any right of conversion or pre-emption);

7.1.4 the Company does not have any direct subsidiaries other than Priory Group UK 1 Limited;

7.1.5 this Agreement and each of the Transaction Documents which are to be entered into by it pursuant to or otherwise in connection with this Agreement will constitute valid and binding obligations of it in accordance with their respective terms;

7.1.6 the Seller and the Company is validly incorporated, in existence and duly registered under the laws of its jurisdiction of incorporation and has full power to conduct its business as conducted at the date of this Agreement;

7.1.7 it has obtained all corporate authorisations and all other governmental, statutory, regulatory or other consents, licences and authorisations and has the power and authority required to empower it to enter into and perform its obligations under this Agreement where failure to obtain them would adversely affect its ability to enter into and perform its obligations under this Agreement and/or any documents which are to be entered into by it pursuant to or otherwise in connection with this Agreement;

- 7.1.8 entry into and performance by it of this Agreement and/or any documents which are to be entered into by it pursuant to or otherwise in connection with this Agreement will not:
- (a) breach any provision of its memorandum and articles of association, by-laws or equivalent constitutional documents; or
  - (b) result in a breach of any laws or regulations in its jurisdiction of incorporation or of any order, decree or judgment of any court or any governmental or regulatory authority,
- where any such breach would adversely affect its ability to enter into or perform its obligations under this Agreement and/or any Transaction Documents which are to be entered into by it pursuant to or otherwise in connection with this Agreement;
- 7.1.9 it is not, and the Company is not, insolvent or bankrupt under the laws of its jurisdiction of incorporation or is unable to pay its debts as they fall due and it has not, and the Company has not, proposed or is liable to any arrangement (whether by court process or otherwise) under which its creditors (or any group of them) would receive less than the amounts due to them;
- 7.1.10 there are no proceedings in relation to any compromise or arrangement with creditors or any winding up, bankruptcy or insolvency proceedings concerning the Seller or the Company and no events have occurred which would justify such proceedings;
- 7.1.11 no steps have been taken to enforce any security over any of the Seller's or the Company's assets and no event has occurred to give the right to enforce such security;
- 7.1.12 so far as the Seller is aware, it is not, and the Company is not, subject to any order, judgment, direction, investigation or other proceedings by any Governmental Entity which will, or is likely to, prevent it or the Company from entering into this Agreement and/or any Transaction Documents which are to be entered into by it or the Company pursuant to or otherwise in connection with this Agreement or to perform its or the Company's obligations under such documents; and
- 7.1.13 the Shares are not registered on a UK register or a register that is kept in the UK.
- 7.2 The Seller's Warranties set out in Clause 7.1 shall be deemed to be repeated immediately before Completion by reference to the facts and circumstances then existing as if references in those Seller's Warranties to the date of this Agreement were references to the Completion Date.
- 7.3 The Seller further warrants to the Purchaser that, so far as the Seller is aware and subject to the limitations set out in Part C of Schedule 6, the Additional Seller Warranties are true, accurate and not misleading as at the date of this Agreement. For the purposes of this Clause 7.3 and Schedule 6, the Seller's knowledge or awareness shall mean the actual knowledge or awareness of David Duckworth and Anita Aluotto. Each of the Additional Seller Warranties set out in the paragraphs and sub-paragraphs of Schedule 6 is separate and independent and the Purchaser shall have a separate claim and right of action in respect of every breach of each Additional Seller Warranty.
- 7.4 The Purchaser acknowledges and agrees that:



- 7.4.1 no other statement, promise or forecast made by or on behalf of the Seller or its Affiliates or any Group Company may form the basis of any claim by the Purchaser or any other member of the Purchaser's Group in connection with the Transaction; and
- 7.4.2 the Seller does not make any representation or warranty as to the accuracy of any forecasts, estimates, projections, statements of intent or opinion provided to the Purchaser, any member of the Purchaser's Group or to its or their advisers prior to the date of this Agreement (including any documents contained in the Data Room).

Purchaser's Warranties

7.5 The Purchaser warrants to the Seller that as at the date of this Agreement:

- 7.5.1 this Agreement and each of the Transaction Documents which are to be entered into by it pursuant to or otherwise in connection with this Agreement will constitute valid and binding obligations of it in accordance with their respective terms;
- 7.5.2 it is validly incorporated, in existence and duly registered under the laws of its jurisdiction of incorporation and has full power to conduct its business as conducted at the date of this Agreement;
- 7.5.3 it has obtained all corporate authorisations and all other governmental, statutory, regulatory or other consents, licences and authorisations required to empower it to enter into and perform its obligations under this Agreement where failure to obtain them would adversely affect its ability to enter into and perform its obligations under this Agreement and/or any documents which are to be entered into by it pursuant to or otherwise in connection with this Agreement;
- 7.5.4 entry into and performance by it of this Agreement and/or any documents which are to be entered into by it pursuant to or otherwise in connection with this Agreement will not:
- (a) breach any provision of its memorandum and articles of association, by-laws or equivalent constitutional documents; or
  - (b) result in a breach of any laws or regulations in its jurisdiction of incorporation or of any order, decree or judgment of any court or any governmental or regulatory authority,
- where any such breach would adversely affect its ability to enter into or perform its obligations under this Agreement and/or any Transaction Documents which are to be entered into by it pursuant to or otherwise in connection with this Agreement;
- 7.5.5 it is not insolvent or bankrupt under the laws of its jurisdiction of incorporation, is not unable to pay its debts as they fall due and has not proposed or is liable to any arrangement (whether by court process or otherwise) under which its creditors (or any group of them) would receive less than the amounts due to them;
- 7.5.6 there are no proceedings in relation to any compromise or arrangement with creditors or any winding up, bankruptcy or insolvency proceedings concerning the Purchaser and no events have occurred which would justify such proceedings;
- 7.5.7 no steps have been taken to enforce any security over any assets of the Purchaser and no event has occurred to give the right to enforce such security;

- 7.5.8 so far as it is aware, it is not subject to any order, judgment, direction, investigation or other proceedings by any Governmental Entity which will, or is likely to prevent it from entering into this Agreement and/or any Transaction Documents which are to be entered into by it pursuant to or otherwise in connection with this Agreement or to perform its obligations under such documents;
- 7.5.9 it will not be required to make any withholding or deduction on account of Tax imposed by the UK from any payment of the Consideration; and
- 7.5.10 the Purchaser has available committed loan facilities and received a duly executed facilities agreement for debt facilities which have been disclosed and made available to the Seller on or prior to the date of this Agreement (the "Purchaser Debt Documents") (and the Purchaser Debt Documents at such time, together with the Equity Commitment Letters, the "Purchaser Financing Documents") and which involve no pre-conditions other than as expressly set out in the Purchaser Financing Documents, and the Purchaser Financing Documents will at Completion provide, in immediately available funds (the "Funds") the necessary cash resources (after deducting any fees and/or other costs, including VAT and any other Tax payable at Completion from such resources) to satisfy the Purchaser's payment obligations under Clause 6.2 and as set out in Schedule 2. The Purchaser Financing Documents do not terminate before, and the funding under the Purchaser Financing Documents will remain available until and including, Completion.
- 7.6 The Purchaser's Warranties set out in Clause 7.5 shall be deemed to be repeated immediately before Completion by reference to the facts and circumstances then existing as if references in the Purchaser's Warranties to the date of this Agreement were references to the Completion Date.
- 7.7 The Purchaser undertakes upon and prior to Completion not to: (a) change, amend, assign or otherwise modify or terminate any of the Purchaser Financing Documents; (b) agree to the waiver of any rights thereunder, except with respect to (a) and (b) and in relation to Purchaser Debt Documents only, to the extent such change, amendment, assignment, modification, termination or waiver in respect of the Purchaser Debt Documents would not adversely affect the ability of the Purchaser to meet its payment obligations under Clause 6.2 and as set out in Schedule 2; (c) cancel or reduce any commitments thereunder; or (d) use the Funds for any purpose other than for the financing of its payment obligations under Clause 6.2 and as set out in Schedule 2, without the prior written consent of the Seller (not to be unreasonably withheld or delayed).
- 7.8 The Purchaser acknowledges and agrees that, in the absence of fraud or fraudulent misrepresentation by such person, and except for any claims or rights that it may have against the Warrantors (as defined in the Management Warranty Deed) under the Management Warranty Deed or the Disclosure Letter, the Purchaser has no rights against and may not make any claim against any employee, director, agent, officer or (except to the extent such adviser has entered into a reliance letter with the Purchaser) adviser of the Seller or any of its Affiliates on whom it may have relied before agreeing to any term of, or entering into, this Agreement or any other Transaction Document, and each and every such person shall be entitled to enforce this Clause 8.8 under the Contracts (Rights of Third Parties) Act 1999.
- 7.9 The Purchaser will (and shall procure that each other member of the Purchaser's Group that is party to the Purchaser Financing Documents will) comply with all its rights and obligations under the Purchaser Financing Documents and undertakes to the Seller that it will:

- 7.9.1 take, and procure that each other member of the Purchaser's Group shall take, all actions required and available to it under the relevant Purchaser Financing Documents to draw down the Funds (including to procure the satisfaction of all necessary conditions to draw down the Funds under the Purchaser Financing Documents and to prevent the happening of any default, event of default or other circumstance which could result in the Funds not being available to draw down) enabling it to satisfy its payment obligations under Clause 6.2 and as set out in Schedule 2; and
- 7.9.2 not, and will procure that no other member of the Purchaser's Group shall, take any action or fail to take any action which could reasonably be expected to:
- (a) result in the Funds or any part of the Funds not being available when required at the Completion Date; or
  - (b) prejudice the ability of the Purchaser to draw down the Funds in order to satisfy its payment obligations under Clause 6.2 and as set out in Schedule 2.
- 7.10 If the Purchaser becomes aware of any fact, matter or circumstance that may directly or indirectly impede the Purchaser from drawing down such amounts under the terms of the Purchaser Financing Documents as are necessary to enable the Purchaser to satisfy its payment obligations under Clause 6.2 and as set out in Schedule 2, the Purchaser shall promptly notify the Seller in writing of that fact, matter or circumstance. For the avoidance of doubt, the occurrence of any such fact, matter or circumstance shall not discharge the Purchaser from its obligations under Clause 6.2 and as set out in Schedule 2.
- 7.11 Notwithstanding any other provision of this Agreement, the Purchaser shall cease to have any liability or obligation under Clause 7.5.10 or Clauses 7.6 to 7.10 (inclusive) following the satisfaction of its payment obligations under Clause 6.2 and as set out in Schedule 2 and Completion occurring.

## **8 Limitation of liability**

### **Monetary limits**

- 8.1 The aggregate liability of the Seller in respect of any and all Seller Claims shall be limited to, and shall in no event exceed:
- 8.1.1 in the event that Completion does not occur, an amount equal to the higher of (i) the Initial Consideration and (ii) the amount of the Consideration that is paid to the Seller on the Completion Date; and
  - 8.1.2 in the event that Completion does occur, an amount equal to the Consideration that is paid on the Completion Date.
- For the avoidance of doubt, no such limitations shall apply in respect of any Leakage Claim.

### **Notice of claims**

- 8.2 The Seller shall not be liable in respect of any Seller Claim and the Purchaser shall not be liable in respect of any Purchaser Claim unless written notice of such Seller Claim or such Purchaser Claim (as applicable) is given to the Seller (in the case of a Seller Claim) or to the Purchaser (in the case of a Purchaser Claim) on or before the date falling four years after (and excluding) the date of the Completion Date, specifying, in such detail as is

reasonably available to the claiming person at the time, the legal and factual basis of such Seller Claim or such Purchaser Claim (as applicable) and, on a without prejudice basis, the amount claimed (provided that failure to provide such detail shall not invalidate notice).

- 8.3 Where a breach giving rise to a Seller Claim or a Purchaser Claim is capable of remedy, the claiming person shall not be entitled to make any claim (whether for damages or otherwise) in respect of such breach if the breach is remedied (at no cost or loss to the claiming person and such that the claiming person is made whole for, or does not suffer, any loss as a result of such breach) within 30 Business Days after notice of the Seller Claim or Purchaser Claim (as applicable) is given under Clause 8.2.
- 8.4 Any Seller Claim, Leakage Claim or Purchaser Claim shall (if it has not been previously satisfied, settled or withdrawn) be deemed to have been withdrawn six months after notice is given pursuant to Clause 8.2 (in the case of a Seller Claim or a Purchaser Claim) or Clause 4.3 and Clause 4.4 (in respect of a Leakage Claim), respectively, unless legal proceedings in respect of it have been commenced by both being issued and served.
- 8.5 No new Seller Claim, Leakage Claim or Purchaser Claim (as applicable) may be made in respect of the facts, matters, events or circumstances giving rise to any such withdrawn Seller Claim, Leakage Claim or Purchaser Claim unless the claiming person becomes aware of new facts, matters, events or circumstances which are relevant to the Seller Claim, Leakage Claim or Purchaser Claim (as applicable) following such withdrawal.
- 8.6 The Seller shall not be liable in respect of any Seller Claim to the extent that it would not have arisen but for, or has been increased or not reduced as a result of, any voluntary act, omission or transaction carried out:
- 8.6.1 after Completion, by the Purchaser or any Affiliate of the Purchaser (or its or their respective directors, employees, agents or successors in title) outside the ordinary course of business of a Group Company as at Completion;
- 8.6.2 before Completion, by the Seller, any Affiliate of the Seller or any Group Company acting at the written request of the Purchaser or any Affiliate of the Purchaser; or
- 8.6.3 pursuant to and in compliance with this Agreement or any other Transaction Documents.

#### Information memorandum

- 8.7 The Purchaser acknowledges that the Information Memorandum was provided to it on the basis that neither the Seller nor any of their advisers makes any representation or warranty as to the accuracy or completeness of such information or accepts any duty of care to the Purchaser in respect of the provision of such information.

#### No right of rescission

- 8.8 Except pursuant to the express rights of termination as set out in this Agreement, the Purchaser is not entitled to rescind this Agreement or treat this Agreement as terminated by reason of any breach of this Agreement or circumstances giving rise to any Seller Claim, and the Purchaser hereby waives any and all rights of rescission it may have in respect of any such matter.

#### Fraud

- 8.9 None of the limitations contained in this Clause 8 shall apply to any Seller Claim, Leakage Claim or Purchaser Claim that arises or is increased, or is delayed, as a result of fraud or fraudulent misrepresentation.

## 9 Post-Completion matters

### ~~Post-Completion undertakings~~

- 9.1 The Purchaser acknowledges that the Seller may need access, from time to time, after Completion, for the purpose of complying with any bona fide Tax or accounting compliance and/or Tax or accounting reporting obligations (including, for the avoidance of doubt, any Tax Return preparation and filing) of the Seller or for the prosecution or settlement of any Tax Claim of the Seller (including, for the avoidance of doubt, with respect to US federal income Tax matters), to certain accounting and Tax records and information (including Tax Returns) pertaining to events occurring prior to or on Completion or in respect of the Transaction and agrees that the Purchaser shall and shall cause each Group Company to:
- 9.1.1 properly retain and maintain all relevant records until the earlier of:
- (a) ten years after the Completion Date;
  - (b) such time as the Seller agrees that such retention and maintenance is no longer necessary; and
  - (c) the date on which the Purchaser or any Group Company consummates an arm's length sale of any part of the Business to which such records and information relate to a third party purchaser (whether such sale is consummated by way of a sale of the Shares or a sale of any business or assets of the Group as a going concern);
- 9.1.2 upon being given reasonable notice by the Seller and subject to the Seller giving any confidentiality undertaking reasonably required by the Purchaser, allow the Seller and its officers, employees, agents, auditors and representatives, at the Seller's cost to:
- (a) inspect, review and make copies of such records and information for that purpose; and
  - (b) have reasonable access, as soon as reasonably practicable but in any event within 10 Business Days of request, to any employee, officer, adviser or premises of any Group Company during Normal Business Hours; and
- 9.1.3 provide such other reasonable assistance and information as may reasonably be requested by the Seller to the extent reasonably necessary in order to comply with any bona fide Tax compliance, and/or Tax reporting obligations (including Tax Return preparation and filing and the prosecution or settlement of any Tax Claim of the Seller) of the Seller, at the expense of the Seller.
- 9.2 The Seller undertakes (in the event that a claim is made against it in connection with the Transaction) not to make a claim against any Group Company or any person who was at any time prior to Completion an employee, consultant, officer or director of any Group Company (a "Released Person") on whom the Seller may have relied in negotiating any Transaction Document, except in the case of fraud or fraudulent misrepresentation by such Group Company or Released Person. The Seller shall, to the fullest extent permitted in accordance with applicable laws, waive, release and discharge each Group Company and



each Released Person from any and all claims, demands, proceedings, causes of action, orders, obligations and liabilities in connection with the Transaction which the Seller has or may at any time have had against any Group Company and/or Released Person.

- 9.3 For six years from the Completion Date (or for such shorter period as the Purchaser is able to control the relevant Group Company), the Purchaser shall ensure that any indemnity and/or immunity provisions contained in the memorandum and articles of association (or similar constitutional documents) of each Group Company of which David Duckworth, Anita Aluotto, Christopher Howard and Debra Osteen (each, an "Acadia Released Person") was an employee, officers or director immediately prior to Completion are not (except as may be required by applicable law) amended, repealed or modified in any manner that would affect adversely the existing rights of any Acadia Released Person.
- 9.4 As a separate undertaking to the undertaking set out in Clause 9.2, the Seller confirms that at Completion it will have no claim or right of action (whether in respect of any breach of contract, monies due to it or on any account whatsoever) against any Group Company or any Released Person, and undertakes not to make a claim against any Group Company or any Released Person except in the case of (i) a contravention by any Group Company or Released Person against any express instruction given by the Seller pre-Completion, where such contravention results in a breach of the pre-completion undertakings set out in Clause 5.1 and Schedule 1; and/or (ii) fraud or fraudulent misrepresentation by such Group Company or Released Person. The Seller shall, to the fullest extent permitted in accordance with applicable laws, waive, release, and discharge each Group Company and each Released Person from any and all claims, demands, proceedings, causes of action, orders, obligations and liabilities which the Seller has or may at any time have had against any Group Company or any Released Person.
- 9.5 For six years from the Completion Date, the Purchaser shall ensure that each Group Company (for so long as it remains part of the Purchaser's Group) maintains in force such "run-off" directors' and officers' liability insurance policies as will enable each Acadia Released Person who benefited from directors' and officers' liability insurance policies as at the date of this Agreement to make claims arising out of any matter, cause or event occurring on or before the Completion Date (a "~~Pre-Completion Event~~") under those policies on terms and conditions that are, on the whole, no less advantageous to the Acadia Released Person than the directors' and officers' liability insurance policies maintained by the Group Companies as at the date of this Agreement. The Purchaser shall not be deemed to be in breach of this Clause 9.4 if such "run off" directors' and officers' liability insurance is not maintained by the Purchaser if such insurance policy is not readily available in the market.
- 9.6 The provisions of Clauses 9.2 to 9.3 (inclusive) are in addition to, and not in substitution for, any other rights to indemnification or contribution that any Group Company or any Released Person may have at law, by contract or otherwise.
- 9.7 The Purchaser shall use reasonable endeavours to recover or to procure that the relevant Group Company recovers as input VAT any amount in respect of VAT incurred in respect of Disclosed Seller Transaction Costs and any Leakage (including the Notified Leakage Amount) after Completion.
- 9.8 The Purchaser shall pay to the Seller (so far as possible as an adjustment to purchase price):
- 9.8.1 any VAT recovered by a Group Company (or by the representative member of any group for VAT purposes of which the relevant Group Company is a member after Completion) in respect of Disclosed Seller Transaction Costs and any Leakage (including the Notified Leakage Amount) within 10 Business Days of receipt of

such VAT in money or money's worth (and if such VAT has not been recovered in money or money's worth within 12 months following Completion, the Purchaser shall have no further obligations to the Seller under this Clause 9.8.1); and

- 9.8.2 the amount by which a Tax liability of a Group Company is actually reduced in money or money's worth as a result of a utilisation of any Relief that arises as a result of Disclosed Seller Transaction Costs and any Leakage (including the Notified Leakage Amount), provided that, if no such reduction in a Tax liability has been realised in money or money's worth within 24 months following Completion, the Purchaser shall have no further obligations to the Seller under this Clause 9.8.2.

## **10 Payments**

### General provisions about payments

- 10.1 ~~Subject to paragraph 2 of Schedule 2, any payment to be made pursuant to this Agreement by the Purchaser (or any member of the Purchaser's Group) to the Seller shall be made to the Seller's Account or such other account as is notified by the Seller in writing in accordance with Clause 12.~~
- 10.2 Any payment to be made pursuant to this Agreement by the Seller to the Purchaser shall be made to the Purchaser's Account or such other account as is notified by the Purchaser in writing in accordance with Clause 12.
- 10.3 Payments under Clauses 10.1 and 10.2 shall be in immediately available funds by electronic transfer on the due date for payment. Payment of the amount due shall be a good, valid and effective discharge of the relevant payment obligation and the paying Party shall not be concerned with the application of any such payment.
- 10.4 If any sum due for payment in accordance with this Agreement is not paid on the due date for payment, the person in default shall pay Default Interest on that sum from but excluding the due date to and including the date of actual payment calculated on a daily basis.
- 10.5 Save as expressly provided for in this Agreement, each Party waives and relinquishes any right of set-off or counterclaim, deduction or retention which it might otherwise have out of any payments which it may be obliged to make (or procure to be made) to any other Party pursuant to this Agreement, any other Transaction Document or otherwise.

## **11 Announcements and confidentiality**

### Announcements

- 11.1 No Party (nor any of its respective Affiliates) to this Agreement shall make any announcement or issue any circular in connection with the existence or subject matter of this Agreement (or any other Transaction Document) without the prior written approval of the Seller and the Purchaser (in each case, such approval not to be unreasonably withheld or delayed) except that the Seller and the Purchaser shall be entitled to refer to the existence and/or subject matter of this Agreement (or any other Transaction Document) in marketing literature issued or circulated by or on behalf of the Seller, the Purchaser or any of their respective Affiliates or investors.
- 11.2 The restriction in Clause 11.1 shall not apply:

- 11.2.1 to the press announcement(s) to be issued by the Seller and/or the Purchaser (or any investor in the Purchaser) in the Agreed Form (the "Press Announcement");
- 11.2.2 to the form 8-K to be filed by the Seller in the Agreed Form; and
- 11.2.3 subject to Clauses 11.3 to 11.6:
  - (a) to any communications made by or on behalf of any Group Company after Completion to any client and/or employees of such Group Company;
  - (b) to any communications made by or on behalf of Waterland, or any of its group undertakings, to any actual, prospective, direct or indirect investor in funds or other investment vehicles managed or advised by Waterland or any of its group undertakings, subject to the recipient keeping such information confidential; or
  - (c) to any communications made by or on behalf of MPT to any of MPT's group undertakings, subject to the recipient keeping such information confidential.

#### Confidentiality

- 11.3 The Confidentiality Agreement shall terminate on execution of this Agreement, except for any non-solicitation undertakings in the Confidentiality Agreement which shall terminate on Completion, in each case without prejudice to any rights, liabilities or obligations that have accrued prior to termination.
- 11.4 The Seller and the Purchaser shall (and shall ensure that each of its Representatives shall) maintain Confidential Information in confidence and not disclose Confidential Information to any person except:
  - 11.4.1 as permitted by Clause 11.5; or
  - 11.4.2 with the prior written approval of (in the case of the Purchaser disclosing) the Seller or (in the case of the Seller disclosing) the Purchaser.
- 11.5 Clause 11.4 shall not prevent disclosure by a Party or its Representatives to the extent it can demonstrate that:
  - 11.5.1 disclosure is required by law or by any stock exchange or any regulatory, governmental or antitrust body having applicable jurisdiction (provided that, unless the disclosure forms part of regular and ongoing obligations not specifically related to a Group Company the disclosing Party shall (to the extent permitted by law) first inform (in the case of the Purchaser disclosing) the Seller and (in the case of the Seller disclosing) the Purchaser of its intention to disclose such Confidential Information and take into account the reasonable comments of (in the case of the Purchaser disclosing) the Seller and (in the case of the Seller disclosing) the Purchaser);
  - 11.5.2 disclosure is to a Taxation Authority or Tax or other professional adviser in circumstances where such disclosure is reasonably necessary for the management of the Tax, legal or accounting affairs of any member of the Seller's Group, any member of the Purchaser's Group, or any of their respective Affiliates and, to the extent legally permissible and unless a statutory obligation of confidentiality applies, shall be made subject to a reasonable obligation of confidentiality;

- 11.5.3 disclosure is of Confidential Information (save for, in relation to the Seller, Confidential Information relating to the Group Companies or the Business) which was lawfully in the possession of that Party or any of its Representatives (in either case as evidenced by written records) without any obligation of secrecy prior to its being received or held;
- 11.5.4 disclosure is of Confidential Information which has previously become publicly available other than through that Party's fault (or that of its Representatives);
- 11.5.5 disclosure is required for the purpose of any arbitral or judicial proceedings arising out of this Agreement (or any other Transaction Document);
- 11.5.6 such disclosure is made on a confidential basis to lending banks or other funding parties or prospective funding (whether debt or equity) parties of the Purchaser (including, without limitation, any affiliates, employees, officers, advisers and agents thereof), in each case, provided that the actual or prospective funding by such lending bank, funding party or prospective funding party, is being provided or proposed in relation to the Transaction (or any financing thereof) and such disclosure is made in relation thereto;
- 11.5.7 such disclosure is made to any rating agencies limited to that required for such rating agency to carry out any rating functions in connection with the Purchaser's financing arrangements and, to the extent legally permissible, shall be made subject to a reasonable obligation of confidentiality;
- 11.5.8 in the case of the Purchaser, such disclosure is made to:
- (a) any member of the Purchaser's Group and each of their directors, officers, partners, consultants, members or employees; or
  - (b) any direct or indirect investors or prospective investors in any member of the Purchaser's Group, MPT or any of their respective Affiliates or their respective investors, together with their respective directors, officers, advisers, managers or agents, provided that in each case such information is disclosed on a confidential basis.
- 11.6 Each of the Seller and the Purchaser undertakes that it (and its Affiliates) shall only disclose Confidential Information to its Representatives if it is reasonably required for purposes connected with this Agreement or the other Transaction Documents and only if the Representatives are informed of the confidential nature of the Confidential Information and undertake to the disclosing party to keep such Confidential Information confidential.
- 12 Notices**
- Service of notices
- 12.1 Any notice to be given under this Agreement must be in English and in writing, and may be served by hand, by first class post or airmail (pre-paid and signed for in each case) or by email to the address or email address (as applicable) given below, or to such other address or email address as may have been notified by any Party to the other Parties for this purpose (which shall supersede the previous address or email address (as applicable) from the date on which notice of the new address is deemed to be served under this Clause 12).

**The Seller:****For the attention of:****Address:****Email Address:****Copy to:**

Chris Howard, General Counsel

6100 Tower Circle, Suite 1000, Franklin, Tennessee 37067, USA

chris.howard@acadiahealthcare.com

Seller's Solicitors, for the attention of David Feirstein and Adrian Maguire  
(david.feirstein@kirkland.com and adrian.maguire@kirkland.com)

**Purchaser:****For the attention of:****Address:****Email address:****Copies to:**

Judy Martins

Brediusweg 31, 1401 AB Bussum, The Netherlands

Chamber of Commerce 32074547

martins@waterland.nu

Macfarlanes LLP, 20 Cursitor St, Holborn, London EC4A 1LT, for the attention of Peter Baldwin and Stephen Pike (with email copies to peter.baldwin@macfarlanes.com and stephen.pike@macfarlanes.com)

and

Hengeler Mueller, Behrenstrasse 4210117, Berlin,  
Germany, for the attention of: Alexander Nolte (with an email copy to alexander.nolte@hengeler.com)

12.2 Any notice served in accordance with Clause 12.1 shall be deemed to have been received:

12.2.1 if delivered by hand, at the time of delivery;

12.2.2 if sent by first class post, at 9.30 am on the second day after (and excluding) the date of posting;

12.2.3 if sent by airmail, at 9.30 am on the fifth day after (and excluding) the date of posting; or

12.2.4 if sent by email, at the time of transmission by the sender,

provided that if a notice would otherwise be deemed to have been received outside Normal Business Hours, it shall instead be deemed to have been received at the recommencement of such Normal Business Hours.

12.3 For the purposes of Clause 12.2, "Normal Business Hours" means 9.00 am to 5.30 pm local time in the place of receipt on any day which is not a Saturday, Sunday or public holiday in that location. In the case of service on any Party by email, the place of receipt shall be deemed to be the address specified for service on that Party by post.

12.4 In proving receipt of any notice served in accordance with Clause 12.1, it shall be sufficient to show that the envelope containing the notice was properly addressed and either delivered to the relevant address by hand or posted as a pre-paid, signed-for first class or airmail letter, or that the email was sent to the correct email address.



12.5 This Clause 12 shall not apply to the service of any proceedings or other documents in any legal action.

### 13 Limited recourse

#### Recourse to Related Persons

13.1 Notwithstanding anything that may be expressed or implied in this Agreement, the Purchaser acknowledges and agrees that, except in the case of fraud or fraudulent misrepresentation, and except for any rights or claims against the Warrantors (as defined in the Management Warranty Deed) under the Management Warranty Deed:

13.1.1 no recourse under this Agreement or under any documents, instruments or oral or written statements delivered in connection herewith may be had against any officer, employee or agent of the Seller, any direct or indirect holder of any equity interests or securities of the Seller (whether such holder is a limited or general partner, member, shareholder or otherwise), any Affiliate of the Seller, or any direct or indirect director, officer, employee, partner, Affiliate, member, agent, adviser, controlling person or representative of any of the foregoing (each such person or entity, a "Related Person"), whether by the enforcement of any judgment or assessment or by any legal or equitable proceeding (including, for the avoidance of doubt, through attempted piercing of the corporate, limited partnership or limited liability company veil or any insolvency proceeding), or by virtue of any statute, regulation or other applicable law; and

13.1.2 no liability whatsoever will attach to, be imposed on or otherwise be incurred by any Related Person under this Agreement or any documents or instruments delivered in connection herewith or with the transactions contemplated by this Agreement or for any claim based on, in respect of or by reason of such obligations or by their creation notwithstanding that the Seller may be a partnership, limited partnership or limited liability company.

### 14 General

#### Further assurances

14.1 On request by any Party, each Party shall, as soon as reasonably practicable at its own cost and insofar as it is reasonably able, do or procure the doing of all such acts and execute or procure the execution of all such documents (in a form reasonably satisfactory to the requesting Party) as the requesting Party may reasonably consider necessary or appropriate to carry this Agreement into effect and to give the requesting Party the full benefit of it.

#### Termination

14.2 If this Agreement is terminated pursuant to Clause 6.4.3 the Parties shall have no further obligations under this Agreement, provided that:

14.2.1 the Surviving Provisions shall survive termination; and

14.2.2 (for the avoidance of doubt) termination shall be without prejudice to any rights, liabilities or obligations that have accrued prior to termination, or to any other rights or remedies available under this Agreement or at law.

14.3 Save for the termination provision set out in Clause 6.4.3, no Party is entitled to terminate this Agreement.

#### Withholding, Transfer Taxes and VAT

- 14.4 All sums payable under this Agreement or any of the Transaction Documents or for breach of any of the provisions of this Agreement or any of the Transaction Documents shall be paid free and clear of all deductions or withholdings whatsoever, save only as provided in this Agreement or any relevant Transaction Document or as required by applicable law.
- 14.5 If any deductions or withholdings are required by law to be made from any payment (other than a payment of interest or a payment of the Consideration, or any repayment of the Consideration) made under this Agreement to a Party to this Agreement (the "~~Payee Party~~") by the other Party to this Agreement (the "~~Paying Party~~") then the Paying Party shall be obliged to pay the Payee Party such amount as will, after the deduction or withholding has been made, leave the Payee Party with the same amount as it would have been entitled to receive in the absence of such requirement to make a deduction or withholding; provided that this Clause 14.5 shall not apply to any payments made by the Seller to an assignee of the Purchaser pursuant to an assignment made pursuant to Clause 14.11.
- 14.6 Any sum payable under or pursuant to this Agreement is exclusive of any applicable VAT. If any supply is treated as made for VAT purposes by any Party under or pursuant to this Agreement, and such Party is required to account for VAT in respect of that supply, the Party receiving or paying for such supply shall, subject to the receipt of a valid VAT invoice, pay to the Party making such supply (in addition to any other consideration for that supply) an amount equal to such VAT. Such payment shall be made on demand or, if later, at the same time as any such consideration is payable.
- 14.7 If any Party (the "~~VAT Paying Party~~") is required by this Agreement to reimburse or indemnify another person (the "~~VAT Payee Party~~") for any amounts, the VAT Paying Party shall also reimburse or indemnify the VAT Payee Party for any VAT incurred by the VAT Payee Party (or the representative member of any group for VAT purposes of which the VAT Payee Party is a member) in respect of those amounts, except for any VAT which is recoverable as input tax by the VAT Payee Party (or its Affiliate) or by the representative member of any group for VAT purposes of which the VAT Payee Party is a member.
- 14.8 The Purchaser shall bear all stamp duties, stamp duty reserve tax, stamp duty land tax, notarial fees, sales Taxes, transfer Taxes or other similar Taxes (each a "Transfer Tax") payable as a result of the entry into this Agreement or the transactions contemplated by this Agreement, and shall be responsible for arranging the payment of any such Transfer Tax and filing any Tax Returns with respect to such Transfer Tax and any costs associated therewith.

#### Costs

- 14.9 Except for any Permitted Leakage and the Disclosed Seller Transaction Costs and unless expressly provided otherwise in this Agreement, each Party shall bear its own costs and expenses in relation to the negotiation, preparation, execution and implementation of the Transaction Documents, but this Clause 14.9 shall not prejudice any Party's right to seek to recover costs in any litigation or other dispute resolution procedure arising in connection with any Transaction Document.

#### Assignment

- 14.10 Subject to Clause 14.11, no Party may assign, hold on trust, transfer, charge or otherwise deal with all or any part of its rights or obligations under this Agreement nor grant, declare, create or dispose of any right or interest in it without the prior written consent of the Purchaser and the Seller.

- 14.11 Subject to Clause 14.13, this Agreement and all or any of the benefits arising under it may be assigned or charged in whole or in part by the Purchaser:
- 14.11.1 to the Purchaser's Group's financial lenders or banks or other creditors or any member of their groups (including funds) or any security agent or trustee acting on their behalf as security agent, in each case for any financing or refinancing in respect of the Transaction (including any additional facilities, notes, bonds and hedging made available in connection with such financing or refinancing) and such benefit may further be assigned to any other financial institution or other creditors by way of security for the borrowings of the Purchaser's Group resulting from any refinancing of the borrowings made under such financing or refinancing or to any person entitled to enforce such security or to any transferee under a valid enforcement of such security; or
- 14.11.2 to any member of the Purchaser's Group, any acquirer of any of the Properties (whether directly by way of asset acquisition or indirectly by way of a share acquisition) or any acquirer of any Group Company, provided that, where such assignee is a member of the Purchaser's Group that subsequently ceases to be a member of the Purchaser's Group (but excluding in circumstances where the assignee is acquired by MPT or any of its group undertakings for the purposes of a sale and leaseback arrangement), the Purchaser shall procure that prior to its ceasing to be so, such assignee reassigns to the Purchaser or (upon giving further notice to the Seller) to another member of the Purchaser's Group, so much of the rights and benefits under this Agreement as have been assigned to it.
- 14.12 As soon as practicable after any assignment in accordance with Clause 14.11, the Purchaser shall procure that the Party that has assigned its rights will give written notice of the assignment to the Seller.
- 14.13 In the case of an assignment pursuant to Clause 14.11, the liability of any Party to such an assignee shall not be greater than it would have been had such assignment not taken place, and all the rights, benefits and protections afforded to a Party shall continue to apply to the benefit of that Party as against the assignee as they would have applied as against the assigning Party.
- 14.14 Any purported assignment, declaration of trust, transfer, sub-contracting, delegation, charging or dealing in any manner that is not permitted by Clause 14.11 is ineffective.

#### Variation

- 14.15 No variation of this Agreement shall be valid unless it is in writing and signed by or on behalf of the Seller and the Purchaser.

#### Rights of third Parties

- 14.16 By reason of the Contracts (Rights of Third Parties) Act 1999:
- 14.16.1 each employee, director, agent, officer or adviser of the Seller or any of its Affiliates shall have the right to enforce the relevant terms of Clause 7.8 and this Clause 14.16;
- 14.16.2 each Party's Related Persons shall have the right to enforce the relevant terms of Clause 13.1, this Clause 14.16 and Clause 14.20;

- 14.16.3 the Released Persons (including the Acadia Released Persons) shall have the right to enforce the terms of Clauses 9.2 to 9.6 (inclusive) and this Clause 14.16 (but, for the avoidance of doubt, those Released Persons (including the Acadia Released Persons) shall not have the right to assign their rights thereunder without the prior written consent of the Purchaser); and
- 14.16.4 each relevant Group Company shall, with the prior written consent of the Purchaser, have the right to enforce Clauses 9.2 to 9.6 (inclusive) and this Clause 14.16 (but, for the avoidance of doubt, those Group Companies shall not have the right to assign their rights thereunder without the prior written consent of the Purchaser),

in each case subject to Clause 14.17.

14.17 The rights set out in Clause 14.16 are subject to:

14.17.1 the rights of the Parties to amend or vary this Agreement without the consent of any Related Person, Released Person (including the Acadia Released Persons) or Group Company or any director, officer, employee, agent, adviser and representative of the Group Companies (in each case, except in its capacity as a Party to this Agreement); and

14.17.2 the other terms and conditions of this Agreement.

14.18 Except as provided in Clause 14.16, a person who is not a Party to this Agreement shall have no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any of its terms.

**Entire agreement**

14.19 This Agreement and the Transaction Documents constitute the whole agreement between the Parties relating to the Transaction to the exclusion of any terms implied in law that may be excluded by contract. They supersede and extinguish any and all prior discussions, correspondence, negotiations, drafts, arrangements, understandings or agreements relating to the Transaction.

14.20 Each Party agrees and acknowledges that:

14.20.1 it is entering into the Transaction Documents in reliance solely on the statements made or incorporated in them;

14.20.2 no Party shall have any claim or remedy in respect of any statement, representation, warranty or undertaking made by or on behalf of the other Party (or any of its Related Persons) in relation to the Transaction, which is not expressly set out in this Agreement or any other Transaction Document;

14.20.3 any terms or conditions implied by law in any jurisdiction in relation to the Transaction are excluded to the fullest extent permitted by law or, if incapable of exclusion, any right, or remedies in relation to them are irrevocably waived;

14.20.4 the only right or remedy of a Party in relation to any provision of this Agreement or any other Transaction Document shall (save as otherwise specified in this Agreement or such other Transaction Document) be for breach of this Agreement or the relevant Transaction Document or under any applicable insurance policy;

- 14.20.5 except for any liability in respect of a breach of this Agreement or any other Transaction Document, no Party (or any of its Related Persons or advisers) shall owe any duty of care or have any liability in contract, in tort, under the Misrepresentation Act 1967 or otherwise to the other Parties (or their respective Related Persons or advisers) in relation to the Transaction (except to the extent that a reliance letter has been entered into between any such persons);
- 14.20.6 it is not entering into this Agreement in consequence of or in reliance on any unlawful communication as defined in section 30(1) of the Financial Services and Markets Act 2000 made by any other Party or any Party's professional advisers; and
- 14.20.7 except as expressly provided in this Agreement and the other Transaction Documents, it is entering into this Agreement solely in reliance on its own commercial assessment and investigation and advice from its own professional advisers,

provided that this Clause 14.20 shall not exclude any liability for (or remedy in respect of) fraud or fraudulent misrepresentation. Each Party agrees to the terms of this Clause 14.20 on its own behalf and as agent for each of its Related Persons and advisers.

#### Inconsistency

- 14.21 If there is any conflict between the terms of this Agreement and any other agreement, this Agreement shall prevail (as between the Parties to this Agreement) unless the Parties to this Agreement:
- 14.21.1 are also Parties to that other agreement and such other agreement expressly states that it overrides this Agreement in the relevant respect; or
- 14.21.2 expressly agree in writing that such other agreement shall override this Agreement in that respect.

- 14.22 To the extent permitted by law, where any provision of this Agreement conflicts with the Articles, or any articles of association of any Group Company, the Seller undertakes to exercise its voting rights in respect of such Group Company to procure that the Articles, or the articles of association of the relevant Group Company (as applicable), are amended so as to ensure that they are consistent with the terms of this Agreement.

#### Remedies

- 14.23 The rights and remedies conferred on any Party by, or pursuant to, this Agreement are cumulative, and, except as expressly provided in this Agreement, are in addition to, and not exclusive of, any other rights and remedies available to such Party at law or in equity. No single or partial exercise of any such right or remedy shall preclude any further exercise of it or the exercise of any other remedy.

#### Waiver

- 14.24 Any waiver of any term or condition of this Agreement, waiver of any breach of any term or condition of this Agreement, or waiver of, or election whether or not to enforce, any right or remedy arising under this Agreement or at law, must be in writing and signed by or on behalf of the person granting the waiver, and no waiver or election shall be inferred from a Party's conduct.



- 14.25 Any waiver of a breach of any term or condition of this Agreement shall not be, or be deemed to be, a waiver of any subsequent breach.
- 14.26 Failure to enforce any provision of this Agreement at any time or for any period shall not waive that or any other provision or the right subsequently to enforce all provisions of this Agreement.
- 14.27 Failure to exercise, or delay in exercising, any right or remedy shall not operate as a waiver or be treated as an election not to exercise such right or remedy, and single or partial exercise or waiver of any right or remedy shall not preclude its further exercise or the exercise of any other right or remedy.

#### Severance

- 14.28 Each of the provisions of this Agreement and the other Transaction Documents is severable. If any such provision is held to be or becomes invalid or unenforceable in any respect under the law of any jurisdiction, it shall have no effect in that respect and the Parties shall use all reasonable efforts to replace it in that respect with a valid and enforceable substitute provision the effect of which is as close to its intended effect as possible.

#### Counterparts and duplicates

- 14.29 This Agreement may be executed in any number of counterparts, and by each Party on separate counterparts, but shall not be effective until each Party has executed and delivered at least one counterpart. Each counterpart constitutes an original, and all the counterparts together constitute one and the same agreement. If this Agreement is executed in duplicate, each duplicate constitutes an original. Delivery of a counterpart of this Agreement by e-mail attachment shall be an effective mode of delivery.

#### Governing law

- 14.30 This Agreement and any non-contractual obligations arising out of or in connection with it (including any non-contractual obligations arising out of the negotiation of the transaction contemplated by this Agreement) are governed by and shall be construed in accordance with English law.

#### Jurisdiction

- 14.31 The Parties irrevocably agree that the courts of England shall have exclusive jurisdiction to settle any dispute or claim that arises out of or in connection with this Agreement (including a dispute relating to any non-contractual obligation arising out of or in connection with either this Agreement or the negotiation of the transaction contemplated by this Agreement).

#### Agent for service of process

- 14.32 At the date of this Agreement the Seller has appointed The Vistra Trust Company of Suite 1, 3rd Floor, 11-12 St James's Square, London SW1& 4LB as its process agent to receive on its behalf service of any proceedings in respect of any dispute or claim that arises out of or in connection with this Agreement or its subject matter or formation (the "Process Agent") in England. If such person ceases to be able to act as the Process Agent or no longer has an address in England, the Seller shall immediately appoint a replacement Process Agent and deliver to the Purchaser a notice setting out the new Process Agent's

name and address together with a copy of the new Process Agent's acceptance of its appointment.

14.33 Nothing contained in this Agreement shall affect the right to serve process in any other manner permitted by law.

**Schedule 1**  
**Pre-Completion undertakings**

**Part A Conduct of the Group Companies pre-Completion**

1. From the date of this Agreement until Completion, in each case subject to all applicable legal and regulatory requirements, the Seller shall procure that (unless otherwise permitted by paragraph 3 below):
- (a) the affairs of the Group Companies are conducted in the ordinary course of business, consistent with past practice so as to maintain the goodwill of the Business;
  - (b) the Properties are operated in accordance with applicable law in all material respects in a manner that is consistent with the past practice of the Group;
  - (c) no Group Company:
    - (i) shall terminate any policies of insurance of a Group Company or the policies of insurance in which any of them have an interest as at the date of this Agreement, and shall maintain such policies in full force and effect, and shall not intentionally do or omit to do anything the doing or omission of which would be reasonably likely to make any of such policies void or voidable;
    - (ii) enters into any debt arrangements with the Seller or its Affiliates or increases the Existing Shareholder Debt other than the accrual of interest in accordance with its terms;
    - (iii) allots, issues, redeems or purchases, converts or agrees to allot, issue, redeem, purchase or convert any securities or loan capital other than from one Group Company to another Group Company;
    - (iv) grants any right to subscribe for any share or loan capital other than from one Group Company to another Group Company, or grants or offers any option, or enters into any agreement to allot securities convertible into the share capital of any Group Company;
    - (v) declares, makes or pays any dividend or other distribution other than from one Group Company to another Group Company;
    - (vi) creates any Encumbrance over the Shares or the shares, securities, loan capital or assets of any Group Company (other than Encumbrances arising in the ordinary course of business or by operation of law);
    - (vii) transfers, or approves the transfer of, shares, securities, partnership interests or membership rights (as applicable) in any Group Company;
    - (viii) acquires any shares, membership rights or other securities issued by any other person; and
    - (ix) dissolves or enters into any plan of liquidation or dissolution or similar proceedings;
2. From the date of this Agreement until Completion, in each case subject to all applicable legal and regulatory requirements, the Seller shall use reasonable endeavours to procure that (unless otherwise permitted by paragraph 3 below):

(a) no Group Company:

- (i) intentionally does or omits to do anything the doing or omission of which would be reasonably likely to (a) entitle any of the insurers under any policies of insurance of a Group Company to refuse cover in relation to any claim (either in whole or in part); or (b) result in an increase in the premium payable under such policies;
- (ii) voluntarily closes, suspends or ceases operating from any of the Properties (other than the Closed Properties) on a temporary or permanent basis (and, for the avoidance of doubt, this paragraph 2(a)(ii) shall not apply to any closures, suspensions or cessation to operate (a) where such voluntary suspension is in relation to admissions on a temporary basis only; and (b) which are required pursuant to law, regulation, decrees, orders or other instructions from any Governmental Entity);
- (iii) grants, accepts, surrenders, or varies any lease or other interest in respect of any of the Properties;
- (iv) removes or procures the removal of any material plant, machinery or operating apparatus from any of the Properties other than in the ordinary course of allocating furniture or fittings between sites or where such removal would not materially impact on the ability of the relevant site to deliver services;
- (v) shall do or omit to do anything which would be reasonably likely to result in a material breach of any construction obligation(s) in relation to the Closed Properties;
- (vi) shall waive, vary or release any construction obligation in relation to the Closed Properties that would be reasonably likely to result in a delay to the timeframe within which any Closed Property is anticipated to re-open as specified;
- (vii) disposes of or charges, or enters into any agreement to dispose of or charge any of the Properties;
- (viii) materially changes the use of any of the Properties (other than as required by applicable law or regulation);
- (ix) carries out any material alteration or addition to any of the Properties with a value in excess of GBP 500,000 or makes any capital expenditure on or in the Properties with a value in excess of GBP 500,000, other than as disclosed to the Purchaser in the Group's monthly cash flow forecast;
- (x) acquires or disposes of any assets, business or undertakings having a value in excess of GBP 500,000 or assumes or incurs liabilities, obligations or expenses (actual or contingent) in excess of GBP 500,000, other than in the ordinary course of business or as disclosed to the Purchaser in the Group's monthly cash flow forecast;
- (xi) amends the terms of its borrowing or financial indebtedness or creates or incurs borrowing or financial indebtedness other than in the ordinary course of business where such amendment, creation or incurrence has a monetary value in excess of GBP 500,000;

- (xii) gives or enters into any guarantee or indemnity or other agreement to secure or incur financial or other obligations in relation to any person's obligation or liability other than in the ordinary course of business;
- (xiii) amends or terminates a material contract (other than any material contract which terminates according to its terms or which is terminated or amended in the ordinary course of business consistent with past practice) (and a material contract for the purposes of this paragraph shall be any contract involving a total annual income of GBP 1,000,000 or a total annual expenditure of GBP 1,000,000) save where such amendment increases the number of beds being acquired by the relevant commissioner;
- (xiv) starts, settles or abandons any litigation, arbitration or other proceedings or makes any admission of liability in respect thereof with a value in excess of GBP 500,000, other than in respect of that Group Company's debt collection practices undertaken in the ordinary course of business;
- (xv) save as required by law, increases the remuneration (including salary, pension contributions, bonuses, commissions and benefits in kind) of any director or employee who earns a base salary in excess of GBP 100,000 per annum, or provides or agrees to provide any gratuitous payment or benefit to any director or employee who earns a base salary in excess of GBP 100,000 per annum, or any of their dependants, other than as disclosed to the Purchaser in the Group's budget for the financial year 2020;
- (xvi) engages any new employee on a base salary in excess of GBP 100,000 per annum or dismisses any employee earning a base salary of GBP 100,000 or more per annum (except for cause);
- (xvii) amends its constitutional documents or accounting reference date;
- (xviii) changes its residence for Tax purposes or establishes any branch or permanent establishment in any jurisdiction outside its jurisdiction of incorporation or the jurisdiction in which it is resident for Tax purposes (if different);
- (xix) changes in its accounting methods, principles or practices, except insofar as may be required by law and/or a change in the existing accounting standards;
- (xx) makes or changes any Tax election, changes an annual accounting period, files any amended Tax Return, enters into any closing agreement, waives or extends any statute of limitations with respect to Taxes, settles or compromises any Tax liability, claim or assessment, surrenders any right to claim a refund of Taxes or takes any other similar action relating to the filing of any Tax Return or the payment of any Tax;
- (xxi) incorporates or establishes any entity; or
- (xxii) enters into any agreement or arrangement (whether in writing or otherwise) to do any of the foregoing or allow or permit any of the foregoing to occur.

3. Notwithstanding anything to the contrary in paragraph 1 of Part A of this Schedule 1 or any other provision of this Agreement or any other Transaction Document, no Seller or Group Company shall be prevented from, be required to obtain the Purchaser's consent in relation to, or incur any liability as a result of, any act or omission:



- (a) approved by the Purchaser in writing given to the Seller, such approval not to be unreasonably withheld or delayed, provided that any request for consent under this Schedule 1 shall be directed to Judy Martins by email to [martins@waterland.nu](mailto:martins@waterland.nu);
  - (b) expressly required by the terms of any Transaction Document;
  - (c) necessary, in the reasonable opinion of the Seller, in order to comply with any requirement of applicable law or regulation (including any rules or requirements of any Governmental Entity) and/or to comply with any terms of any collective bargaining agreement, trade union recognition agreement or regulations in connection with any trade union, works council or similar body affiliated to any Group Company;
  - (d) necessary, in the reasonable opinion of the Seller, in order to comply with a legally binding commitment created before the date of this Agreement and as Disclosed (as such term is defined in the Management Warranty Deed) prior to the date of this Agreement (including, for the avoidance of doubt, the payment of any settlement amounts specifically provided for in the Locked Box Accounts);
  - (e) reasonably undertaken by any Group Company in an emergency or disaster situation with the intention of minimising any adverse effect of such situation in relation to any Group Company; and
  - (f) constituting Permitted Leakage.
4. In no circumstances is Clause 5 and this Schedule 1 intended to allow the Purchaser the ability to control the Group or any Group Company.

5.

## **Part B**

### **Purchaser access**

1. From the date of this Agreement until the Completion Date, in each case subject to all applicable legal and regulatory requirements and to the extent within their power to do so, the Seller shall use its reasonable endeavours to ensure that each Group Company allows the Purchaser, its Affiliates and each of their respective Representatives, at the Purchaser's cost, upon reasonable notice and during Normal Business Hours, reasonable access to its books and records (other than materials that are subject to confidentiality restrictions in favour of third Parties or legal privilege and for the avoidance of doubt not including any Tax Returns of the Seller's Group) and to the management of any of the Group Companies, where such access is reasonably required by the Purchaser for the purpose of monitoring the Group Companies during the Pre-Completion Period.

**Schedule 2**  
**Completion Obligations**

**Seller's Obligations**

1. On the Completion Date:
  - (a) the Seller shall deliver, or ensure that there is delivered, to the Purchaser (or make available to the Purchaser's reasonable satisfaction):
    - (i) a duly executed share transfer form in the name of the Purchaser;
    - (ii) share certificates relating to the Shares;
    - (iii) the statutory registers and books of the Company (and, for the avoidance of doubt, such registers and books may be made available to the Purchaser's reasonable satisfaction by way of confirmation that they are being kept at the Company's registered office);
    - (iv) the duly signed resignations in the Agreed Form ("~~Director Resignation Letters~~") of Christopher Howard, Debra Osteen, David Duckworth and Anita Aluotto, in respect of their directorships of any Group Company;
    - (v) subject to the Purchaser complying with its obligation in paragraph 2(b) below, written confirmation from the relevant members of the Seller's Group that the Existing Shareholder Debt has been repaid in full;
    - (vi) the duly executed form UCC-3 in the Agreed Form evidencing the release of the Share Pledge (the "Form UCC-3"); and
    - (vii) the duly executed Deed of Release.

**Purchaser's Obligations**

2. On the Completion Date, the Purchaser shall:
  - (a) pay by electronic funds transfer for value on the Completion Date an amount equal to the Consideration to the Seller's Account;
  - (b) pay by electronic fund transfer for value on the Completion Date an amount equal to the Existing Shareholder Debt Repayment Amount to the Seller's Account; and
  - (c) procure the payment by the relevant Group Company of any Disclosed Seller Transaction Costs that have not been paid prior to Completion to the bank account(s) as specified by the relevant payee(s) as notified to the Purchaser in the Final Completion Schedule.

**General**

3. All documents and items delivered at Completion pursuant to this Schedule 2 shall be held by the recipient to the order of the person delivering the same until such time as Completion shall be deemed to have taken place. Simultaneously with:
  - (a) delivery of all documents and all items required to be delivered at Completion (or waiver of the delivery of it by the person entitled to receive the relevant

document or item); and

(b) receipt of electronic funds transfers in accordance with paragraphs 2(a) to 2(c) (inclusive) of this Schedule 2,

the documents and items delivered in accordance with this Schedule 2 shall cease to be held to the order of the person delivering them, the Company shall record the transfer of the Shares to the Purchaser in the register of shareholders of the Company and issue share certificates in relation to the Shares in the name of the Purchaser and Completion shall be deemed to have taken place.

### **Schedule 3**

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### Permitted Leakage

1. any sum (including as to principal or interest) paid by way of repayment of the Existing Shareholder Debt in accordance with this Agreement or in accordance with the terms of the Existing Shareholder Debt;
2. any payments to the extent of any amounts specifically accrued, reserved or provisioned in the Locked Box Accounts (and, for the avoidance of doubt, if a payment is made in respect of an amount specifically accrued, reserved or provisioned in the Locked Box Accounts that exceeds such accrual, reserve or provision, the amount of the excess (and any Tax Leakage thereon) shall be deemed to be Leakage);
3. any payment, accrual or liability to pay any Disclosed Seller Transaction Costs;
4. any year end 2020 trading bonuses (and any payroll Taxes (including NICs) in relation thereto) up to an aggregate maximum amount of £4,195,915.08;
5. any matter undertaken by or on behalf of any Group Company after the date of this Agreement at the written request or with the prior written agreement of the Purchaser;
6. any payment made or agreed to be made by or on behalf of any Group Company to the extent expressly required by the terms of this Agreement or any other Transaction Document;
7. any Leakage refunded in cash to the Group Companies by or on behalf of the Seller or its Affiliates on or prior to Completion;
8. any matter which the Purchaser and the Seller agree in writing shall be Permitted Leakage; and
9. save in respect of paragraph 4 above, any liability or increased liability to Tax of any Group Company in respect of or in consequence of any of the matters referred to in the paragraphs above.

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**Schedule 4**  
**U.S. Tax Matters**

**Certain Elections**

1. Notwithstanding anything to the contrary in this Agreement or the Transaction Documents, without the prior written consent of the Seller, the Purchaser shall not (and shall procure that its Affiliates and the Group Companies shall not) make, and shall not permit any Group Company to make, with respect to the Purchaser's acquisition of the Shares and of the Group Companies, any election under Section 338(g) of the Code or any other similar provisions of U.S. state or local or non-U.S. law.
2. In the event that the Seller requests in writing within nine (9) months of the Completion Date that the Purchaser or any Group Company make an election under Section 338(g) of the Code, the Purchaser agrees to reasonably consider in good faith such request, provided that the Purchaser is under no obligation to make or procure the making of such election.

**Schedule 5**  
**The Properties**

List of the Properties omitted from this filing.

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## Schedule 6

### Additional Seller Warranties

#### Part A: Definitions

In this Schedule 6, the capitalised terms set out below have the following meanings:

~~"Company Accounts"~~ means the annual report and unaudited financial statements of the Company for the period ended on the Company Accounts Date in the Agreed Form;

~~"Company Accounts Date"~~ means 31 December 2019;

~~"Company June Accounts"~~ means the unaudited financial statements of the Company for the period ended on the Company June Accounts Date;

~~"Company June Accounts Date"~~ means 30 June 2020; and

~~"Intertrust Agreement"~~ means a management agreement between Intertrust and the Company dated 8 November 2018 for the provision of management and administrative services.

#### Part B: Additional Seller Warranties

##### ~~The Company~~

1. The Company is not and has never been engaged in any manner in the carrying on of any trade or business and (save as expressly provided in or contemplated in the Transaction Documents) the Company:
  - (a) has no, and has never had any, indebtedness, mortgages, charges, debentures, guarantees or other commitments or liabilities (actual or contingent) other than commitments or liabilities in the ordinary and usual course as a holding company that is non-trading or to another Group Company;
  - (b) has no, and has never had, any employees;
  - (c) is not, and has never been, party to any contract other than those agreements which effected the contribution of the shares and loan notes in various Group Companies to the Company by the Seller and the Intertrust Agreement;
  - (d) has not, and never has, given any power of attorney or other authority to any person;
  - (e) is not, and never has been, the lessee of any property;
  - (f) has no, and never has had, any assets other than the Subsidiaries and any intercompany balances owed to it by the Subsidiaries; and
  - (g) has at all times been tax resident only in Jersey and has never had a branch, permanent establishment or place of business outside of Jersey.

##### ~~Company Accounts~~

2. Having regard to the purposes for which they were prepared, the Company Accounts are fair and not misleading and do not materially misstate the assets and liabilities of the Company as at the Company Accounts Date nor the profits and losses of the Company for the period concerned.

#### **Company June Accounts**

3. Having regard to the purposes for which they were prepared, the Company June Accounts are fair and not misleading and do not materially misstate the assets and liabilities of the Company as at the Company June Accounts Date, nor the profit and losses of the Company for the period concerned.

#### **Part C**

#### **Limitations**

1. Notwithstanding the provisions of Clause 8.1, the Seller's maximum aggregate liability in respect of any and all claims for breach of the Additional Seller's Warranties shall be limited to, and shall in no event exceed, £1.
2. Notwithstanding the provisions of Clause 8.2, the Seller shall not be liable for any claim in respect of the Additional Seller Warranties unless the Purchaser has given written notice to the Seller before the second anniversary of the Completion Date.
3. Without prejudice to the Purchaser's right to bring a claim in respect of which notice has been given to the Seller within the time limit set out in paragraph 2 of Part C of this Schedule 5, the Purchaser shall specify in such notice such reasonable details of the matter or thing giving rise to such claim as are then readily available to the Purchaser and an estimate (if then reasonably capable of determination by the Purchaser) of the amount claimed.
4. Notwithstanding the foregoing, nothing in this Agreement shall operate to exclude or limit any liability of the Seller or any remedy available to the Purchaser in relation to any claim in respect of any Additional Seller Warranty that arises or is delayed as a result of fraud or fraudulent misrepresentation.

**Schedule 7**

**Specified Security Interests**

<b>Prince Question</b>	<b>Priory Group Company</b>	<b>Chargee</b>	<b>Date Created</b>	<b>Brief Description</b>	<b>Comments</b>	<b>Outcor</b>
252	Castle Homes Care Limited	Edward Oliver John Beck and Andrew Michael Wright	19 November 2004	<b>Deed of rent deposit</b> Amount Secured £1,000 due or to become due from the company to the charge Short Particulars The security deposit of £1,000 together with all sums paid by castle homes care limited	This is in connection with a lease of Brook House Farm, Cheshire dated 19 Dec 2004 between (1) Edward Oliver John Beck and Andrew Michael Wright and (2) Castle Homes Care Limited which has now expired.  Our new landlord is Mrs D M France- Hayhurst Foundation	Charge can be release
253	Parkcare Homes (No. 2) Limited	Barclays Bank PLC	2 September 2016	Contains Fixed charge	Ongoing charge in relation to current banking arrangements with Barclays	Charge can be release



Prince Question	Priory Group Company	Chargee	Date Created	Brief Description	Comments	Outcor
253	Parkcare Homes (No. 2) Limited	Barclays Bank PLC	2 October 2008	Standard security over property at 228 Main Street, Stenhousemuir, Larbert, Scotland under Title Number STG14273	Property: Dunvegan Care Home, Stirlingshire.  Updated titles from Land Register of Scotland confirms no financial charges noted against the property.  The 4x charges relate to a historic Craegmoor financing from 2008 (ie it pre-dates Priory ownership). Likely to have been capable of being released in 2011 when new Priory merged with Craegmoor and new financing was put in place with Advent.	Charge can be released
253	Parkcare Homes (No. 2) Limited	Barclays Bank PLC	2 October 2008	Standard security over property at 3 Dundonald Road, Kilmarnock, Scotland under Title Number AYR35648	Property: Kirklea Care Home, Kilmarnock.  Updated titles from Land Register of Scotland confirms no financial charges noted against this property.	Charge can be released
253	Parkcare Homes (No. 2) Limited	Barclays Bank PLC	2 October 2008	Standard security over property at Garpel House, Large Road, Lochinnoch, Scotland under Title Number REN119823	Property: Corsefield This was sold on 23 October 2018.	Charge can be released
253	Parkcare Homes (No. 2) Limited	Barclays Bank PLC	2 October 2008	Standard security over property at 57-59 Galston Road, Hurlford, Kilmarnock, Scotland under Title Number AYR35645	Property: Newhouse, Kilmarnock Care Home.  Updated titles from Land Register of Scotland confirms no financial charges noted against this property.	Charge can be released

Prince Question	Priory Group Company	Chargee	Date Created	Brief Description	Comments	Outcor
254	Parkcare Homes Limited	Barclays Bank PLC	2 October 2008	Standard security over All and whole the rectangular area of ground lying to the west of isla road perth in the county of perth together with (one) the building formerly k/a tayside and now tayside nursing home isla road perth; (two) the parts, pertinents and privaleges thereof; (three) the servitude rights; (four) the fittings and fixtures	This property is located on Isla Road in Perth.  This relates to a historic Craegmoor financing from 2008 (ie it pre-dates Priory ownership). Likely to have been capable of being released in 2011 when new Priory merged with Craegmoor and new financing was put in place with Advent	Charge can be released
256	Aspire Scotland Ltd	Bank of Scotland PLC	5 April 2017	Contains floating charge. Floating charge covers all the property or undertaking of the company/ Contains negative pledge.	This loan was repaid in full when Priory acquired the Aspire group in November 2017	Charge can be released
257	Quantum Care (UK) Limited	The Queen's Most Excellent Majesty	4th February 2013	<b>Rent deposit deed</b> £24,000.	This is in relation to a lease dated 4 Feb 2013 between (1) Clerk of the Council of the Duchy of Lancaster and (2) Quantum Care (UK) Limited. Property address not stated.  Further enquiries needed (though likely the lease has expired).	Charge be released
259	Strathmore College Limited	•Ashtenne Industrial Fund Nominee No. 1 & Ashtenne Industrial Fund Nominee No. 2 Limited	29 June 2012	<b>Rent deposit deed</b>  Short particulars – deposit account	This is in relation to Lease dated 1 June 2012 between (1) Ashtenne Industrial Fund Nominee No. 1 & Ashtenne Industrial Fund Nominee No. 2 Limited and (2) Strathmore College Limited in respect of Units 7,10&11 Trentham Technology Park, Bellringer Road, Trentham, Stoke on Trent.  This lease has expired.	Charge be released

Prince Question	Priory Group Company	Chargee	Date Created	Brief Description	Comments	Outcom
259	Strathmore College Limited	Lightstone (Midlands) Limited	17 January 2007	<b>Lease of premises</b> Amount secured £970 due or to become due from the company tounder the terms of the aforementioned instrument creating or evidencing the charge  Short Particulars The deposit.	Appears to relate to an old lease: there is no reference to this lease in the PG property records. The Chargee was dissolved on 15 January 2016. The amount secured was £970.	Charge 1 be relea:
366	Priory Group UK 1 Limited	Bank of America, N.A.	16 February 2016	Contains fixed charge. Contains negative pledge.	Relates to debt financing put in place by Acadia – this will paid off and the charge released at the completion of Project Prince	Charge 1 be relea: at complet
366	Priory Group UK 1 Limited	Bank of America, N.A	16 February 2016	Contains fixed charge. Contains negative pledge.	Relates to debt financing put in place by Acadia – this will paid off and the charge released at the completion of Project Prince	Charge 1 be relea: at complet
366	Priory Group UK 1 Limited	Bank of America, N.A	24 November 2015	Contains fixed charge. Contains negative pledge.	Relates to debt financing put in place by Acadia – this will paid off and the charge released at the completion of Project Prince	Charge 1 be relea: at complet
366	Priory Group UK 1 Limited	Bank of America, N.A	13 May 2015	Contains fixed charge. Contains negative pledge.	Relates to debt financing put in place by Acadia – this will paid off and the charge released at the completion of Project Prince	Charge 1 be relea: at complet
366	Priory Group UK 1 Limited	Bank of America, N.A	16 December 2014	None. Contains negative pledge.	Relates to debt financing put in place by Acadia – this will paid off and the charge released at the completion of Project Prince	Charge 1 be relea: at complet

Prince Question	Priory Group Company	Chargee	Date Created	Brief Description	Comments	Outcor
367	Priory Holdings Company No. 1 Limited Priory Holdings Company No. 2 Limited Priory Holdings Company No. 3 Limited Priory Investments Holdings Limited Priory Health No. 1 Limited Priory Health No. 2 Limited	Deutsche Bank Ag	14 April 2011	<p><b>Confirmation Deed</b> Amount Secured All monies due or to become due from any member of the group to any creditor on any account whatsoever under the terms of the aforementioned instrument creating or evidencing the charge.</p> <p><b>Short Particulars</b> Fixed and floating charge over the undertaking and all property and assets present and future, including goodwill, book debts, uncalled capital, buildings, fixtures, fixed plant &amp; machinery.</p>	Relates to Advent debt financing in 2011 which was paid off when Priory was sold to Acadia in 2015/16.	Charge can be released

Prince Question	Priory Group Company	Chargee	Date Created	Brief Description	Comments	Outcor
367	Priory Holdings Company No. 1 Limited Priory Holdings Company No. 2 Limited Priory Holdings Company No. 3 Limited Priory Investments Holdings Limited Priory Health No. 1 Limited Priory Health No. 2 Limited	Deutsche Bank Ag	14 April 2011	<b>Confirmation Deed</b> Amount Secured All monies due or to become due from any member of the group to any creditor on any account whatsoever under the terms of the aforementioned instrument creating or evidencing the charge  Short Particulars Fixed and floating charge over all property and assets present and future, including goodwill, book debts, uncalled capital, buildings and fixtures.	Relates to Advent debt financing in 2011 which was paid off when Priory was sold to Acadia in 2015/16.	Charge can be released
367	Priory Holdings Company No. 1 Limited Priory Holdings Company No. 2 Limited Priory Holdings Company No. 3 Limited Priory Investments Holdings Limited Priory Health No. 1 Limited Priory Health No. 2 Limited	Deutsche Bank Ag	4 March 2011	<b>Security Accession Deed</b> Amount Secured All monies due or to become due from any member of the group to any creditor on any account whatsoever under the terms of the aforementioned instrument creating or evidencing the charge  Short Particulars By way of legal mortgage all property, by way of equitable mortgage all shares and investments and relating rights, by way of fixed charge all other interests, intellectual property, all trading receivables, other debts, goodwill and uncalled capital. By way of floating charge all assets and rights not effectively charged by way of fixed charge.	Relates to Advent debt financing in 2011 which was paid off when Priory was sold to Acadia in 2015/16.	Charge can be released



Prince Question	Priory Group Company	Chargee	Date Created	Brief Description	Comments	Outcor
367	Priory Holdings Company No. 1 Limited Priory Holdings Company No. 2 Limited Priory Holdings Company No. 3 Limited Priory Health No. 1 Limited  Priory Health No. 2 Limited	Deutsche Bank Ag	4 March 2011	<p><b>Security Accession Deed</b></p> <p>Amount Secured</p> <p>All monies due or to become due from any member of the group to any creditor on any account whatsoever under the terms of the aforementioned instrument creating or evidencing the charge</p> <p>Short Particulars</p> <p>By way of legal mortgage all property, by way of equitable mortgage all shares and investments and relating rights, by way of fixed charge all other interests, intellectual property, all trading receivables, other debts, goodwill and uncalled capital. By way of floating charge all assets and rights not effectively charged by way of fixed charge.</p>	Relates to Advent debt financing in 2011 which was paid off when Priory was sold to Acadia in 2015/16.	Charge can be released

Prince Question	Priory Group Company	Chargee	Date Created	Brief Description	Comments	Outcome
367	Priory Investments Holdings Limited	Deutsche Bank Ag	4 March 2011	<p><b>Debenture</b></p> <p>Amount Secured All monies due or to become due from any member of the group to any creditor on any account whatsoever under the terms of the aforementioned instrument creating or evidencing the charge</p> <p>Short Particulars Fixed and floating charge over the undertaking and all property and assets present and future, including goodwill, book debts, uncalled capital, buildings, fixtures, fixed plant &amp; machinery see image for full details.</p>	Relates to Advent debt financing in 2011 which was paid off when Priory was sold to Acadia in 2015/16.	Charge can be released
368	Partnerships in Care (Rhondda) Limited	National Westminster Bank PLC	9 November 2006	<p><b>Legal Charge</b></p> <p>Amount Secured All monies due or to become due from the company to the chargee on any account whatsoever</p> <p>Short Particulars Land k/a tyntyla hospital llwynpia. By way of fixed charge the benefit of all covenants and rights concerning the property and plant machinery fixtures fittings furniture equipment implements and utensils the goodwill of any business carried on at the property and the proceeds of any insurance affecting the property or assets.</p>	<p>This is in relation to Ty Cwm Rhondda (CYM318093).</p> <p>Updated OCEs confirm no legal charge noted against the property.</p> <p>The charge should be released.</p>	Charge can be released

Prince Question	Priory Group Company	Chargee	Date Created	Brief Description	Comments	Outcor
368	Partnerships in Care (Rhonddda) Limited	National Westminster Bank PLC	9 November 2006	<p><b>Legal charge over building contract</b></p> <p>Amount Secured All monies due or to become due from the company to the chargee on any account whatsoever under the terms of the aforementioned instrument creating or evidencing the charge</p> <p>Short Particulars All benefit in the design and build contract dated 21ST august 2006 all rights titles benefits and interests arising out of or connected with or relating to the contract. See the mortgage charge document for full details.</p>	Charge over building contract for Ty Cwm Rhonddda (CYM318093). Property has been built so charge can be released	Charge be released
368	Partnerships in Care (Rhonddda) Limited	National Westminster Bank PLC	13 September 2006	<p><b>Debenture</b></p> <p>Amount Secured All monies due or to become due from the company to the chargee on any account whatsoever</p> <p>Short Particulars Fixed and floating charges over the undertaking and all property and assets present and future including goodwill bookdebts uncalled capital buildings fixtures fixed plant and machinery.</p>	Formerly, Pastoral Cymru Limited, from CH records it appears this company borrowed funds from Nat West in 2006 in order to build/develop the facility known as Ty Cwm Rhonddda (which is still operational). Partnerships in Care acquired Pastoral Cymru Limited in March/April 2015. As it is likely that the acquisition would have been debt-free, it is also likely that that the redemption of the bank loan should have resulted in the legal charge and debenture also being released. The current accounting records make no reference to the bank overdraft/facility so it is reasonable to assume that the bank debt is no longer in place and the debenture can be released.	Charge be released

Prince Question	Priory Group Company	Chargee	Date Created	Brief Description	Comments	Outcome
369	Partnerships in Care (Cardiff) Limited	National Westminster Bank PLC	18 April 2008	<p><b>Legal Charge</b>  Amount secured  All monies due or to become due from the company to the chargee on any account whatsoever</p> <p><b>Short Particulars</b>  Land and buildings on the north east side of dyfrig road and land lying to the east of dyfrig road ely by way of fixed charge, the benefit of all covenants &amp; rights concerning the property &amp; all plant machinery, fixtures, fittings, furniture, equipment, implements &amp; utensils. The goodwill of any business carried on at the property &amp; the proceeds of any insurance affecting the property or assets.</p>	<p>This is in relation to Ty Catrin.</p> <p>Updated OCEs confirm no legal charges noted against the property.</p>	Charge be released

Prince Question	Priory Group Company	Chargee	Date Created	Brief Description	Comments	Outcome
369	Partnerships in Care (Cardiff) Limited	National Westminster Bank PLC	9 April 2008	<b>Debenture</b> Amount Secured All monies due or to become due from the company to the chargee on any account whatsoever  Short Particulars Fixed and floating charge over the undertaking and all property and assets present and future, including goodwill, uncalled capital, buildings, fixtures, fixed plant & machinery.	Formerly, Pastoral Cymru (Cardiff) Limited, from CH records it appears this company borrowed funds from Nat West in 2008 in order to build/develop the facility known as Ty Catrin (which is still operational). Partnerships in Care acquired Pastoral Cymru (Cardiff) Limited in March/April 2015 at which point the legal charge in favour of NW was released. As it is likely that the acquisition would have been debt-free, it is also likely that the redemption of the bank loan should have resulted in the debenture also being released. The current accounting records make no reference to the bank overdraft/facility so it is reasonable to assume that the bank debt is no longer in place and the debenture can be released.	Charge can be released
377	Aspire Scotland Holdings Limited	Bank of Scotland PLC	20 July 2015	N/A. Contains floating charge. Floating charge covers all the property or undertaking of the company. Contains negative pledge.	See above	Charge can be released
378	Craegmoor Limited	Barclays Bank PLC	2 September 2016	Contains fixed charge.	Ongoing charge in relation to current banking arrangements with Barclays	Charge can be released
687	Specialty Care (Addison Court) Limited	NHP Propco	15 August 2005	Mortgage Debenture	This relates to the lease of Addison Court – the home has closed and the lease was surrendered for £1.5m on 18 December 2020.	Charge can be released

IN WITNESS WHEREOF this Agreement has been duly executed by the Parties on the date first above written.

**EXECUTED** by \_\_\_\_\_ )  
/s/ DEBRA K. OSTEEN CEO for )  
**ACADIA HEALTHCARE COMPANY INC.** )  
in the presence of: \_\_\_\_\_ )



EXECUTED by  
/s/ WENDA ADRIAANSE for REMEDCOUK LIMITED

)  
)

**DESCRIPTION OF THE COMPANY'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES  
EXCHANGE ACT OF 1934**

*Acadia Healthcare Company, Inc. has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: our common stock, \$0.01 par value per share.*

*In this exhibit, when we refer to "Acadia," the "Company," "we," "us" or "our" or when we otherwise refer to ourselves, we mean Acadia Healthcare Company, Inc., excluding, unless otherwise expressly stated or the context requires, our subsidiaries; all references to "common stock" refer only to common stock issued by us and not to any common stock issued by any subsidiary.*

**DESCRIPTION OF COMMON STOCK**

Our amended and restated certificate of incorporation, as amended, provides that our authorized capital stock consists of 180,000,000 shares of common stock, \$0.01 par value, and 10,000,000 shares of preferred stock, \$0.01 par value. As of February 26, 2021, there were 89,039,946 shares of our common stock and no shares of our preferred stock issued and outstanding.

This section summarizes the general terms of our common stock. The summaries in this section do not describe every aspect of our common stock. When evaluating our common stock, you should also refer to all of the provisions of our amended and restated certificate of incorporation, our amended and restated bylaws and the Delaware General Corporation Law, as amended ("DGCL"). Our amended and restated certificate of incorporation and our amended and restated bylaws are filed as exhibits to our Annual Report on Form 10-K.

**Terms of Common Stock**

***Voting Rights***

Each share of common stock entitles the holder to one vote with respect to each matter presented to our stockholders on which the holders of common stock are entitled to vote. Our common stock votes as a single class on all matters relating to the election and removal of directors on our board of directors and as provided by law. Holders of our common stock do not have cumulative voting rights. Except in respect of matters relating to the election of directors, or as otherwise provided in our amended and restated certificate of incorporation or required by law, all matters to be voted on by our stockholders must be approved by a majority of the shares present in person or by proxy at the meeting at which a quorum is present and entitled to vote on the subject matter. The holders of a majority of the outstanding voting power of all shares of capital stock entitled to vote, present in person or represented by proxy, constitutes a quorum at all meetings of our stockholders. In the case of the election of directors in uncontested director elections, in order to be elected, a majority of the votes cast must be in favor of a nominee's election. In contested elections, directors must be elected by a plurality of the votes cast.

***Dividend Rights***

The holders of our outstanding shares of common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors out of legally available funds. Our ability to pay dividends on our common stock will be limited by restrictions on the ability of our subsidiaries to pay dividends or make distributions to us, including restrictions under the terms of the agreements governing our indebtedness.

***Liquidation Rights***

In the event of any voluntary or involuntary liquidation, dissolution or winding up of our affairs, holders of our common stock are entitled to share ratably in our assets that are legally available for distribution to stockholders

after payment of our debts and other liabilities. If we have any preferred stock outstanding at such time, holders of the preferred stock may be entitled to distribution and/or liquidation preferences. In either such case, we must pay the applicable distribution to the holders of preferred stock, if any, before we may pay distributions to the holders of our common stock.

#### **Other Rights**

Our stockholders have no preemptive, conversion or other rights to subscribe for additional shares. All outstanding shares of our common stock are validly issued, fully paid and nonassessable. The rights, preferences and privileges of the holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of our preferred stock that our board of directors may designate and issue in the future.

#### **Listing**

Our common stock is listed on The NASDAQ Global Select Market under the symbol "ACHC".

#### **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Broadridge Corporate Issuer Solutions, Inc.

#### **Registration Rights**

Effective December 31, 2015, concurrently with the execution of the sale and purchase deed related to our acquisition of Priory Group No. 1 Limited, we entered into a third amended and restated registration rights agreement (the "Registration Rights Agreement"), with certain members of our current and former management (the "Management Investors"), Waud Capital Partners, L.L.C. ("WCP"), investment funds affiliated with Bain Capital Partners, LLC (collectively, "Bain Capital") and investment funds affiliated with Advent International Corporation ("Advent"). The Registration Rights Agreement grants certain stockholders "demand" registration rights for registered offerings and "piggyback" registration rights with respect to our securities. Such rights expired for Bain Capital and Advent in connection with their prior sales of Acadia stock. All expenses incident to registrations are required to be borne by us.

#### **Stockholders Agreement**

Concurrently with the execution of the merger agreement related to our acquisition of CRC Health Group, Inc. ("CRC"), we entered into an amended and restated stockholders agreement (the "Stockholders Agreement") with the Management Investors, WCP and Bain Capital. The Stockholders Agreement became effective on February 11, 2015 in connection with the closing of our acquisition of CRC.

The Stockholders Agreement granted WCP certain rights to designate a nominee for election to our board of directors which WCP exercised to designate Reeve B. Waud for election at the annual meeting of stockholders held in 2016 and certain consent rights over the transfer of shares by Management Investors that have expired.

The Stockholders Agreement provides that no Management Investor will take any of the following actions from the date the Company gives notice to the Management Investors that a preliminary or final prospectus has been circulated for a public offering and during the 60 days following the date of the final prospectus for such public offering: (i) offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any of the Company's or its subsidiaries' equity securities or any securities convertible into or exchangeable or exercisable for such securities; (ii) enter into any transaction which would have the same effect as described in clause (i); (iii) enter into any swap, hedge or other arrangement that transfers, in whole or part, any of the economic consequences or ownership of any of the securities described in clause (i); or (iv) publicly disclose the intention to enter into any transaction described in clauses (i), (ii) or (iii). The foregoing restrictions do not apply to transactions made in the subject public offering and those to which the underwriters managing such public offering agree in writing. As used

in this “– Stockholders Agreement” section, “public offering” refers to any offering by the Company of the Company’s or its subsidiaries’ capital stock or other equity securities to the public pursuant to an effective registration statement under the Securities Act or any comparable statement under any similar federal statute then in force.

#### **Antitakeover Effects of Delaware Law and Acadia’s Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws**

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may delay, defer or discourage another party from acquiring control of us. We expect that these provisions, which are summarized below, will discourage coercive takeover practices or inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors, which we believe may result in an improvement of the terms of any such acquisition in favor of our stockholders. However, they also give our board of directors the power to discourage acquisitions that some stockholders may favor.

#### **Undesignated Preferred Stock**

The ability to authorize undesignated preferred stock will make it possible for our board of directors to issue preferred stock with super voting, special approval, dividend or other rights or preferences on a discriminatory basis that could impede the success of any attempt to acquire us. These and other provisions may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in our control or our management.

#### **Classified Board of Directors**

In accordance with our amended and restated certificate of incorporation our board of directors is divided into three classes, with each class serving three-year staggered terms. In addition, under the DGCL, directors serving on a classified board of directors may only be removed from the board of directors with cause and by an affirmative vote of the majority of our common stock. These provisions may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in our control or our management.

#### **Requirements for Advance Notification of Stockholder Meetings**

In accordance with our amended and restated certificate of incorporation, special meetings of the stockholders may be called only upon a resolution approved by a majority of our board of directors then in office.

#### **Requirements for Nominations and Proposals at Stockholder Meetings**

Our amended and restated bylaws prohibit the conduct of any business at a special meeting other than as brought by or at the direction of our board of directors. In accordance with our amended and restated bylaws, nominations of persons for election to our board of directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the notice of meeting (1) by or at the direction of our board of directors or (2) provided that our board of directors has determined that directors will be elected at such special meeting, by any holder of our stock who (i) is a stockholder of record both at the time the notice is delivered and on the record date for the determination of stockholders entitled to vote at such meeting, (ii) is entitled to vote at the meeting and upon such election, and (iii) complies with the notice procedures set forth in our amended and restated bylaws. These provisions may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in our control or our management.

#### **Stockholder Action by Written Consent**

Pursuant to Section 228 of the DGCL, any action required to be taken at any annual or special meeting of our stockholders may be taken without a meeting, without prior notice and without a vote if a consent or consents in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of our stock entitled to vote thereon were present and voted, unless the related certificate of incorporation provides

otherwise. Our amended and restated certificate of incorporation provides that any action required or permitted to be taken by our stockholders may be effected at a duly called annual or special meeting of our stockholders and may not be effected by consent in writing by such stockholders.

#### ***Business Combinations with Interested Stockholders***

In accordance with our amended and restated certificate of incorporation we are not subject to Section 203 of the DGCL, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination, such as a merger, with a person or group owning 15% or more of the corporation's voting stock for a period of three years following the date the person became an interested stockholder, unless (with certain exceptions) the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Accordingly, we will not be subject to any anti-takeover effects of Section 203 of the DGCL. However, our amended and restated certificate of incorporation contains provisions that have the same effect as Section 203, except that they provide that WCP, any investment fund managed by WCP and any of their respective Affiliates and Associates (each as defined in our amended and restated certificate of incorporation) with whom any of the foregoing are acting as a group or in concert for the purpose of acquiring, holding, voting or disposing shares of our stock and any persons to whom WCP sells at least five percent (5%) of our outstanding voting stock will be deemed to have been approved by our board of directors, and thereby not subject to the restrictions set forth in our amended and restated certificate of incorporation that have the same effect as Section 203 of the DGCL.

#### ***Requirements for Amendments to Acadia's Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws***

The DGCL provides that in order to amend the certificate of incorporation, the board of directors must adopt a resolution that then must be approved by the affirmative vote of a majority of the voting power of the outstanding stock entitled to vote thereon, unless a greater vote is specified in the certificate of incorporation, and subject to any additional vote required by any series of preferred stock. In accordance with our amended and restated certificate of incorporation, the articles relating to the following topics may only be amended, altered, changed or repealed by the affirmative vote of the holders of at least a majority of the voting power of all of our outstanding shares of capital stock entitled to vote generally in the election of directors, other than shares of any "Interested Stockholder" (as defined in our amended and restated certificate of incorporation): Board of Directors (Article Six); Limitation of Director Liability (Article Seven); Limitations on Written Consent/Special Meetings (Article Eight); Business Combinations (Article Ten); Poison Pill (Article Eleven); Amendments (Article Twelve); Forum Selection (Article Thirteen); and Severability (Article Fourteen). Our amended and restated certificate of incorporation also provides that Article Nine, which deals with corporate opportunity, may only be amended, altered or repealed by a vote of 80% of the voting power of all of our shares of common stock then outstanding, voting together as a single class. See "—Corporate Opportunity."

Our amended and restated certificate of incorporation provides that our amended and restated bylaws may be adopted, amended, altered or repealed by the affirmative vote of a majority of our board of directors. In addition, our bylaws may be adopted, amended, altered or repealed by the affirmative vote of the stockholders having at least a majority of the voting power of all of the then outstanding shares of our capital stock, voting together as a single class.

#### ***Corporate Opportunity***

Our amended and restated certificate of incorporation provides that the doctrine of "corporate opportunity" does not apply against WCP, its affiliates, any investment fund managed by WCP or any of their respective portfolio companies or their respective partners, members, directors, employees, stockholders, agents or successors, in a manner that would prohibit them from investing in competing businesses or doing business with Acadia's clients or customers. If the ownership of our common stock continues to be highly concentrated, it may prevent you and other stockholders from influencing significant corporate decisions and may result in conflicts of interest that could cause our stock price to decline.

***Limitation on Liability and Indemnification of Officers and Directors***

In accordance with our amended and restated bylaws, we must indemnify our directors and officers to the fullest extent authorized by the DGCL and must also pay expenses incurred in defending any such proceeding in advance of its final disposition upon delivery of an undertaking, by or on behalf of an indemnified person, to repay all amounts so advanced if it should be determined ultimately that such person is not entitled to be indemnified.

We entered into indemnification agreements with each of our current directors and executive officers. These agreements require us to indemnify these individuals to the fullest extent permitted under Delaware law against liabilities that may arise by reason of their service to us, and to advance expenses incurred as a result of any proceeding against them as to which they could be indemnified.

The indemnification rights set forth above shall not be exclusive of any other right which an indemnified person may have or hereafter acquire under any statute, provision of our amended and restated certificate of incorporation, our amended and restated bylaws, agreement, vote of stockholders or disinterested directors or otherwise.



## LIST OF SUBSIDIARIES

Name of Subsidiary (including dba name, if applicable)	Jurisdiction of Incorporation or Organization
Abilene Holding Company, LLC	Delaware
Abilene Legacy Sub, LLC	Delaware
dba Abilene Behavioral Health	
Acadia Assurance Company	Tennessee
Acadia Chattanooga Holdings, LLC	Tennessee
Acadia Columbus JV Holdings, LLC	Delaware
Acadia Crestwyn Holdings, LLC	Tennessee
Acadia CTC Holdings, LLC	Tennessee
Acadia Detroit JV Holdings, LLC	Delaware
Acadia JV Holdings, LLC	Delaware
Acadia Knoxville JV Holdings, LLC	Tennessee
Acadia LaPlace Holdings, LLC	Delaware
Acadia Management Company, LLC	Delaware
Acadia Merger Sub, LLC	Delaware
Acadia Nashville JV Holdings, LLC	Delaware
Acadia New Bedford Holdings, LLC	Delaware
Acadia Reading Holdings, LLC	Delaware
Acadia Realty Holdings, LLC	Delaware
Acadia San Diego JV Holdings, LLC	Delaware
Acadia South Florida Holdings, LLC	Delaware
Acadiana Addiction Center, LLC	Delaware
dba Acadiana Addiction Center	
Advanced Treatment Systems, LLC	Virginia
dba Coatesville Treatment Center	
dba Coatesville Comprehensive Treatment Center	
dba Lebanon Treatment Center	
dba Lebanon Comprehensive Treatment Center	
Arkansas Treatment Centers, LLC	Delaware
dba Fort Smith Comprehensive Treatment Center	
Arizona Treatment Center, LLC	Delaware
dba Casa Grande Comprehensive Treatment Center	
Ascent Acquisition - CYPDC, LLC	Arkansas
dba Ascent Acquisition - CYPDC	
Ascent Acquisition - PSC, LLC	Arkansas
dba Ascent Acquisition - PSC	
Ascent Acquisition, LLC	Arkansas
dba Ascent Children's Health Services	
dba Ascent	
Aspen Education Group, Inc.	California
Aspen Youth, Inc.	California
Atlanta Recovery Center, LLC	Delaware
ATS of Cecil County, LLC	Virginia
dba Cumberland Treatment Center	
dba Cumberland Comprehensive Treatment Center	
dba Elkton Treatment Center	
dba Elkton Comprehensive Treatment Center	
dba Pine Heights Treatment Center	
dba Pine Heights Comprehensive Treatment Center	

<b>Name of Subsidiary</b> <i>(including dba name, if applicable)</i>	<b>Jurisdiction of Incorporation or Organization</b>
ATS of Delaware, LLC	Virginia
dba Claymont Treatment Center	
dba Claymont Comprehensive Treatment Center	
ATS of North Carolina, LLC	Virginia
dba Carolina Treatment Center of Fayetteville	
dba Carolina Treatment Center of Pinehurst	
dba Carolina Treatment Center of Goldsboro	
dba Cumberland County Treatment Center	
dba Mountain Health Solutions – North Wilkesboro	
dba Mountain Health Solutions – Asheville	
dba Fayetteville Comprehensive Treatment Center	
dba Goldsboro Comprehensive Treatment Center	
dba Pinehurst Comprehensive Treatment Center	
dba Asheville Comprehensive Treatment Center	
dba North Wilkesboro Comprehensive Treatment Center	
dba Winston-Salem Comprehensive Treatment Center	
Austin Behavioral Hospital, LLC	Delaware
dba Cross Creek Hospital	
dba Cross Creek Behavioral Hospital	
Austin Eating Disorders Partners, LLC	Missouri
dba McCallum Place Austin	
dba Cedar Springs Austin	
Azure Acres Treatment Center, LLC	Delaware
Baton Rouge Treatment Center, LLC	Louisiana
dba Baton Rouge Treatment Center	
dba North Louisiana Treatment Center	
dba North Shore Treatment Center	
Bayside Marin, Inc.	Delaware
dba Bayside Marin I	
dba Bayside Marin II	
dba Bayside Marin III	
dba Bayside Marin IV	
dba Bayside San Francisco	
BCA of Detroit, LLC	Delaware
dba BCA Stonecrest Center	
dba StoneCrest Center	
Beckley Treatment Center, LLC	West Virginia
dba Beckley Treatment Center	
dba Beckley Comprehensive Treatment Center	
Belmont Behavioral Hospital, LLC	Delaware
dba Philadelphia Children's Crisis Response Center	
Belmont Physician Services, LLC	Delaware
Bethlehem Behavioral Health, LLC	Delaware
BGI of Brandywine, LLC	Virginia
dba Bowling Green at Brandywine	
Blue Ridge Mountain Recovery Center, LLC	Delaware
Bowling Green Inn of Pensacola, LLC	Virginia
dba Twelve Oaks	
dba Twelve Oaks Treatment Center	
dba Wellness Resource Center	
Bowling Green Inn of South Dakota, Inc.	Virginia
dba Keystone Treatment Center	
California Treatment Services, LLC	California
dba Recovery Solutions of Santa Ana	
Canopy Cove, LLC	Delaware

<b>Name of Subsidiary</b>	<b>Jurisdiction of Incorporation or Organization</b>
<i>(including dba name, if applicable)</i>	
Capestrano Investment Company, Inc.	Puerto Rico
Capestrano Realty Company, Inc.	Puerto Rico
CAPS of Virginia, LLC	Virginia
Cartersville Center, LLC	Georgia
dba Cartersville Center	
dba Cartersville Comprehensive Treatment Center	
Cascade Behavioral Holding Company, LLC	Delaware
Cascade Behavioral Hospital, LLC	Delaware
dba Cascade Behavioral Health	
Cedar Crest Clinic	Texas
Center for Behavioral Health-HA, LLC	Pennsylvania
dba Harrisburg Comprehensive Treatment Center	
dba Farrell Comprehensive Treatment Center	
Center for Behavioral Health-ME, Inc.	Maine
dba Discovery House	
Center for Behavioral Health-PA, LLC	Pennsylvania
dba Cranberry Township Comprehensive Treatment Center	
dba Pittsburgh Comprehensive Treatment Center	
Centerpointe Community Based Services, LLC	Indiana
Charleston Treatment Center, LLC	West Virginia
dba Charleston Treatment Center	
dba Charleston Comprehensive Treatment Center	
Clarksburg Treatment Center, LLC	West Virginia
dba Clarksburg Treatment Center	
Clarksville Treatment Center, LLC	Tennessee
dba Clarksville Comprehensive Treatment Center	
Clearbrook Treatment Centers, LLC	Pennsylvania
dba Huntington Creek Recovery Center	
Clearbrook Treatment Centers Land, LLC	Pennsylvania
Commodore Acquisition Sub, LLC	Delaware
Conway Behavioral Health, LLC	Delaware
Corrections - Comprehensive Treatment Centers, LLC	Delaware
CPCA, LLC	Delaware
dba Ann Arbor Treatment Center	
dba Cedar Rapids Treatment Center	
dba Holland Treatment Center	
dba Midcoast Treatment Center	
dba Western Michigan Treatment Center	
CRC ED Treatment, LLC	Delaware
dba Center for Hope of the Sierras	
dba Montecatini	
dba Montecatini II	
dba Carolina House	
dba Carolina House-Raleigh	
dba Montecatini Outpatient Treatment Center	
CRC Group, LLC	Delaware
CRC Health, LLC	Delaware
dba eGetgoing	

Name of Subsidiary	Jurisdiction of Incorporation or Organization
(including dba name, if applicable)	
CRC Health Oregon, LLC dba Albany Comprehensive Treatment Center dba Tigard Comprehensive Treatment Center dba Allied Health Services Portland -Alder dba Allied Health Services Ontario dba Allied Health Services Portland - Belmont dba Allied Health Services East dba Allied Health Services Portland - Burnside dba Allied Health Services Beaverton dba Allied Health Services - Medford dba Allied Health Services for Drug Recovery dba Willamette Valley Treatment Center dba Salem Comprehensive Treatment Center dba Downtown Portland Comprehensive Treatment Center dba Belmont Comprehensive Treatment Center dba East Portland Comprehensive Treatment Center dba Medford Comprehensive Treatment Center	Oregon
CRC Health Tennessee, LLC dba New Life Lodge dba New Life Recovery Services-Cookeville dba Mirror Lake Recovery Center dba New Life Recovery Services-Jacksboro dba New Life Recovery Services-Jamestown dba New Life Recovery Services-Knoxville dba New Life Recovery Services-Knoxville West	Tennessee
CRC Health Treatment Clinics, LLC dba North Florida Treatment Center dba Maricopa County Comprehensive Treatment Center dba Hattiesburg Comprehensive Treatment Center dba Gulf Coast Comprehensive Treatment Center dba Shelbyville Comprehensive Treatment Center dba Southaven Comprehensive Treatment Center dba Kentuckian Comprehensive Treatment Center dba North Orlando Comprehensive Treatment Center dba Volusia County Comprehensive Treatment Center dba West Tampa Comprehensive Treatment Center dba Volusia County Comprehensive Treatment Center dba St. Lucie Comprehensive Treatment Center dba Panhandle Comprehensive Treatment Center dba Fort Lauderdale Comprehensive Treatment Center dba North Miami Comprehensive Treatment Center dba Lakeland Comprehensive Treatment Center dba North Florida Comprehensive Treatment Center	Delaware
CRC Recovery, Inc. dba Midcoast Treatment Center dba Cedar Rapids Treatment Center dba Cedar Rapids Comprehensive Treatment Center dba Lansing Comprehensive Treatment Center dba Council Bluffs Comprehensive Treatment Center dba Ann Arbor Treatment Center dba Ann Arbor Comprehensive Treatment Center dba Western Michigan Treatment Center dba Western Michigan Comprehensive Treatment Center	Delaware

<b>Name of Subsidiary</b>	<b>Jurisdiction of Incorporation or Organization</b>
<i>(including dba name, if applicable)</i>	
CRC Wisconsin RD, LLC	Wisconsin
dba Burkwood Treatment Center	
Crestwyn Health Group, LLC	Tennessee
Crossroads Regional Hospital, LLC	Delaware
dba Longleaf Hospital	
Delta Medical Services, LLC	Tennessee
Detroit Behavioral Institute, LLC	Massachusetts
dba Capstone Academy	
dba Detroit Behavioral Institute – Capstone Program	
dba Detroit Capstone	
DHG Services, LLC	Delaware
Discovery House, LLC	Pennsylvania
dba Huntingdon Valley Comprehensive Treatment Center	
Discovery House-BC, LLC	Pennsylvania
dba Duncansville Comprehensive Treatment Center	
Discovery House-BR, Inc.	Maine
Discovery House CC, LLC	Pennsylvania
Discovery House CU, LLC	Pennsylvania
dba Clearfield Comprehensive Treatment Center	
Discovery House-Group, LLC	Delaware
Discovery House-HZ, LLC	Pennsylvania
Discovery House-LT, Inc.	Utah
dba Layton Comprehensive Treatment Center	
Discovery House MA, Inc.	Massachusetts
Discovery House Monroeville, LLC	Pennsylvania
Discovery House-NC, LLC	Pennsylvania
dba New Castle Comprehensive Treatment Center	
Discovery House of Central Maine, Inc.	Maine
Discovery House TV, Inc.	Utah
dba Taylorsville Comprehensive Treatment Center	
Discovery House-UC, Inc.	Utah
dba Orem Comprehensive Treatment Center	
Discovery House Utah, Inc.	Utah
Discovery House WC, Inc.	Maine
dba DHNM - Northern Maine	
DMC-Memphis, LLC	Tennessee
dba Delta Medical Center	
dba Delta Specialty Hospital	
dba Delta Comprehensive Treatment Center	
Dowell Springs Behavioral Health, LLC	Tennessee
dba East Tennessee Behavioral Health	
Duffy's Napa Valley Rehab, LLC	Delaware
East Indiana Treatment Center, LLC	Indiana
dba East Indiana Treatment Center	
dba East Indiana Comprehensive Treatment Center	
East Lake Behavioral Health, LLC	Delaware
El Paso Behavioral Hospital, LLC	Delaware
dba Vista Behavioral Health	
Erlanger Behavioral Health, LLC	Tennessee
Evansville Treatment Center, LLC	Indiana
dba Evansville Treatment Center	
dba Evansville Comprehensive Treatment Center	
FenX Healthcare, LLC	Delaware

<b>Name of Subsidiary</b>	<b>Jurisdiction of Incorporation or Organization</b>
<i>(including dba name, if applicable)</i>	
Four Circles Recovery Center, LLC	Delaware
dba Four Circles Evolution	
Galax Treatment Center, LLC	Virginia
dba Life Center of Galax	
dba New River Treatment Center	
dba Winchester Comprehensive Treatment Center	
dba Christiansburg Comprehensive Treatment Center	
dba New River Comprehensive Treatment Center	
dba Clinch Valley Comprehensive Treatment Center	
Generations BH, LLC	Ohio
Gifford Street Wellness Center, LLC	Delaware
dba Gifford Street Wellness Center	
Greenbrier Acquisition, LLC	Delaware
Greenbrier Holdings, L.L.C.	Louisiana
Greenbrier Hospital, L.L.C.	Louisiana
dba Covington Behavioral Health	
Greenbrier Realty, L.L.C.	Louisiana
Greenleaf Center, LLC	Delaware
dba Greenleaf Center	
dba Greenleaf Behavioral Health Hospital	
Habilitation Center, LLC	Arkansas
dba Millcreek of Arkansas	
dba Little Creek Behavioral Health	
Habit Opco, LLC	Delaware
dba Habit OPCO – West Lebanon	
dba Habit OPCO – Manchester	
dba Habit OPCO – Wareham	
dba Habit OPCO – Lynn	
dba Habit OPCO - Boston	
dba Habit OPCO – Brattleboro	
dba Habit OPCO - Pottstown	
dba Habit OPCO – Suburban Treatment Associates	
dba Habit OPCO - Strathmore Treatment Associates	
dba Habit OPCO – Allentown	
dba Habit OPCO – Dunmore	
dba Habit OPCO – Taunton	
dba Habit OPCO – Springfield	
dba Habit OPCO – Fitchburg	
dba Habit OPCO – Fall River	
dba Habit OPCO – Lowell	
dba Habit OPCO - Watsontown	
dba Bennington Comprehensive Treatment Center	
dba Amesbury Comprehensive Treatment Center	
dba Allentown Comprehensive Treatment Center	
dba Dunmore Comprehensive Treatment Center	
dba Watsontown Comprehensive Treatment Center	
dba Manchester Comprehensive Treatment Center	
dba West Lebanon Comprehensive Treatment Center	
dba Central Jersey Comprehensive Treatment Center	
HCP Polaris Investment, LLC	Delaware
Hendersonville Recovery Center, LLC	Delaware
Henryville Inn, LLC	Pennsylvania
Hermitage Behavioral, LLC	Delaware



Name of Subsidiary	Jurisdiction of Incorporation or Organization
<i>(including dba name, if applicable)</i>	
HFHS-Acadia Joint Venture, LLC	Michigan
HMIH Cedar Crest, LLC	Delaware
dba Cedar Crest Hospital & RTC	
Huntington Treatment Center, LLC	West Virginia
dba Huntington Treatment Center	
dba Huntington Comprehensive Treatment Center	
Indianapolis Treatment Center, LLC	Indiana
dba Indianapolis Treatment Center	
dba Indianapolis Comprehensive Treatment Center	
Indio Behavioral Health, LLC	Delaware
Integrated Treatment Centers, LLC	Delaware
dba Green Bay Integrated Treatment Center	
dba Park Royal Integrated Treatment Center	Delaware
IVRTC, LLC	
Kids Behavioral Health of Montana, Inc.	Montana
dba Acadia Montana	
Lakeland Hospital Acquisition, LLC	Georgia
dba Lakeland Regional Hospital	
dba Lakeland Behavioral Health System	
McCallum Group, LLC	Missouri
McCallum Properties, LLC	Missouri
Middle Tennessee Treatment Centers, LLC	Tennessee
dba Cleveland Comprehensive Treatment Center	
dba Hermitage Comprehensive Treatment Center	
dba South Nashville Comprehensive Treatment Center	
dba Hendersonville Comprehensive Treatment Center	
Millcreek School of Arkansas, LLC	Arkansas
Millcreek Schools, LLC	Mississippi
Millerton Acquisition Sub, LLC	Delaware
Milwaukee Health Services System, LLC	California
dba 10th Street Clinic	
dba River's Shore Clinic	
dba Madison Health Services	
dba Valley Health Services	
dba Wausau Health Services	
dba Appleton Comprehensive Treatment Center	
dba Madison East Comprehensive Treatment Center	
dba 10th Street Comprehensive Treatment Center	
dba River's Shore Comprehensive Treatment Center	
dba Wausau Comprehensive Treatment Center	
dba North West Wisconsin Comprehensive Treatment Center	Center
Mission Treatment Centers, Inc.	Nevada
Mission Treatment Services, Inc.	California
Mississippi Comprehensive Treatment Centers, LLC	Delaware
dba Jackson Comprehensive Treatment Center	
Mount Bachelor Educational Center, Inc.	Oregon
Mount Carmel Behavioral Healthcare, LLC	Delaware
dba Mount Carmel Behavioral Health	
Mt. Airy Development, LLC	Ohio
dba Glenwood Behavioral Health Hospital	
dba Cardinal Creek Behavioral Health	

<b>Name of Subsidiary</b>	<b>Jurisdiction of Incorporation or Organization</b>
<i>(including dba name, if applicable)</i>	
Muncie Treatment Center, LLC	Indiana
dba Muncie Comprehensive Treatment Center	
Next Generation Behavioral Health, LLC	Delaware
Next Generation Behavioral Health II, LLC	Delaware
Northeast Behavioral Health, LLC	Delaware
Ochsner-Acadia, LLC	Delaware
dba River Place Behavioral Health	
Ohio Hospital for Psychiatry, LLC	Ohio
Ohio Treatment Center, LLC	Delaware
dba Cleveland Comprehensive Treatment Center	
dba Canton Comprehensive Treatment Center	
dba Toledo Comprehensive Treatment Center	
Options Treatment Center Acquisition Corporation	Indiana
dba Options Behavioral Health System	
dba Options Treatment Center	
dba YFCS OPT	
Parkersburg Treatment Center, LLC	West Virginia
dba Parkersburg Treatment Center	
dba Parkersburg Comprehensive Treatment Center	
PC Ohio Treatment Centers, LLC	Delaware
PHC MeadowWood, LLC	Delaware
PHC of Michigan, LLC	Massachusetts
dba Harbor Oaks Hospital	
dba Pioneer Healthcare of Michigan	
dba Wellplace Michigan	
PHC of Nevada, Inc.	Massachusetts
dba Harmony Healthcare	
PHC of Utah, Inc.	Massachusetts
dba Highland Ridge Hospital	
dba Wellplace Utah	
PHC of Virginia, LLC	Massachusetts
dba Mount Regis Center	
Philadelphia Crisis Response Center, LLC	Delaware
Piney Ridge Treatment Center, LLC	Delaware
dba Piney Ridge Treatment Center	
dba Piney Ridge Center	
dba Ridgeview Group Home	
Pocono Mountain Recovery Center, LLC	Pennsylvania
Pocono Mountain Recovery Center Land, LLC	Pennsylvania
Polaris Hospital Holdings, LLC	Nevada
Psychiatric Resource Partners, LLC	Delaware
Quality Addiction Management, Inc.	Wisconsin
dba West Milwaukee Comprehensive Treatment Center	
dba Racine Comprehensive Treatment Center	
dba Madison West Comprehensive Treatment Center	
dba Waukesha Comprehensive Treatment Center	
dba Sheboygan Comprehensive Treatment Center	
dba Green Bay Comprehensive Treatment Center	
dba Beloit Comprehensive Treatment Center	
Reading Behavioral Healthcare, LLC	Delaware
dba Tower Behavioral Health	
Rebound Behavioral Health, LLC	South Carolina
Rebound Lodge, LLC	South Carolina
Red River Holding Company, LLC	Delaware

<b>Name of Subsidiary</b> <i>(including dba name, if applicable)</i>	<b>Jurisdiction of Incorporation or Organization</b>
Red River Hospital, LLC dba Red River Hospital	Delaware
Rehabilitation Centers, LLC dba Millcreek of Magee dba Millcreek of Pontotoc dba Millcreek of Mississippi	Mississippi
Resolute Acquisition Corporation dba Resolute Treatment Center dba Resolute Treatment Facility dba YFCS REL dba Resolute dba Polaris Group Home dba Success Group Home	Indiana
Richmond Treatment Center, LLC dba Richmond Treatment Center dba Richmond Comprehensive Treatment Center	Indiana
R.I.S.A.T., LLC	Rhode Island
Riverview Behavioral Health, LLC dba Vista Health Texarkana dba Riverview Behavioral Health dba Providence Comprehensive Treatment Center	Texas
RiverWoods Behavioral Health, LLC dba Riverwoods Behavioral Health dba Blue Ridge Mountain Recovery Center dba Acadia Riverwood	Delaware
Rock Crest Drive, LLC	Pennsylvania
Rock Crest LLC Limited Liability Company	Pennsylvania
Rolling Hills Hospital, LLC	Oklahoma
RTC Resource Acquisition Corporation dba YFCS RES dba Resource Treatment Facility dba RTC Resource	Indiana
Sahara Health Systems, L.L.C.	Louisiana
San Diego Health Alliance dba Capalina Clinic dba El Cajon Treatment Center dba Ramona Integrated Treatment Center dba Fashion Valley Clinic	California
San Diego Treatment Services, LLC dba Third Avenue Clinic	California
San Juan Capestrano Hospital, Inc.	Puerto Rico
Serenity Knolls	California
Seven Hills Hospital, LLC	Delaware
Shaker Clinic, LLC	Ohio
Sheltered Living Incorporated dba Life Healing Center of Santa Fe	Texas
Sierra Tucson, LLC dba Sierra Tucson	Delaware
SJBH, LLC	Delaware
Skyway House, LLC	Delaware

<b>Name of Subsidiary</b>	<b>Jurisdiction of Incorporation or Organization</b>
<i>(including dba name, if applicable)</i>	
Sober Living by the Sea, Inc. dba Sunrise Recovery Ranch dba The Rose of Newport Beach dba The Victorian of Newport Beach dba Sober Living IOP dba The Landing at Newport Beach dba Sunrise Ranch dba Sierra by the Sea	California
Sonora Behavioral Health Hospital, LLC	Delaware
Southern Indiana Treatment Center, LLC dba Southern Indiana Treatment Center dba Southern Indiana Comprehensive Treatment Center	Indiana
Southstone Behavioral Healthcare Center, LLC	Delaware
Southwestern Children's Health Services, Inc. dba Parc Place dba Parc Place Behavioral dba Oasis Behavioral Health Hospital	Arizona
Southwood Psychiatric Hospital, LLC dba Southwood Psychiatric Hospital dba Intercare – Southwood Psychiatric Hospital dba Intercare – Southwood Psychiatric Hospital dba Lakewood Residential Program dba Prosperity House Residential Program dba Southwood Family Home Services dba Southwood School dba Southwood Outpatient Psychiatric Clinic dba Southwood Partial Hospitalization Program	Pennsylvania
Starlite Recovery Center, LLC	Delaware
Stone Crest Clinic	Michigan
Structure House, LLC dba Wellspring at Structure House	Delaware
Success Acquisition, LLC	Indiana
SUWS of the Carolinas, Inc. dba SUWS Seasons	Delaware
Swift River Academy, L.L.C.	Delaware
Ten Broeck Tampa, LLC dba North Tampa Behavioral Health	Florida
Ten Lakes Center, LLC	Ohio
Texarkana Behavioral Associates, L.C. dba Riverview Behavioral Health Outpatient Program dba Vantage Point Behavioral Health dba Vantage Point of Northwest Arkansas dba Vantage Point of the Ozarks dba Valley Behavioral Health System dba Valley Behavioral Health Outpatient Program dba Valley Behavioral Health System Outpatient Program dba Vista Health dba Riverview Behavioral Health	Texas
The Camp Recovery Center, LLC dba Azure Acres dba Starlite Recovery Center dba The Camp Recovery Center dba Camp IOP-Campbell dba Camp IOP-Scotts Valley dba Camp IOP-Monterey dba Azure Acres IOP	California

<b>Name of Subsidiary</b>	<b>Jurisdiction of Incorporation or Organization</b>
<i>(including dba name, if applicable)</i>	
The Pavilion at HealthPark, LLC	Florida
dba Park Royal Hospital	
dba Park Royal Psychiatric Hospital at Healthpark	
dba Park Royal Outpatient Clinic	
The Refuge, A Healing Place, LLC	Florida
The Refuge-The Nest, LLC	Florida
The Refuge - Transitions, LLC	Florida
TK Behavioral Holding Company, LLC	Delaware
TK Behavioral, LLC	Delaware
dba Timberline Knolls	
dba Timberline Knolls Residential Treatment Center	
Transcultural Health Development, Inc.	California
dba Coastal Recovery Center	
Treatment Associates, Inc.	California
dba Sacramento Treatment Center	
TrustPoint Hospital, LLC	Tennessee
Vallejo Acquisition Sub, LLC	Delaware
Valley Behavioral Health System, LLC	Delaware
dba Valley Behavioral Health	
dba Valley Behavioral Health System	
dba Vantage Point Behavioral Health	
dba Vantage Point of Northwest Arkansas	
Vermilion Hospital, LLC	Delaware
dba Vermilion Behavioral Health Systems	
dba Vermilion Behavioral Health Systems North	
dba Vermilion Behavioral Health Systems South	
dba Acadia Vermilion Hospital	
dba Optima Specialty Hospital	
Village Behavioral Health, LLC	Delaware
dba The Village	
Virginia Treatment Center, LLC	Virginia
dba Roanoke Treatment Center	
dba Lynchburg Treatment Center	
dba Roanoke Comprehensive Treatment Center	
dba Lynchburg Comprehensive Treatment Center	
Vista Behavioral Holding Company, LLC	Delaware
Vista Behavioral Hospital, LLC	Delaware
dba Pacific Grove Hospital	
dba Vista Behavioral Hospital	
Vita Nova, LLC	Rhode Island
Volunteer Treatment Center, LLC	Tennessee
dba Volunteer Treatment Center	

Name of Subsidiary (including dba name, if applicable)	Jurisdiction of Incorporation or Organization
WCHS, Inc. dba Northwest Treatment Center dba Tri-Cities Treatment Center dba Kent Treatment Solutions dba Canyon Park Treatment Solutions dba The Renton Clinic dba Tacoma Treatment Solutions dba Vancouver Treatment Solutions dba Spokane Treatment Solutions dba Anchorage Treatment Solutions dba Longview Treatment Solutions dba Kelso Treatment Solutions dba Grays Harbor Treatment Solutions dba Riverside Treatment Clinic dba Bellingham Treatment Solutions	California
Webster Wellness Professionals, LLC	Missouri
Wellplace, LLC dba Wellplace Utah dba Wellplace Pennsylvania	Massachusetts
Wheeling Treatment Center, LLC dba Wheeling Treatment Center dba Wheeling Comprehensive Treatment Center	West Virginia
White Deer Realty, LLC	Pennsylvania
White Deer Run, LLC dba Cove PREP dba White Deer Run of Lancaster dba New Perspectives at White Deer Run dba White Deer Run at Blue Mountain dba New Directions at Cove Forge dba Cove Forge Renewal Center dba White Deer Run of Allentown dba White Deer Run of Allenwood dba White Deer Run of Harrisburg dba White Deer Run of Lewisburg dba White Deer Run of Lancaster dba White Deer Run of New Castle dba White Deer Run of Williamsport dba White Deer Run of York dba Cove Forge Behavioral System at Erie dba Cove Forge Behavioral System at Pittsburg dba Cove Forge Behavioral System at Williamsburg dba Lehigh County Center for Recovery dba The HOPE Program of Cover Forge at Robinson dba White Deer Run Youth Assessment Center	Pennsylvania
Wichita Treatment Center Inc.	Kansas
Williamson Treatment Center, LLC dba Williamson Comprehensive Treatment Center	West Virginia
Wilmington Treatment Center, LLC	Virginia
WP Acquisition Sub, LLC	Delaware
Youth And Family Centered Services of New Mexico, Inc. dba Desert Hills of New Mexico	New Mexico
Youth Care of Utah, Inc. dba Pine Ridge Academy dba Youth Care	Delaware



## List of Guarantor Subsidiaries

The following subsidiaries of the Company were, as of December 31, 2020, guarantors of the Company's 5.625% Senior Notes, 6.500% Senior Notes, 5.500% Senior Notes and 5.000% Senior Notes:

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

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

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

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

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Form S-8 (No. 333-177990) pertaining to the Acadia Healthcare Company, Inc. Incentive Compensation Plan;
- (2) Form S-8 (No. 333-190232) pertaining to the Acadia Healthcare Company, Inc. Incentive Compensation Plan; and
- (3) Form S-8 (No. 333-211505) pertaining to the Acadia Healthcare Company, Inc. Incentive Compensation Plan;

of our reports dated February 26, 2021, with respect to the consolidated financial statements of Acadia Healthcare Company, Inc. and the effectiveness of internal control over financial reporting of Acadia Healthcare Company, Inc., included in this Annual Report (Form 10-K) of Acadia Healthcare Company, Inc. for the year ended December 31, 2020.

/s/ Ernst & Young LLP

Nashville, Tennessee  
February 26, 2021

## CERTIFICATION

I, Debra K. Osteen, certify that:

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

Date: February 26, 2021

/s/ Debra K. Osteen

Debra K. Osteen

Chief Executive Officer and Director



## CERTIFICATION

I, David M. Duckworth, certify that:

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

Date: February 26, 2021

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

CERTIFICATION 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 Annual Report of Acadia Healthcare Company, Inc. (the "Company") on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Debra K. Osteen, Chief Executive Officer and Director of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 26, 2021

/s/ Debra K. Osteen  
Debra K. Osteen  
Chief Executive Officer and Director

CERTIFICATION 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 Annual Report of Acadia Healthcare Company, Inc. (the "Company") on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David M. Duckworth, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 26, 2021

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