EXHIBIT 20
[Filed Under Seal]

St. Clair County Employees' Retirement System v. Acadia Healthcare Company, Inc.

EXPERT WITNESS REPORT

Prepared by:
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February 7, 2025

I. Introduction

1. My name is Michael J. Willis, PhD. I am a Management Practice Associate Professor of Accounting at the University of Cambridge Judge Business School.

2. The opinions expressed in this report are my present opinions. I reserve the right to amend this report to reflect new information that becomes available to me in light of further proceedings in this matter, including, but not limited to, future rulings from the Court, the discovery of new evidence, expert discovery, and the testimony of any other witnesses in deposition or at trial.

3. I anticipate using at trial selected exhibits referenced in this report, documents reviewed in connection with their preparation, and additional graphics illustrating concepts described in this report.

II. Qualifications

4. I hold a B.S. in Computer Science and an MBA from Brigham Young University, and a PhD in Accounting from the University of Pennsylvania, Wharton School of Business.

5. I am currently a Management Practice Associate Professor of Accounting and the Founder/Director of the Executive Master of Accounting Programme at the University of Cambridge Judge Business School. I was previously Senior Instructor of Accounting at the University of Colorado Boulder Leeds Business School, where I received the Charles Wasley Memorial Teaching Award. I have developed curriculum and delivered courses on financial reporting, financial statement analysis, managerial accounting, audit, and accounting ethics to executive, post-graduate, and undergraduate audiences for more than 12 years.

6. I have served as an expert witness in several matters involving revenue recognition and taxability issues under both U.S. Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards ("IFRS") accounting standards.

7. My qualifications are further detailed in a current version of my curriculum vitae attached to this report as **Appendix A**.

III. Scope of Work

8. I have been asked by Robbins Geller Rudman & Dowd LLP, counsel for Lead Plaintiffs Chicago & Vicinity Laborers' District Council Pension Fund and New York Hotel Trades Council & Hotel Association of New York City, Inc. Pension Fund ("Plaintiffs"), to offer expert opinions on:

(a) The processes used to set: (1) Acadia's revenue, adjusted EBITDA, and adjusted earnings per diluted share figures for its fiscal year 2017 ("FY17") financial guidance; and (2) Priory Group's revenue and EBITDA budget for FY17, which informed Acadia's consolidated budget and financial guidance for FY17.[1]

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[1] "Priory Group" and "Priory" are used throughout this report to refer to Acadia Healthcare Company, Inc.'s ("Acadia") operations in the United Kingdom ("UK") following its February 2016 acquisition of Priory Group No. 1 Limited. EBITDA is an acronym for "Earnings Before Interest, Taxes, Depreciation, and

(b) The feasibility of Acadia reaching its FY17 financial guidance for adjusted EBITDA and revenue, and Priory Group reaching its EBITDA and revenue budget for FY17, based on an assessment of the assumptions incorporated in Acadia's FY17 budget.

(c) How Acadia's and Priory Group's actual monthly performance in FY17 affected the likelihood of: (1) Acadia reaching its consolidated budget and financial guidance for FY17 for adjusted EBITDA and revenue; and (2) Priory Group reaching its budgeted EBITDA and revenue for FY17.

(d) The degree to which information provided by Defendants as bases for Acadia's FY17 financial guidance reasonably supported that guidance.[2]

9. I am compensated at a rate of $675 per hour for my independent assessment. My compensation is not tied in any way to my opinions.

10. I reserve the right to amend my analysis and opinions at my discretion.

IV. Evidence Considered

11. In reaching my opinions, I have considered information from a variety of evidentiary sources, which are identified in the documents and testimony cited herein and in **Appendix B** attached to this report. I have also relied upon my own professional judgment and expertise gathered during the more than 17 years I have analyzed financial statements, audits of financial statements, and corporate transactions.

V. Summary of Opinions

12. Based on the evidence I have reviewed, and as further identified in the discussion below, it is my expert opinion that:

(a) Acadia's process for setting Priory Group's FY17 EBITDA and revenue budget, which informed Acadia's FY17 consolidated budget and financial guidance, was conducted in an unreasonable, top-down manner inconsistent with best practice, particularly for a high information asymmetry organization that recently completed a large and complex cross-border acquisition.

(b) The assumptions Acadia included in its consolidated FY17 budget that informed its financial guidance were overly aggressive, unreasonable, and inconsistent with historical trends, particularly regarding use of contract labor and agency cost, and average daily census ("ADC"). I have seen no evidence that at the time Acadia issued its FY17 financial guidance, it could have reasonably been expected to reverse negative trends from fiscal year

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Amortization." Acadia's financial filings note the following definitions: EBITDA is defined as net income adjusted for income from discontinued operations, net loss attributable to noncontrolling interests, income tax provision, net interest expense and depreciation and amortization. Adjusted EBITDA is defined as EBITDA adjusted for equity-based compensation expense, debt extinguishment costs, loss on divestiture, (gain) loss on foreign currency derivatives and transaction-related expenses." See, for example, form 8-K, dated February 23, 2017. Throughout this report, "adjusted EBITDA" is used when referring to Acadia's consolidated financial figures and "EBITDA" when referring to Priory's figures.

[2] "Defendants" refers to Acadia, its former CEO Joey Jacobs, its former President Brent Turner, and its former CFO David Duckworth. Jacobs, Turner, and Duckworth are the "Individual Defendants."

2016 ("FY16") in FY17 and achieve adjusted EBITDA or revenue amounts in its financial guidance.

(c) Acadia consistently underperformed relative to budget and guidance throughout 2017. At no point in FY17 did actual monthly results for Acadia or Priory Group suggest that operational improvements on which Acadia's guidance was based were likely to materialize. As early as the end of February 2017, circumstances showed that Acadia's FY17 adjusted EBITDA guidance was highly unlikely to be reached. The evidence also shows that Acadia and Priory Group's leadership were aware of underperformance on ADC and agency cost in late FY16 and early FY17, and that Acadia and Priory Group used income-increasing accounting accruals to improve reported EBITDA beginning in early 2017.

(d) Documents identified by Defendants as purportedly forming the bases of Acadia's financial guidance provide no reasonable justification to support the feasibility of reaching the guidance.

VI. Background on Acadia's UK Operations

13. Acadia is a for-profit provider of behavioral healthcare services incorporated in the United States and headquartered in Franklin, Tennessee. While Acadia operated solely in the United States in its first years as a publicly-traded company, starting in 2014 it began acquiring facilities and substantially increasing its operations in the UK.

14. In July 2014, Acadia acquired Partnerships in Care ("PiC"), a UK company with 23 inpatient psychiatric facilities and 1,200 beds, for approximately $662 million.[3] The PiC acquisition marked Acadia's first entry into a foreign market, and Acadia continued to expand in presence in the UK with additional acquisitions in 2015.[4]

15. In February 2016, Acadia acquired Priory Group – the largest behavioral healthcare provider in the UK, with approximately 7,100 beds across 327 facilities – for approximately $2.2 billion. With the PiC and Priory acquisitions, Acadia became the leading independent provider of mental health services in the UK. In order to resolve the UK's Competition and Markets Authority ("CMA") competitive concerns with the transaction, Acadia undertook to sell 21 of its existing UK facilities and 1 *de novo* facility for approximately $390 million. In November 2016, the CMA approved this divestiture and did not refer the Priory transaction for a further Phase 2 investigation. [5]

16. Following the CMA-approved divestiture, and at the end of 2016, Acadia's UK operations accounted for 365 inpatient behavioral health facilities with approximately 8,600 beds, and generated $1.1 billion of revenue. In contrast, Acadia's U.S. operations accounted for 208 behavioral healthcare facilities with approximately 8,500 beds and $1.7 billion in revenue at the end of 2016.[6]

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[3] Press Release, *Acadia Healthcare Completes Previously Announced Purchase of Partnerships in Care for Approximately $662 Million* (July 2, 2014), https://www.businesswire.com/news/home/20140702005239/en/Acadia-Healthcare-Completes-Previously-Announced-Purchase-of-Partnerships-in-Care-for-Approximately-662-Million.

[4] Exhibit 740 (FY16 Form 10-K).

[5] *Ibid.*

[6] *Ibid.*

VII. Plaintiffs' Allegations Regarding Acadia's UK Operations and 2017 Financial Guidance

17. Plaintiffs' Complaint alleges that Acadia and the Individual Defendants issued materially false and misleading statements and omissions during the Class Period – ultimately causing damages to purchasers of Acadia common stock who bought the stock at artificially inflated prices.[7] Specifically, with respect to Acadia's UK operations, Plaintiffs allege that throughout 2017 Defendants misrepresented and omitted material facts regarding the financial state and expected performance of Acadia's newly-acquired UK facilities and Acadia's ability to meet (and progress towards meeting) its FY17 financial guidance.[8]

18. On February 23, 2017, Acadia issued a press release entitled "Acadia Healthcare Reports Fourth Quarter GAAP EPS of $0.48 and Adjusted EPS of $0.59; Establishes Financial Guidance for 2017."[9] In the press release, Acadia announced same-facility revenue growth (*i.e.*, organic growth) in the UK of only 4.2% for the fourth quarter of 2016, but stated that these same-facility results were out of the ordinary due to "disruption throughout the fourth quarter resulting from the focus, time and effort required to complete the divestiture in late November and to begin the integration of Priory's operations into Acadia."[10] The press release also included Acadia's financial guidance for FY17 and the first quarter of 2017, as follows:

- Revenue for 2017 in a range of $2.85 billion to $2.9 billion;
- Adjusted EBITDA for 2017 in a range of $625 million to $640 million;
- Adjusted earnings per diluted share for 2017 in a range $2.40 to $2.50; and
- Adjusted earnings per diluted share for the first quarter of 2017 in a range of $0.45 to $0.47.[11]

19. The following day, on February 24, 2017, Acadia held an earnings call where Defendants reiterated the FY17 financial guidance disclosed in the February 23, 2017 press release. Further, in response to analyst questions regarding the performance of Acadia's UK operations going into 2017, Defendants stressed that "the UK is focused, integrating and getting back on track," that "people should expect the UK to improve rateably each quarter throughout 2017," and that "as the census recovers, and as we are able to move forward with the integration and put the new management structure in place we will see both the census rebound and the growth rebound, as well as the margin improvement in the UK."[12]

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7 Consolidated Complaint for Violations of the Federal Securities Laws, *St. Clair County Employees' Retirement System v. Acadia Healthcare Company* (ECF No. 39) ("Complaint"), ¶247.

8 Complaint, §§IV.B., V.B.

9 Complaint, ¶159; Exhibit 746.

10 Complaint, ¶101; Exhibit 746.

11 Complaint, ¶159; Exhibit 746.

12 Complaint, ¶¶162-164; Exhibit 748.

20. At a March 7, 2017 investor conference shortly thereafter, in response to a question about the organic growth rate in the UK, Defendants confirmed that UK organic growth "should be centered around 5%."[13]

21. On April 25, 2017, Acadia issued a press release entitled "Acadia Healthcare Reports First Quarter GAAP EPS of $0.40 and Adjusted EPS of $0.46; Affirms Financial Guidance for 2017."[14] In the press release, Acadia announced lowered same-facility revenue growth in the UK of only 2.6% for the first quarter of 2017.[15] Nevertheless, the press release reaffirmed Acadia's previously established financial guidance for FY17, as follows:

- Revenue for 2017 in a range of $2.85 billion to $2.9 billion;
- Adjusted EBITDA for 2017 in a range of $625 million to $640 million; and
- Adjusted earnings per diluted share for 2017 in a range $2.40 to $2.50.[16]

22. On the earnings call the next day, April 26, 2017, Defendants reiterated the financial guidance figures and continued to assure investors that despite the softer UK numbers, they were still "comfortable with [their] total year guidance" and "over the course of the year, as the integration is completed that we should see the growth pick up in the UK."[17]

23. The following week, at a May 3, 2017 investor conference, Defendants highlighted UK patients admissions as "bod[ing] well for future growth," and again stated they were seeing "incremental progress in terms of [their] expectations" in the UK. [18]

24. On July 27, 2017, Acadia issued a press release entitled "Acadia Healthcare Reports Second Quarter GAAP EPS of $0.57 and Adjusted EPS of $0.66."[19] In the press release, Acadia announced that same-facility revenue growth in the UK 4.0%, and that it was narrowing the Company's previously announced FY17 financial guidance as follows:[20]

FY17 Guidance	**Narrowed From** (February 23, 2017 and April 25, 2017)	**To** (July 27, 2017)
Revenue	$2.85 billion to $2.9 billion	$2.85 billion to $2.87 billion
Adjusted EBITDA	$625 million to $640 million	$629 million to $635 million
Adjusted earnings per diluted share	$2.40 to $2.50	$2.42 to $2.47

25. On the earnings call the next day, July 28, 2017, Defendants reiterated the narrowed guidance figures and repeatedly denied that there was anything to read into the

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13 Complaint, ¶165; Exhibit 715.

14 Complaint, ¶167; Exhibit 749.

15 Complaint, ¶103; Exhibit 749.

16 Complaint, ¶168; Exhibit 749.

17 Complaint, ¶¶170-171; Exhibit 750.

18 Complaint, ¶172; Exhibit 716.

19 Complaint, ¶173; Exhibit 751.

20 Complaint, ¶¶105, 173; Exhibit 751.

narrowing of the guidance.[21] Defendants also continued to stress that Acadia would see "incremental improvements through the UK over the balance of the year" and that they were "very pleased with where we are there."[22]

26. Several weeks later, on August 22, 2017, Acadia conducted a follow-on offering where the Individual Defendants and Acadia insiders sold over $100 million in stock – with Jacobs and Turner collecting more than $35 million while cutting their holdings by more than half.[23]

27. Plaintiffs allege that these statements were materially false and misleading in that they concealed ongoing underperformance at Acadia's UK operations, and that Defendants had no reasonable basis to believe and did not, in fact, believe that Acadia's UK operations would improve over the course of 2017 such that Acadia would meet the FY17 financial guidance that it issued to the market in February, April, and July 2017.[24] It is only after the Individual Defendants were able to collect tens of millions of dollars in insider sales in August 2017 that the true effect of Acadia's underperforming UK facilities came to light.[25] On October 24, 2017, Acadia issued a press release entitled "Acadia Healthcare Reports Third Quarter Financial Results," which announced that same facility revenue growth for UK facilities had slowed to 3.8%.[26] The press release also announced that Acadia was officially lowering its FY17 financial guidance as follows, shocking investors:[27]

FY17 Guidance	**Lowered From** (July 27, 2017)	**To** (October 24, 2017)
Revenue	$2.85 billion to $2.87 billion	$2.82 billion to $2.83 billion
Adjusted EBITDA	$629 million to $635 million	$600 million to $605 million
Adjusted earnings per diluted share	$2.42 to $2.47	$2.23 to $2.25

VIII. The Use of Financial Guidance in Publicly Traded U.S. Companies

28. "Guidance" is a form of forward-looking voluntary disclosure; that is, a statement about an expected outcome, the publication of which is not mandated by law or other requirement. Executives may give guidance on any financial or non-financial result, but most guidance relates to expected sales revenue, earnings (net income) per share (EPS), or other, "non-GAAP" measures such as EBITDA.

29. Guidance is sometimes given as a single point (*e.g.*, "EPS is expected to be $1.60), but much more commonly as a range (*e.g.*, "EPS is expected to fall between $1.50 and

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21 Complaint, ¶¶174-175; Exhibit 752.

22 Complaint, ¶176; Exhibit 752.

23 Complaint, ¶¶107, 197, 200.

24 Complaint, ¶178.

25 Complaint, ¶¶107, 197, 200.

26 Complaint, ¶¶108, 180; Exhibit 755.

27 Complaint, ¶¶108, 181-184; Exhibit 755.

$1.75). Most guidance relates to an annual result, but guidance may also be given for quarterly results.[28]

30. Recent survey evidence summarizes executives' motivations and behaviors related to guidance. As the most important reasons for issuing guidance, executives cite "managing analyst expectations" and "satisfying investor/analyst demand for guidance." As one respondent explained:

> "The market doesn't like surprises. They don't like positive surprises and they don't like negative surprises. Especially with the sell-side, some of these guys cover forty to sixty companies on their teams and they have short windows to digest your information and move on. When you disrupt that, it's irritating for them."[29]

31. A survey of sell-side equity analysts found that management earnings guidance is a key input into analysts' earnings forecasts.[30] Other research confirms that analysts revise their forecasts in response to guidance[31] and that guidance affects stock prices and bid-ask spreads.[32]

32. There are risks associated with providing guidance as well, including (chiefly, among survey respondents) "reporting results that fall short of guidance" and "investors/analysts focusing too heavily on short-term results."[33]

33. Managers arrive at guidance figures in two steps. First, an internal projection about future performance must be prepared (this would very likely be done regardless of the intention to release public guidance). Second, management must choose a guidance range in a way that meets the intent of giving guidance (usually managing analyst and investor expectations) while minimizing risk of missing the guidance range.

34. To generate an internal projection for revenue, earnings, etc., firms follow a budgeting process that involves multiple levels in the organization, from line managers up to executive teams. A top-down, authoritative approach is sometimes used, where senior executives set goals for lower-level managers, or a bottom-up, participative approach, where managers have more input into their budgets and goals.[34]

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[28] Lu, Y. & D.J. Skinner, *Do actions speak louder than words? The relation between payouts and guidance since 2000*, Chicago Booth Research Paper, No. 23-02 (2023), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4322036.

[29] Call, A., et al., *Corporate Managers' Perspectives on Forward Looking Guidance: Survey Evidence*, Journal of Accounting and Economics, 78:101731 (2024).

[30] Brown, L., et al., *Inside the 'Black Box' of Sell-Side Financial Analysts*, Journal of Accounting Research, 1-47 (2015).

[31] Cotter, J., I. Tuna, & P. Wysocki, *Expectations Management and Beatable Targets: How Do Analysts React to Public Earnings Guidance?*, Contemporary Accounting Research, 23 (3): 593-624 (2006).

[32] Hirst, D., L. Koonce, & S. Venkataraman, *Management Earnings Forecasts: A Review and Framework*, Accounting Horizons, 22: 315-38 (2008).

[33] Call, et al. (2024).

[34] Call, et al. (2024) confirm through survey evidence that 90% of respondents consider "internal projections provided by individual business units" to be very important in generating internal projections of future performance.

35. A key tension in this process arises from the information asymmetry between senior executives and lower-level managers. Bottom-up budgeting tends to mitigate information asymmetry and lead to more accurate, less biased budgets.[35] Shields (2005) notes:

> "In many organizations, subordinates have better information about their SWOT [strengths, weaknesses, opportunities, and threats] than do superiors. This information difference tends to **increase** as organizations become more **diverse, decentralized, and larger**, because top management typically knows less than lower-level managers do about the numerous and varied operating units' current and possible inputs, processes, outputs, and customers' preferences and behavior. Thus, as information asymmetry increases, a more bottom-up budgeting process can produce more accurate budgets arising from the use of subordinates' better information."[36]

36. Surveyed executives report that internal projections from individual units/ divisions of the business are by far the most important input into their projection of the company's expected future performance, along with the company's recent historical performance.[37]

37. Once an internal projection is made and approved, senior executives wishing to communicate guidance externally must decide on the range, or boundaries between which they expect the outcome to fall. Executives may give an unbiased range (*i.e.*, the midpoint of the range is equal to their internal projection); a conservative range (*i.e.*, the internal projection falls above the midpoint of the guidance range, essentially allowing for some "cushion" for results to fall below the internal expectation but still within the guided range); or an optimistic range (*i.e.*, the internal projection falls below the midpoint of the guidance range). Research suggests that the conservative approach is most common[38] and that investors tend to interpret guidance ranges as conservative.[39]

38. As executives have no obligation to provide guidance, they may choose to permanently stop the practice of providing guidance, or to temporarily stop providing guidance, as some firms did during the global financial crisis and the COVID-19 pandemic, presumably due to heightened economic uncertainty.[40]

39. Executives may also choose to withdraw annual or quarterly guidance when they have determined it is no longer attainable. Marshall and Skinner (2022) find that when

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[35] Shields, J. F., & M.D. Shields, *Antecedents of participative budgeting*, Accounting, Organizations and Society, 23(1), 49-76 (1998).

[36] Shields, M.D., *Operating Budgets and Budgeting – Benefits and Costs*, in Weil, R. and M. Maher, *Handbook of Cost Management* (2005) P. 550 (emphasis added).

[37] Call, et al. (2024).

[38] Call, et al. (2024); Ciconte, W., M. Kirk, & J.W. Tucker, *Does the Midpoint of Range Earnings Forecasts Represent Managers' Expectations?*, Review of Accounting Studies, 19 (2), 628-660 (2014)

[39] Ciconte, et al. (2014). For example, evidence suggests that if a firm announces that next year's revenue is expected to fall between 25 and 75 million, internal projections were likely at least 50 million, and investors are likely to draw that inference.

[40] Lu & Skinner (2023).

executives withdraw guidance in these situations, their firms' share price decreases in the short term, but their future guidance is perceived by the market as more credible in the longer term.[41]

40. Research documents a positive relationship between the quality of firms' internal information environments and the accuracy of their financial guidance. Feng, Li, and McVay (2009) find that managers in firms disclosing a material weakness in internal controls issue less accurate guidance.[42] Dorantes, Li, Peters, and Richardson (2013) find that firms implementing an enterprise system ("integrated transaction, planning, and resource management systems that coordinate information across enterprise functions") issue more accurate guidance.[43]

IX. Analysis of Acadia's FY17 Guidance Shows There Was No Reasonable Basis for Defendants' Guidance-Related Statements

A. The Process for Generating the FY17 Budget for Priory Group Was Accelerated, Top-Down, and Inadequate Given the Level of Complexity and Information Asymmetry

41. Acadia derived its consolidated revenue and adjusted EBITDA guidance figures for the consolidated company, including Priory Group, from its budgeting process.[44] The environment for generating Acadia's 2017 consolidated budget, and particularly the Priory Group budget, featured a particularly high degree of complexity and information asymmetry for several reasons.

42. First, Acadia's 2017 budget/guidance was the first to include results of the Priory Group acquisition, which significantly increased the size of Acadia's operations. Before the Priory acquisition, Acadia operated 258 facilities with approximately 9,900 beds.[45] The Priory acquisition (net of divestitures) added an additional 303 facilities and 6,100 beds,[46] more than doubling Acadia's facilities count and increasing bed count by 61.6%.

43. Second, between February and November of 2016, communication between Priory Group management and Acadia management was limited due to the ongoing CMA approval/divestiture process.[47] Pursuant to the CMA's interim enforcement order and derogation, Acadia was required to hold its existing business (Acadia/PiC) separate from Priory pending CMA review, and Acadia/PiC and Priory could not integrate any of their IT systems during this process.[48] Only a limited number of designated individuals at Acadia could receive

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41 Marshall, N. T., & A. N. Skinner, *Forecast withdrawals and reporting reputation*, The Accounting Review, 97(7), 347-377 (2022).

42 Feng, M., Li, C., & S. McVay, *Internal control and management guidance*, Journal of Accounting and Economics, 48, 190-209 (2009).

43 Dorantes, C.A., et al., *The effect of enterprise systems implementation on the firm information environment*, Contemporary Accounting Research, 30, 1427-1461 (2013).

44 Duckworth noted that: "The budget reflected really everything that needed to be reflected in our guidance." Duckworth Dep. at 229:7-9. See also Turner Dep. at 97:6-21; Duckworth Dep. at 222:13-223:9.

45 Acadia 10-K for year ending December 31, 2015, https://acadiahealthcare.gcs-web.com/static-files/d932d944-8ae9-4d18-a474-e90e3f2176c4.

46 Acadia 10-K for year ending December 31, 2016, https://acadiahealthcare.gcs-web.com/static-files/c77e4e90-97f1-4458-8b83-cd3a2cc57d2e.

47 Torrington Dep. at 36:9-37:11.

48 ACADIA01077437; ACADIA01077447.

select financial, quality assurance, insurance, and material contract information from Priory during this time.[49]

44. Third, beginning in December 2016, the complicated, time-consuming processes of integrating Acadia's new Priory facilities and previously-owned PiC facilities – as well as divesting several Priory and PiC facilities to satisfy the CMA's competitive concerns – distracted Acadia's UK operations from business as usual, posing additional challenges to Priory meeting any top-down budget expectations set by Acadia executives.[50]

45. Given the high degree of organizational complexity and information asymmetry brought on by the recency and size of the Priory acquisition, the limited information flows from Priory Group to Acadia during 2016, and the complications integrating Priory and PiC operations, best practice suggests that a particularly careful, bottom-up approach would be needed to develop to an accurate budget.[51]

46. When developing a revenue budget, managers must forecast both sales prices and quantities for their goods and services. For Priory Group, ADC[52] was the most important measure of quantity, and therefore a crucial item to forecast carefully (*i.e.*, in a bottom-up manner).[53] CFO Myers confirmed both the foundational aspect of ADC and the usual practice of generating a forecast from bottom-up, noting that "typically the starting point for any budget … is to look at what your census projections would be … to work with the divisions and facilities to actually build the census projections month by month, service by service."[54]

47. However, the 2017 budgeting process at Priory Group was conducted in an accelerated and largely top-down manner, particularly with respect to ADC. An email sent on August 9, 2016 from Tom Riall (then CEO of Priory Group) notes:

> "[F]ollowing discussions with Acadia we are having to adopt an accelerated budget process / timeline this year that is likely to put us all under significant pressure … Friday 9 Sept – submission of facility by facility 2017 full year volume (*i.e.*, ADC) budgets to Acadia. I appreciate that *due to time restrictions it may not be possible to do this bottom up and so will have to be done top down* by the Div FD's in conjunction with the Div Sales Teams … I realise that this

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49 ACADIA01077447; ACADIA01077451.

50 For one, the integration of Priory and PiC operations was not even planned to be complete until Q3 2017 (Exhibit 614 at ACADIA01420672). Nor did the integration go smoothly. The new company created from the divested facilities – ultimately dubbed Elysium Healthcare – negotiated to take "a lot of people with a lot of knowledge" with them, so Priory "didn't have any people that had experience and knowledge left to help" manage Acadia's PiC facilities (Walton Dep. at 66:14-67:23; Exhibit 661). As Priory's CIO Tina Walton summed up in an October 2016 email, the loss of all the "senior technical people … [is] going to make the integration nearly impossible…. well quickly anyway! Hopefully [Acadia] will start to understand this is going to cost!" (Exhibit 661). Priory's CFO Nigel Myers agreed, writing back: "Same as Finance. All the senior people who close and review accounts are going, if you look at the org chart. [Elysium] has shafted … us." (Exhibit 661). A January 2017 presentation for the integration steering group noted a number of "Integration Risks" "Integration Issues" rated "High" and coded regarding the lack of visibility, controls, and staff at PiC, and that "BAU [business as usual] is being affected." (Exhibit 621 at ACADIA01325864-66).

51 Shields (2005).

52 Average Daily Census is the average daily count of patients over some period of time.

53 Myers Dep.at 54:6-18; Duckworth Dep. at 245:5-246:3.

54 Myers Dep. at 54:7-13.

puts you all, (particularly our finance teams) under significant pressure but we have no option … we haven't got a minute to lose."[55]

48. The 2017 budgeting process at Priory Group and across Acadia facilities was also directly influenced by targets set by Acadia management. Every year, Acadia management provided guidance to its facilities on expected volume and revenue growth based on current occupancy rates.[56] These budget targets – including budget targets for 2017 on ADC, revenue, margin, and EBITDA – would be approved directly by Acadia CEO Joey Jacobs.[57] With respect to Priory Group specifically, Acadia CFO David Duckworth acknowledged that he worked directly on "making sure that [the 2017 Priory] budget reflected the target … that [they] had developed for what was possible and expected for the combination of the UK companies."[58] As Acadia and Priory represented to HM Revenue & Customs (the UK's tax authority) in late 2016, Priory's "[f]acility and UK Group budgets are influenced by the expected performance set by the US Board and are agreed and monitored monthly."[59]

49. The Individual Defendants have testified that they were personally involved in deriving guidance ranges from the budget. Duckworth testified that "that was a decision that I was [a] part of, but [Acadia President] Brent [Turner] and his leadership of Investor Relations would typically lead the discussion around our guidance."[60] Turner similarly testified that he was "involved in the process" of determining and communicating guidance, but when asked if it was his general duty to discuss guidance with the board, he replied: "Not me specifically."[61] Turner also testified that he could not recall the topics or frequency of his presentations to the board.[62]

50. The evidence I have reviewed to date, however, provides little information to substantiate the process the Individual Defendants followed to derive guidance ranges from the budget. Duckworth noted that "we would use [the budget] and other factors and analysis in determining our guidance … we would have a full discussion in advance of issuing any guidance and look at an extensive set of information. We would look at if our budget was – you know, we – we would just refresh our memory of the budget ... you may want to confirm that the assumptions included in the budget are still what you expect."[63] Duckworth also testified that while Acadia leadership reviewed guidance with the audit committee at meetings where minutes were kept, the process was not documented in a consistent way and "it depend[ed] on the quarter as to what the schedules looked like or what the details of those

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55 Exhibit 564; see also ACADIA01247301 (Priory's CFO Nigel Myers similarly relayed to his Finance team that Acadia's timetable for 2017 volume budgets was "going to be very tight" and required Priory to "streamline the divisional and group review processes"). The budgeting process for 2017 ADC/volume budgets also appears to have resulted in assumed bed expansions and ADC increases at several legacy PiC facilities for which there were no actual business plans to expand (Exhibit 626).

56 Exhibit 742; Duckworth Dep. at 199:12-202:8.

57 Exhibit 155; ACADIA-REPROD-0165253.

58 Duckworth Dep. at 211:23-212:9; Exhibit 743.

59 Exhibit 744.

60 Duckworth Dep. at 224:8-11.

61 Turner Dep. at 108:19-22.

62 Turner Dep. at 106:15-25. Turner also testified that "Duckworth as CFO of the company would have been, you know, on point for the [budget] numbers themselves." but he (Turner) did not "know the spreadsheet or system that was … communicating the – the numbers." *Ibid.* at 98:11-99:11.

63 Duckworth Dep. at 223:6-224:1.

would have been."[64] Turner testified that "the budget would be a barometer of … where the ranges of the guidance [were] established" and served as an "internal benchmark," but did not provide additional details explaining how the range was chosen.[65] As further explained below in §XI.E., I have also not seen any evidence explaining how Acadia issued, affirmed, and/or revised the precise adjusted EBITDA and revenue figures in its FY17 guidance.

B. Acadia's FY17 Budget and Guidance Included Aggressive Financial Assumptions that Were Inconsistent with Historical Performance

51. On January 12, 2017, Acadia's board approved its FY17 consolidated budget, including revenue of $2,895,177,892 and adjusted EBITDA of $640,718,703.[66] On February 23, 2017, Acadia released financial guidance for FY17, with a revenue range of $2.85B-$2.9B and adjusted EBITDA range of $625M to $640M.[67] Consistent with common practice,[68] Acadia set its revenue guidance range such that the midpoint ($2.875B) fell below budgeted revenue ($2.895B) and such that the entire adjusted EBITDA guidance range fell below budgeted adjusted EBITDA. In other words, in translating its annual budget to its annual guidance, Acadia had built in a "cushion": adjusted EBITDA could fall short of budget by approximately $15.7M before falling below the guidance range, and revenue could fall short of budget by approximately $45.2M USD before falling below the guidance range.

52. Acadia's FY17 budgeted adjusted EBITDA incorporated a particularly aggressive and unrealistic assumption regarding contract labor, or the cost of hiring temporary workers. While annual net revenue was budgeted to increase from $2.810B in FY16 to $2.895B in FY17, contract labor was budgeted to decrease substantially from $84.9M to $39.8M.[69]

53. Figure 1 shows Acadia's actual quarterly contract labor costs as a percentage of revenue for FY15 and FY16, and budgeted quarterly contract labor costs as a percentage of revenue for FY17.[70] From Q1'15 through Q1'16, actual quarterly contract labor cost fell between 2.17% and 2.8% of revenue. From Q1'16 through Q3'16, following the incorporation of Priory results, contract labor costs rose to between 3.11% and 3.2% of revenue. However, Acadia's FY17 budget assumed a sharp decrease in contract labor in Q1'17 to 1.46% of revenue, followed by a steady continued decrease through FY17 to 1.29% of revenue in Q4.

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64 *Ibid*. at 225:16-226:3.

65 Turner Dep. at 100:8-23, 109:6-19.

66 Exhibit 713.

67 Complaint, ¶173.

68 Call, et al. (2024) report that 93% of survey respondents report that their internal earnings projection is very likely to fall at or above the midpoint of the guidance range.

69 Exhibit 747a.

70 See ACADIA00000050 for Actual FY15 figures. See Exhibit 747a for Actual FY16 and Budgeted FY17 figures. Data tables for all figures in this report are included in Appendix C.

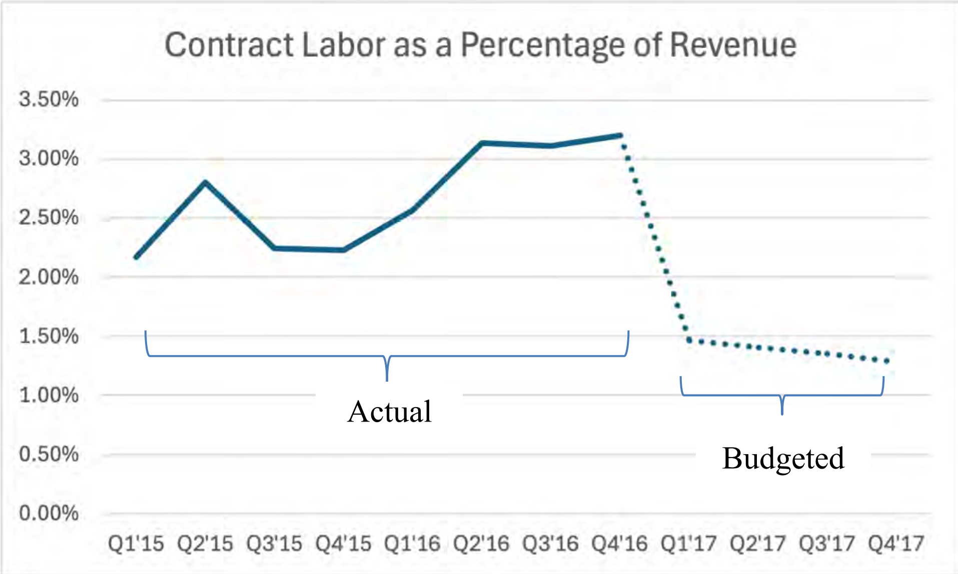

Figure 1

54. To illustrate the impact of this assumption on the likelihood of Acadia achieving its guidance, suppose that in FY17, Acadia met all its budgeted targets for revenue and expenses, except for contract labor. If contract labor had been 1.92% of revenue or higher, Acadia would have missed its adjusted EBITDA guidance.[71] Acadia had never achieved this level of contract labor cost as a percentage of revenue in any quarter of FY15 or FY16.

55. Assuming again that: (a) Acadia met all its FY17 budgeted targets for revenue and expenses, except for contract labor, and (b) contract labor was 3% of revenue (more in line with but still better than Q2-Q4 2016 results), FY17 adjusted EBITDA would have been lower than budgeted by $47M, and Acadia's guidance "cushion" would have been eroded by the second quarter:

Table 1: Impact of FY 2017 Budgeted Contract Labor on Adjusted EBITDA[72]

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017 Total
FY 17 Budgeted Revenue	694,150,453	726,003,938	733,709,416	741,314,086	2,895,177,893
FY 17 Budgeted Contract Labor	10,167,362	10,208,349	9,924,301	9,533,004	39,833,016
Contract Labor at 3% of revenue	20,824,514	21,780,118	22,011,282	22,239,423	86,855,337
Impact on adjusted EBITDA	(10,657,152)	(11,571,769)	(12,086,981)	(12,706,419)	(47,022,321)

56. Figure 2 shows FY16 actual monthly contract labor and FY17 budgeted monthly contract labor for Acadia's U.S. and UK operations.[73]

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71 If adjusted EBITDA fell short of budget by $15.7M in FY17, Acadia would miss the lower bound of its guidance. If actual contract labor cost in FY17 were $55.5M (exceeding budgeted contract labor of $39.8M by $15.7M) this amount would represent 1.92% of revenue ($55.5M / $2.895M = 1.92%).

72 See Exhibit 747A for budgeted figures.

73 See Exhibit 747A. Data for January and February 2016 are omitted because Exhibit 747A does not fully reflect the impact of the Priory acquisition until March.

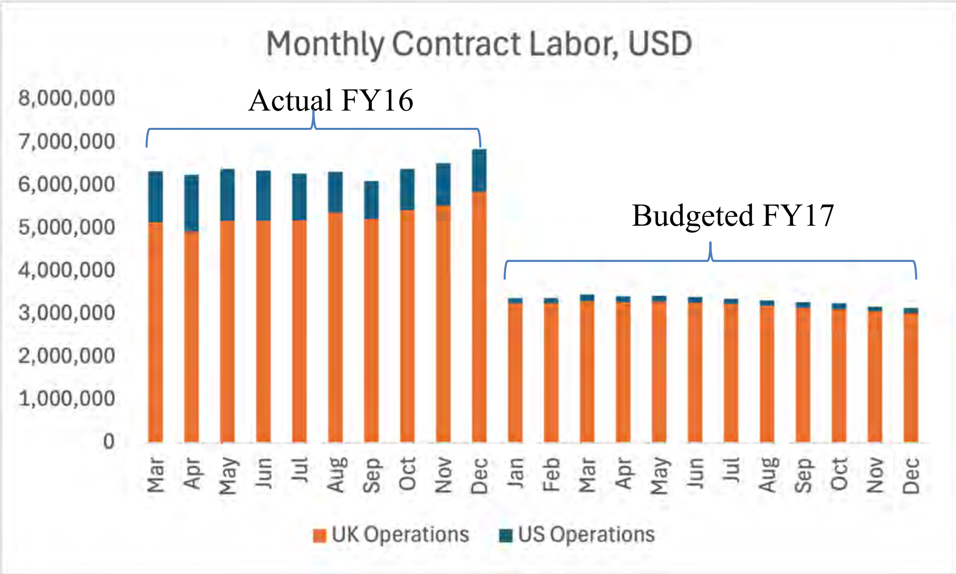

Figure 2

57. Acadia did not publicly provide guidance for the FY17 financial results of its UK operations. However, out of total budgeted revenue of $2,895,177,892 and adjusted EBITDA of $640,718,703, UK operations were budgeted to contribute $1,045,831,919 and $226,619,488 (£836,665,530 and £181,295,589 GBP), respectively, or approximately 37% of consolidated group revenue and adjusted EBITDA.[74]

58. Acadia's FY17 budget for Priory Group included improvements in revenue, expenses, and profit. Table 2 compares key figures from Priory Group's FY16 actual results (excluding the impact of divested sites) with its FY17 budget:

Table 2: Priory Group Operations: FY16 Actual Results vs FY17 Budgeted[75]

	FY16 Actual (net of divested sites)	FY17 Budgeted	Budgeted Increase/Decrease
Revenue	£775,365,090	£836,665,530	7.91%
EBITDA	£158,670,566	£181,297,185	14.26%
EBITDA Margin	20.46%	21.67%	121 bp
Wages	£488,502,934	£520,107,685	6.47%
Agency Costs[76] (included in Wages)	£34,716,483	£20,721,097	-40.31%

74 Acadia assumed a 1.25 USD/GBP exchange rate in its FY17 budget and financial guidance. See Exhibits 746 and 747A. I use the same exchange rate throughout my discussion of the FY17 budget and financial guidance.

75 See Exhibit 654 for figures in this table, except as otherwise noted. There are some discrepancies between FY17 budgeted amounts in Acadia's consolidated budget in Exhibit 747A, Priory MORs, Acadia consolidated MORs. These differences do not materially affect the analysis or opinions here.

76 The term "agency cost" was used internally by Priory Group similarly to the way "contract labor" was used by Acadia, *i.e.*, to refer to the cost of temporary workers (Torrington Dep. at 43:7-21; Duckworth Dep. at 341:16-342:1). However, the figures for Priory Group's budgeted and actual agency cost do not match Acadia's figures for contract labor. I have not seen a reconciliation of these figures in Defendants' documents, but a review of the evidence shows that Acadia's budgeted and actual contract labor figures consisted of agency costs and several other types of contracted labor expenses – *e.g.*, self-employed staff, consultants, and temporary staff. See Duckworth Dep. at 324 ("Agency costs are included in our contract labor, but there are a number of factors and

Table 2: Priory Group Operations: FY16 Actual Results vs FY17 Budgeted[75]			
	FY16 Actual (net of divested sites)	**FY17 Budgeted**	**Budgeted Increase/Decrease**
Wages as % of Revenue	63.00%	62.16%	-84 bp
Agency Costs as % of Revenue	4.48%	2.48%	-200 bp
Average Daily Census[77] (ADC)	7,508	7,883	4.95%
Average Daily Fee (ADF)	£265	£272	2.59%
EBITDA per patient day	£54	£59	8.63%

59. Critically, and in line with Acadia's consolidated budget, while Priory Group's FY17 revenue was budgeted to **increase**, agency cost was budgeted to **decrease** from £34.7M to £20.7M (from 4.48% to 2.48% as a percent of revenue).

60. Figure 3 shows Priory Group's actual FY16 quarterly agency cost as a percentage of revenue, and budgeted FY17 quarterly agency cost as a percentage of revenue[78]. During FY16 quarterly agency costs steadily increase from 3.56% of revenue to 5.3% of revenue. However, Acadia's FY 2017 budget for Priory Group assumed a sharp decrease in agency cost in Q1'17 to 2.69% of revenue, followed by a steady continued decrease through FY 17 to 2.17% of revenue in Q4.

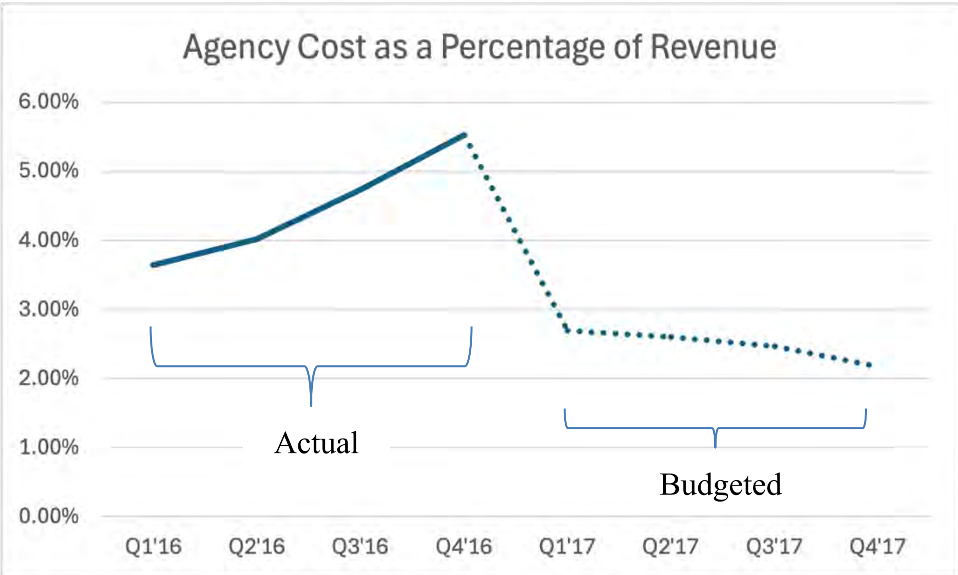

Figure 3

61. To illustrate the impact of this assumption on the likelihood of Acadia achieving its guidance, note that if: (a) Priory Group's actual FY17 agency costs were the same as actual FY16 agency costs as a percent of that year's revenue (4.48%), and (b) Acadia had hit all of its other targets in its consolidated FY17 budget, Acadia's actual FY17 adjusted EBITDA would

details that aren't fully represented by just looking at contract labor in the P&L."); ACADIA01302287; ACADIA01360368.

77 The figures included in this report exclude ADC for Priory Group Supported Living. See Exhibit 747A for Budgeted FY17 results for Priory group ADC.

78 See Exhibit 654 for FY16 actual figures, which include PiC and Priory results net of disposed sites. See Exhibit 747a for FY17 budgeted revenue and Priory Group monthly MORs for FY17 budgeted agency cost.

have been lower than budgeted by £16.74M, which alone would have caused Acadia to miss its FY17 adjusted EBITDA guidance.[79]

62. In addition to adding cost, increased reliance on agency staff posed a risk to quality of care provided to patients. As Trevor Torrington, Priory Group CEO, noted,

> "The bigger problem [with agency workers] was actually the quality … you don't have time to – and this is across the board – they don't get proper induction into the systems and processes and so on, so that was our bigger concern, was the fact that if you use agency staff then there is a risk of quality."[80]

63. Given this risk, increased reliance on agency labor could be expected to have a separate negative impact on financial performance through reduced level of referrals and therefore lower ADC and lower revenue. As David Duckworth, Acadia CFO, noted,

> "[A]t our facility levels throughout the company and every facility, every state, market that we're in, they maintain locally relationships with many different referral sources … providing quality care within each of our communities was essential to seeing patient volumes and quality care is essential. Referral sources send patients to your facility for treatment."[81]

64. Priory Group's FY17 revenue was budgeted to increase by 7.91%. This was driven by a budgeted increase in ADF from £265 to £272, and a budgeted increase in annual ADC from 7,508 to 7,883. Of these two key assumptions, ADC was clearly the most uncertain.[82] ADC would be driven by factors including overall demand for behavioral health care in the UK, bed capacity in Priory facilities, referrals made to Priory facilities by UK health care authorities, and admissions of those referrals to Priory facilities.

65. Priory's budgeted quarterly ADC for FY17 assumed a quarterly increase over a much flatter trend in actual FY16 performance:

Table 3: Priory Group ADC[83]

	Q1	Q2	Q3	Q4
FY16 Actual	7,459	7,526	7,523	7,524
FY16 Actual Growth		0.89%	-0.03%	0.00%
FY17 Budgeted	7,690	7,860	7,926	8,035
FY17 Budgeted Growth	2.22%	2.20%	0.84%	1.37%

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79 FY16 actual agency costs were 4.48% of revenue (£34,716,483/£775,365,090). FY17 agency costs, if assumed to persist at 4.48% of budgeted FY17 revenue, would have been 4.48% X £836,665,530 = £37,461,172, an increase of £16,740,075 over FY16 budgeted agency costs of £20,721,097. Using an exchange rate of 1.25 USD/GPB, this increase would be $20,925,093, which exceeded Acadia's adjusted EBITDA guidance "cushion" of $15.3M.

80 Torrington Dep. at 43:20-44:5.

81 Duckworth Dep. at 137:7-18.

82 91% of Acadia's 2016 UK revenue was derived from public sources with fees negotiated annually and adjusted for increases in cost of living and inflation. See Acadia Healthcare 10-K for the year ending December 31, 2016.

83 See Exhibit 654 for FY16 actual figures net of divested sites.

66. Communication among Priory leadership throughout FY16 suggests that they struggled to manage both ADC and agency cost, making the budgeted turnaround in FY17 highly improbable.

(a) CEO (then of Priory's Healthcare division) Torrington instructed division leaders in March 2016 to "ensure you speak to all your HDs to drive census. There have been an unacceptable level of rejections across a number of sites and you need to intervene. Also, please make 100% sure your HDs are managing staffing levels in line with census and absolutely minimum usage of agency."[84] Priory Healthcare Director of Finance Vicky Morrell referred to the situation as a "crash in our census and cost control."[85]

(b) In May, 2016, in reply to an email from Morrell warning of poor performance on ADC and agency cost, Torrington notes, "this can only be the very worst case scenario so we need to pull out all the stops to improve on this." Morrel replied, "Given today's census this is likely to be best case scenario."[86]

(c) In September 2016, Torrington wrote to division leaders that:

> "[M]any of you are very far behind achieving your budget. You have a mandate to ensure your hospital achieves budget and at the moment for many that is not looking possible. I am not convinced that as HDs you are in control of this process and this needs to start happening. I have also noticed from the provisional accounts that apart from not achieving your budgeted ADC, some of you have absolutely no control over your costs … it seems that some of the HDs are simply not taking their responsibilities as HDs seriously and that will need to change."[87]

(d) In October 2016, Torrington again wrote to division leaders that:

> "Current ADC trend is very concerning considering we have entered the busiest quarter of the year. Every effort needs to be made to drive your ADC and for Acute HDs, there are still far too many rejections at certain sites and this needs to be addressed. Whilst ADC remains low, I would expect all of you to proactively flex your staffing to mitigate and agency usage needs to drop dramatically at those sites whose ADC remains stubbornly low."[88]

67. Priory Group's FY17 EBITDA Margin was forecast to increase from 20.46% to 21.67%. Data from public UK financial filings for Priory Group before its acquisition by Acadia suggests that this assumption reflects a reversal of a significant downward multi-year trend in EBITDA margin for UK operations:

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84 Exhibit 579 at ACADIA01285526.

85 *Ibid.*

86 Exhibit 582 at ACADIA01250266.

87 Exhibit 586 at ACADIA01249038.

88 Exhibit 587 at ACAD1A01203535.

Table 4: Priory Group EBITDA Margin					
	Priory FY13[89]	**Priory FY14**[90]	**Priory FY15**[91]	**Priory FY16**[92]	**Acadia UK FY17 (budgeted)**[93]
EBITDA Margin	25.63%	24.36%	21.45%	20.46%	21.67%

68. A KPMG draft due diligence report dated December 11, 2015 in support of Acadia's acquisition of Priory highlights increased agency costs as a key area of concern that was expected to continue at Priory:

(a) "The key risk (to achievability of the FY16-FY18 forecast for Priory) highlighted from current trading is around costs in the Healthcare division, where agency costs have been high and are expected to continue until at least May 2016."[94]

(b) "Agency costs have increased from average [last twelve months] spend of £0.6 million per month across FY14 and H1'15 to monthly spend of over £1.0 million … there is a shortage in nursing staff across the UK and other operators have also experienced an increase in agency costs. We think it is likely that increased agency costs will be a medium-term feature of the business."[95]

(c) "Agency usage has increased by £2.9 million to [last twelve months of] '15, faster than the rate of the corresponding ADC rise; this is partly due to the shortage of (specialised) nurses in the UK."[96]

(d) "There is a shortage of nurses in the UK with some areas being affected more seriously than others (mental health, for example). Further recent changes to immigration rules may exacerbate this shortage."[97]

69. Acadia management's external and internal communications also demonstrate that they were aware in FY16 of the ongoing UK nursing shortage that was causing increased agency expense:

(a) On a November 4, 2015 conference call for Acadia's third quarter 2015 earnings results, in response to an analyst question, Joey Jacobs acknowledged that "in the UK finding nurses is more of a challenge."[98]

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89 Priory Group No. 1 Limited Annual Report for year ended December 31, 2013, https://find-and-update.company-information.service.gov.uk/company/07480152/filing-history.

90 Priory Group No. 1 Limited Annual Report for year ended December 31. 2015, https://find-and-update.company-information.service.gov.uk/company/07480152/filing-history.

91 *Ibid.*

92 Exhibit 654. This figure includes PiC results, net of divested sites.

93 *Ibid.*

94 Exhibit 741 at KPMG-AHC-0000648.

95 Exhibit 741 at KPMG-AHC-0000649.

96 Exhibit 741 at KPMG-AHC-0000667.

97 Exhibit 741 at KPMG-AHC-0000664.

98 Thomson Reuters Transcript, *ACHC-Q3 2015 Acadia Healthcare Company Inc Earnings Call* (Nov. 4, 2015).

(b) Notes from a July 28, 2016 Board meeting authored by David Duckworth reflect a discussion of a "trend in the UK that staff vacancies are filled with agency labor."[99]

(c) At a March 7, 2017 investor conference, in response to an audience question, Joey Jacobs acknowledged that, "[t]he UK has a nurse issue" and that "[f]or a year [Acadia had been] focused on nurses" in the UK.[100]

70. In summary, the FY17 budget that Acadia set for Priory Group contained numerous aggressive assumptions unsupported by historical trends.[101]

C. By Early 2017, It Would Have Been Apparent that the FY17 Guidance Was Unachievable

71. Figure 4 shows Acadia's monthly cumulative adjusted EBITDA budget variance for FY17 (*i.e.*, each monthly observation is calculated as actual adjusted EBITDA to date minus budgeted adjusted EBITDA to date).[102]

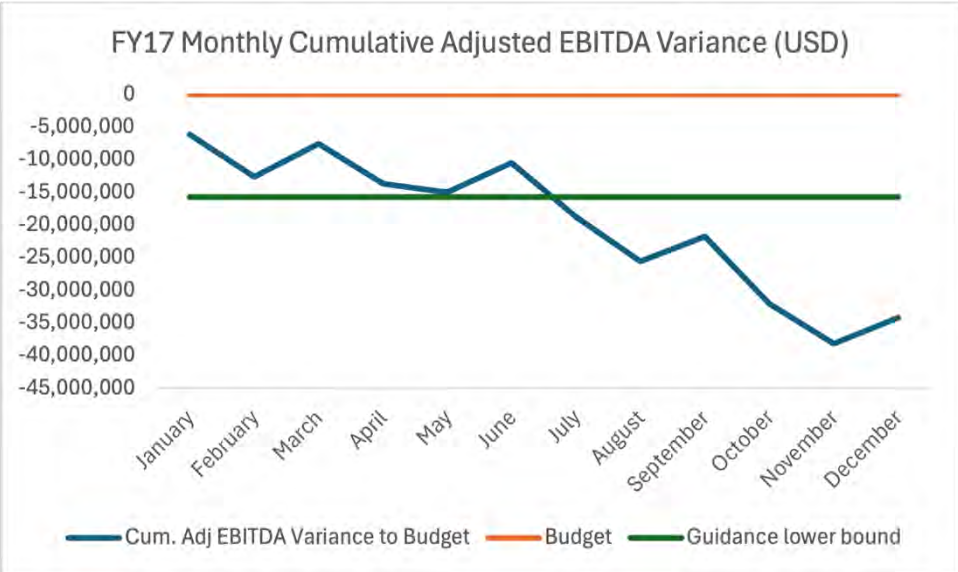

Figure 4

72. By the end of February 2017, Acadia's cumulative adjusted EBITDA was already below budget by $12.6M. By July, Acadia's cumulative adjusted EBITDA budget variance had already eroded the $15.5M "cushion" between budgeted adjusted EBITDA and the guidance lower bound. Acadia exceeded its budgeted adjusted EBITDA in only four months of FY17: March, June, September, and December, all end-of-quarter months.

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99 ACADIA00875841.

100 Exhibit 715.

101 This trend would continue into the following year. For instance, in February 2018, Priory CFO Nigel Myers wrote to Priory CEO Trevor Torrington that Acadia CEO Joey Jacobs should "not moan about missing his ridiculous budget so far in 2018." At his deposition, Myers could not identify anything unique about the 2018 budget that differentiated it from 2017. See Myers Dep. at 234-235.

102 ACADIA00000050.

73. Figure 5 shows Acadia's monthly cumulative revenue variance to budget for FY17.[103]

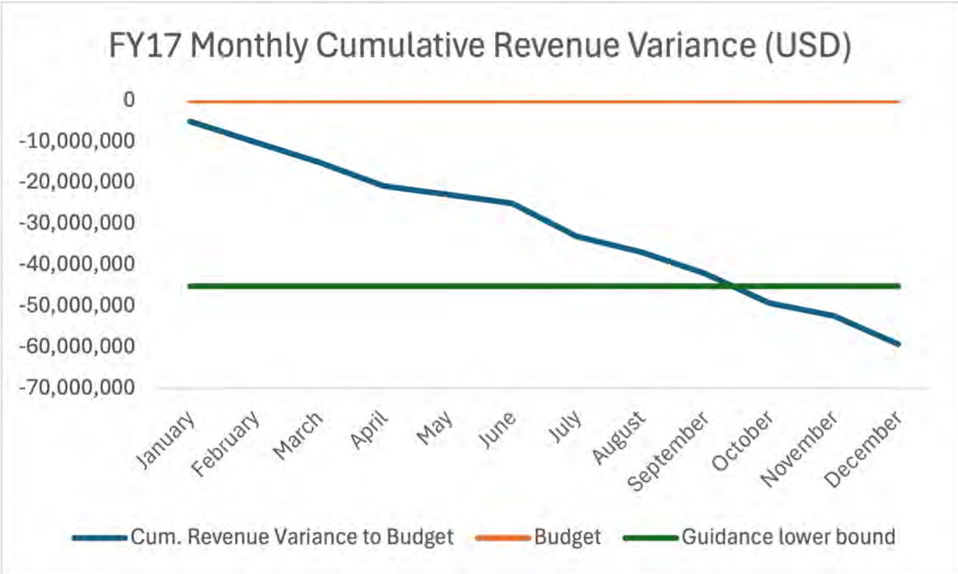

Figure 5

74. In no month of FY17 did Acadia meet its consolidated revenue budget.

75. Figure 6 shows FY17 monthly ADC budget variance for Acadia's U.S. and UK operations (*i.e.*, monthly actual ADC minus monthly budgeted ADC).[104]

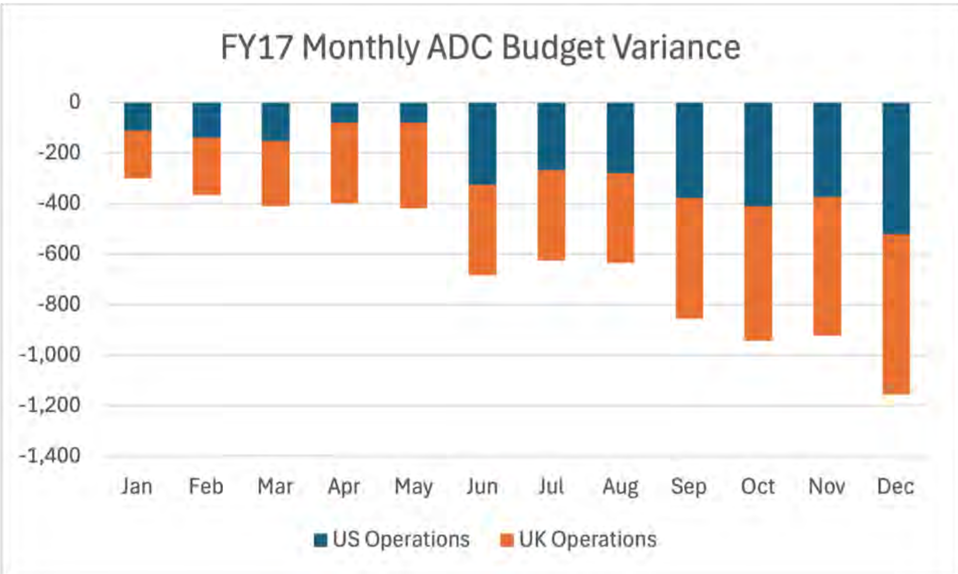

Figure 6

76. In no month of FY17 did Acadia meet its budgeted ADC. January 2017 actual ADC (13,976.2) was already nearly 300 behind budget (14,275.9). Monthly ADC performance relative to budget continued to deteriorate steadily throughout FY17.

[103] *Ibid.*

[104] *Ibid.*

77. Figure 7 shows FY17 monthly cumulative variance for Acadia's consolidated contract labor.[105]

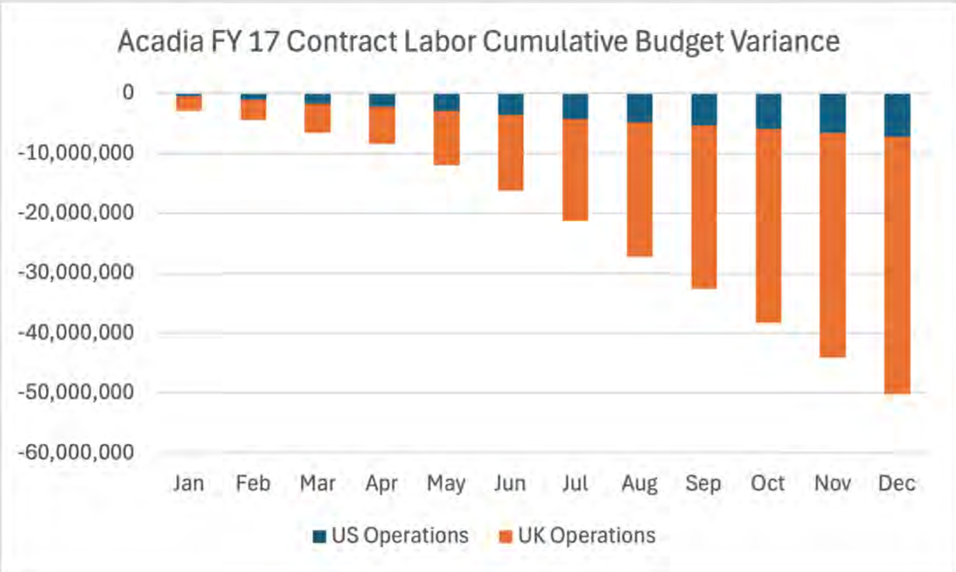

Figure 7

78. In no month of FY17 did Acadia meet its budgeted contract labor figure. By the end of March 2017, Acadia had already overspent its contract labor budget by over $6.5M. By June 2017, Acadia had already overspent its contract labor budget by over $16M.[106]

79. Table 5 summarizes Priory Group budgeted and actual monthly EBITDA for FY17:

Table 5: Priory Group EBITDA[107]

All amounts in £	Jan	Feb	Mar	Apr	May	Jun
FY17 Budgeted	13,374,118	11,005,400	15,365,203	13,486,487	15,879,878	15,470,519
FY17 Actual	12,307,035	9,499,042	13,908,889	11,098,785	15,136,906	14,590,526
Monthly Variance	-1,067,083	-1,506,358	-1,456,314	-2,387,702	-742,972	-879,993
Cumulative Variance, YTD	-1,067,083	-2,573,441	-4,029,755	-6,417,457	-7,160,429	-8,040,422
	Jul	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**
FY17 Budgeted	16,665,206	15,380,368	15,228,670	17,195,492	16,150,558	16,095,285
FY17 Actual	13,961,577	12,063,064	12,675,075	13,215,347	12,334,662	13,323,249
Monthly Variance	-2,703,629	-3,317,304	-2,553,595	-3,980,145	-3,815,896	-2,772,036
Cumulative Variance, YTD	-10,744,051	-14,061,355	-16,614,950	-20,595,095	-24,410,991	-27,183,027

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105 See Consolidated MORs for January-November data and ACADIA00000050 for December data.

106 It is likely that actual contract labor costs in early FY17 were even higher than the reported figures above. Trevor Torrington noted that the weak internal control environment at PiC led to underreporting: "a lot of the PiC sites were not following the process of recording agency staff accruing, raising purchase orders despite them not even hav[ing] invoices from the agency suppliers." Torrington Dep. at 106:16-19.

107 Exhibit 654.

80. In no month of FY17 did Priory Group meet its monthly EBITDA budget. By the end of June 2017 the cumulative EBITDA shortfall was £8.04M, or $10.91M in USD,[108] more than three-fourths of Acadia's $15.7M "cushion" in its group level EBITDA guidance.

81. Table 6 summarizes Priory Group budgeted and actual monthly revenue for FY17.

Table 6: Priory Group Revenue[109]

All amounts in £	Jan	Feb	Mar	Apr	May	Jun
FY17 Budgeted	67,431,982	62,035,267	69,167,895	67,780,673	71,337,939	69,624,130
FY17 Actual	65,926,873	60,172,729	66,904,946	64,218,617	67,738,500	67,094,631
Monthly Variance	-1,505,109	-1,862,538	-2,262,949	-3,562,056	-3,599,439	-2,529,499
Cumulative Variance, YTD	-1,505,109	-3,367,647	-5,630,596	-9,192,652	-12,792,091	-15,321,590
	Jul	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**
FY17 Budgeted	71,821,339	70,694,550	69,781,505	72,916,956	71,207,516	72,865,779
FY17 Actual	68,408,037	67,359,971	65,206,846	68,210,187	67,448,199	67,889,398
Monthly Variance	-3,413,302	-3,334,579	-4,574,659	-4,706,769	-3,759,317	-4,976,381
Cumulative Variance, YTD	-18,734,892	-22,069,471	-26,644,130	-31,350,899	-35,110,216	-40,086,597

82. In no month of FY17 did Priory Group meet its monthly revenue budget. From January through May, the monthly budget variance increased each month. By June 2017 the cumulative revenue shortfall was £15.3M, or $19.87M in USD, nearly half of Acadia's guidance revenue "cushion" of $45.2M USD.

83. Table 7 summarizes Priory Group budgeted and actual monthly Average Daily Census for the first half of 2017.

Table 7: Priory Group Average Daily Census, January - June 2017[110]

	Jan	Feb	Mar	Apr	May	Jun
FY 17 Budgeted	7,634	7,693	7,744	7,790	7,875	7,914
FY17 Actual	7,443	7,463	7,487	7,472	7,529	7,552
Monthly Variance	-191	-230	-257	-318	-346	-362
	Jul	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**
FY 17 Budgeted	7,930	7,911	7,937	8,005	8,053	8,045
FY17 Actual	7,574	7,545	7,461	7,476	7,504	7,414
Monthly Variance	-356	-366	-476	-529	-549	-631

84. In no month of FY17 did Priory Group meet its monthly ADC budget. From January through May, the monthly budget variance increased each month.

108 For conversion from GBP to USD in this section, I use the Bank of England spot rate for 30 June 2017, which was 1.299 USD/GBP (https://www.bankofengland.co.uk/boeapps/database/Rates.asp?Travel=NIxAZx&into=GBP).

109 Exhibit 654.

110 Exhibit 654.

85. Table 8 summarizes Priory Group agency costs for FY17.

Table 8: Priory Group Agency Costs, FY17[111]						
All amounts in £	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**
FY 17 Budgeted	2,441,844	2,415,083	Not Available	1,855,924	1,778,933	1,800,697
FY17 Actual	3,592,454	3,395,508	3,852,686	3,655,924	3,778,933	4,200,697
Monthly Variance	1,150,610	980,425	Not Available	1,800,000	2,000,000	2,400,000
Cumulative Variance, YTD	1,150,610	2,131,035	Not Available	7,300,000	9,300,000	11,700,000
	Jul	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**
FY 17 Budgeted	1,777,401	1,755,522	1,696,065	1,613,907	1,607,533	1,494,468
FY17 Actual	4,877,401	5,555,522	4,996,065	5,213,907	5,207,533	5,294,468
Monthly Variance	3,100,000	3,800,000	3,300,000	3,600,000	3,600,000	3,800,000
Cumulative Variance, YTD	14,800,000	18,600,000	21,900,000	25,500,000	29,100,000	32,900,000

86. In no month of FY17 did Priory Group meet its monthly agency cost budget. By the end of June 2017, the cumulative budget variance was £11.7M (or $15.2M). Importantly, reliance on agency labor typically exhibited a seasonal trend, tending to rise during summer holiday months.[112] Not only did the FY17 budget for July and August fail to reflect this, but this seasonal trend would have rendered the reversal of the growing use of agency labor highly unlikely.

87. In summary, actual monthly FY17 results at Acadia and Priory Group fell short of budget immediately with no reasonable signs of future reversal.

88. Early in the year, Acadia and Priory Group leadership expressed concern about the reachability of the FY17 budget on numerous occasions:

(a) Minutes from a January 11, 2017 executive steering group meeting attended by Priory Group leadership regarding the integration of Priory and PiC document that "There are 1200 vacancies … and there is high agency usage … the budget has increased from December to January as the ADC has decreased. Add risk to risk register that the PiC budget may be unachievable."[113]

[111] See Exhibit 654 for monthly actual figures. FY17 Priory Group Monthly Operating Reports from April-December present budget variances rounded to the nearest hundred thousand. Budgeted figures for April-December are the sum of monthly actuals and rounded variances. For January and February budgeted figures, see ACADIA01197791 (Priory facilities for January and February), ACADIA01301508 (PiC facilities, January), and ACADIA01302344 (PiC facilities for February). I have not seen any evidence of Priory Group's budgeted agency cost for March 2017. However, based on the figures for January, February, and April, interpolated March 2017 budgeted agency costs are £483,721, which does not seem reasonable. Possible explanations for this include: (1) budgeted agency costs were updated at some point in FY 17, and (2) remapping of Priory's agency cost accounts into Acadia's consolidated contract labor accounts changed the calculation of Priory's agency cost figures. See ACADIA01359803, ACADIA01360368, and ACADIA01402216.

[112] Duckworth Dep. at 340:11-15.

[113] Exhibit 619.

(b) A February 23, 2017 email sent by Trevor Torrington notes, "I have just finished the MOR call with Acadia and obviously there is concern about the current ADC situation that is contributing to a significant deficit against budget."[114]

(c) A March 1, 2017 email sent by Trevor Torrington notes:

> "I am writing to you all directly because it is largely your areas of the business where ADC remains poor and there is little progress in closing the gap between actual and budget. Achieving budgeted ADC is your collective responsibility and your mandate and I need to see a lot more from all of you in turning the current trend around. When you look at the deficits within your respective areas, they do not make good reading and there needs to be a lot more effort in turning this around. At the latest Growth meeting, there were no new initiatives being put forward to drive census and my perception therefore is that there does not appear to be a plan in place, which is unacceptable. For the Healthcare MDs, I am still seeing a mass of rejections coming from the Acute HDs and clearly this is just not being robustly managed (if at all); this needs to change … I need to understand from all of you what your plans are to turn this around as doing nothing is just not an option; I need to see action!"[115]

(d) A reply to this email from Adrian Dallison, Estates Director for Priory, notes:

> "I think we need to look at all of this and go back to Acadia – there is no point attempting to meet a plan for which there is no evidence of a project plan, surely?"[116] Another reply from Dallison adds, "[We] Need to remember that dumping us with PiC in Dec did little to help with anyone's ability to deliver – it was far more than any of us ever imagined in terms of difficulty."[117]

D. Acadia Used Income-Increasing Accrual Accounting Estimates to Improve Quarterly Reported Performance

89. The objective of financial reporting is to "provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity."[118] Usefulness of information is enhanced when it is relevant for decision makers, faithfully represents economic phenomena (*i.e.*, is complete, neutral, and free from error), and available to decision makers in a timely manner.[119]

90. In order to meet these objectives, both United States GAAP and IFRS rely on accrual accounting, which:

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114 Exhibit 591.

115 Exhibit 592.

116 *Ibid.*

117 *Ibid.*

118 FASB Statement of Financial Accounting Concepts No. 8, Chapter 3 OB2.

119 FASB Statement of Financial Accounting Concepts No. 8, Chapter 3 QC4 and QC12.

> "[A]ttempts to record the financial effects on an entity of transactions and other events and circumstances in the periods in which those transactions, events, and circumstances occur. Accrual accounting thus provides information about an entity's assets and liabilities and changes in them that cannot be obtained by accounting for only cash receipts and outlays."[120]

91. Consider an example where an accident occurs in the first quarter of the year, and management determines it is probable that the firm will need to make a cash payout of $5M in the fourth quarter to settle claims. Accrual accounting standards require firms to record a $5M expense in the first quarter, even though the timing and amount of those cash flows may be uncertain. However, because management must estimate the amount of the expense, they may choose to make an estimate that is representationally faithful or one that manipulates profit for the quarter or year.

92. Consider two scenarios where management accounts for the above estimate differently. In the first scenario, management records the $5M expense in the first quarter, consistent with its own estimate, and therefore representationally faithful. This would decrease net income for the first quarter by $5M. In the second scenario, management wishes to improve first quarter reported results by recording an expense of only $1M, reducing first quarter net income by only $1M. Reported net income for the first quarter would $4M higher than it would have been if made in a representationally faithful way.

93. Suppose that in the fourth quarter, $5M in cash is paid to settle claims. In the first scenario, no additional expense would be recorded. However, in the second scenario, an expense of $4M would be recorded in the fourth quarter, making fourth quarter net income $4M lower than it would have been if made in a representationally faithful way.

94. Table 9 summarizes these accounting scenarios.

Table 9		
	Q1	**Q4**
Events	Accident occurs, probable 5M payout in Q4	5M cash outflow
Scenario 1, representationally faithful accounting	Record 5M expense	No expense
Scenario 2, aggressive accounting	Record 1M expense	Record 4M expense

95. Suppose that net income before recording the expense was $100M in the first and fourth quarters. Table 10 summarizes the impact of the two above accounting scenarios on first quarter and fourth quarter net income.

Table 10		
Millions of USD	**Scenario 1**	**Scenario 2**
Q1 Net income, before expense	100	100
Q1 Expense	5	1
Q1 Net income, after expense	**95**	**99**
Q4 Payout	5	5

120 FASB Statement of Financial Accounting Concepts No. 8, Chapter 3, p. 3.

Q4 Net income	100	100
Q4 Expense	0	4
Q4 Net income, after expense	**100**	**96**

96. On numerous occasions during FY17, emails exchanged among Priory and Acadia leadership discussed the use of accounting accruals to improve current reported results at the expense of later periods.[121]

(a) On February 3, Steve Ward, Senior Management Account in Priory Group Healthcare wrote to Nigel Myers and Vicky Morrell asking whether to record an income-reducing accrual in Q1 or spread it out over the entire year:

> "Could you let me know what you think about how to reflect in the accounts the repayments to NHSE re. The 1% Premium we billed for last year … Our 2 options are seemingly to take the hit in Q1 (would be £160k per month), or spread the hit over the whole year at £40k per month. Not sure what is best to do, or if there is any other plan for this, could you let me know what you think."[122]

(b) Nigel Myers responded: "Thanks Steve, we have not budgeted for the £500k hit, so would seem sensible to spread over the year. NHSE will take it all back in Q1, so we will have a balance c/fwd over Q1 end, but Acadia want a decent Q1!"[123]

(c) That same day, on February 3, Nigel Myers also wrote to Vicky Morrell that, "Acadia have overlaid a £500k central reduction in wage costs in February (from that included in the facility budgets) which is clawed back throughout 2017," which would result in Priory "defer[ring] some costs from Q1 site by site and amortis[ing] over the rest of the year … Q1 is very important for them, same argument for the NHSE 500k hit – amortise over 12 months rather than take hit in first quarter."[124]

(d) On April 11, David Duckworth emailed Nigel Myers and directed him to record several EBITDA-affecting accruals for Q1 close.[125]

(e) On July 5, Steve Ward emailed Nigel Myers to:

> "[P]rovide an early warning regarding HC numbers for June which are going to be extremely poor" and added that "We'll keep chipping away but realistically

121 The emails discussed in this section demonstrate a consistent pattern of noting poor financial performance for a period and then identifying accounting entries that would improve reported performance. I have not seen evidence of the journal entries and supporting documentation underlying these accruals that would permit an analysis of the impact of these accruals on financial results or their appropriateness under U.S. GAAP or IFRS.

122 Exhibit 622.

123 *Ibid.*

124 Exhibit 623. Morrell felt "nervous to do this as it is a gamble that performance will improve." *Id.* Morrell would also later describe this type of adjustment as having "took out an artificial £400k from Feb 2017," with Myers acknowledging that Acadia "will want the same for 2018. Either we do it no or they will tell me to after they review." (ACADIA01398980). Myers would also later describe having to "adjust Q1 for the Acadia fudge factor" in order to look at the actual trend for wages as a percentage of revenue. Exhibit 624.

125 Exhibit 630.

are not going to make much of a dent in these numbers." Myers notes in a later reply in the email thread that "we should get June looking as good as possible and take the flack later – but don't quote me on that!"[126]

(f) On July 6, Myers asked Leanne Blakeburn, Senior Management Accountant – Education, "How is EBITDAR result looking and what's left in accruals that could be released if needed?"[127]

(g) On July 8, Myers informed Trevor Torrington that Priory would report "EBITDA of 13.96m, 2.70m lower than budget and 0.68m lower than MOR forecast (with updated comparison to forecast to follow). To hit this number we have made the following adjustments to improve the results:" followed by a summary of £950,000 of income-increasing accruals made.[128]

(h) On October 5, David Duckworth instructed Nigel Myers to record an income-increasing accrual of £1.9M. Myers responded that he preferred to only accrue £1.3M of that amount. Duckworth responded directing that the entire £1.9M be recorded. Myers forwarded this exchange to Torrington, who noted, "OK, they are clearly desperate."[129]

(i) On October 9, Myers notes in an email to Tina Walton that the September EBTDAR result includes "£2.1m release of central provisions and accruals, excluding which the result would have been £1.2m below MOR forecast." Walton replies "That's not that bad then … is it???? Ps have we run out now???" Myers replies "£1.2m lower than what we said it would be bid Sept without the accruals released … Healthcare was a disaster and PAC not great compared to their own forecast for Sept. Yes we have no more surplus central accruals, Acadia have taken 4-5m this year."[130]

(j) In an email exchange on October 9, Myers and Lauren Smith, Director of Financial Reporting and Accounting at Acadia, discussed how to account for accruals for probable future losses on uninsured claims. Smith asks that these be removed from the budget for 2018. Myers replied that:

> "This year we have moved other reserves and used prior year reserves to avoid cost in the income statement but claims are increasing." Myers forwarded the exchange to Torrington, noting: "I don't think they understand but I will make it clear.... We need a 2018 budget for uninsured claims reserves, they keep going up each quarter and I can't fudge it anymore as Acadia have taken all my spare accruals.... Nothing left for next year."[131]

(k) On January 10, 2018, Myers exchanged emails with Duckworth regarding potential accrual adjustments that could be made for FY17. Myers forwarded to Torrington, noting "[I] Think the pressure to improve results might be coming. It [EBITDA

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126 Exhibit 637.

127 Exhibit 638.

128 Exhibit 642.

129 Exhibit 647.

130 Exhibit 649.

131 Exhibit 648. Myers testified that this exchange reflected a debate about whether these uninsured claims cost should be accounted for as an operating expense that would reduce adjusted EBITDA (Myers' position), or as a transaction cost that would not reduce adjusted EBITDA (Smith's position). See Myers Dep. at 197:25-198:7.

for 2017] should have been closer to 153m, but they obviously need more…" and "Got my arse hanging out all over the place, never been this much exposed to audit flack."[132]

E. Defendants Have Not Identified Any Documents that Provide the Basis for Acadia's FY17 Guidance Statements

97. I understand that Plaintiffs have issued a number of interrogatories to Defendants concerning the factual bases for Acadia's FY17 financial guidance. Specifically, Interrogatory Nos. 12, 14, and 15 to Acadia and Interrogatory Nos. 9, 11, and 12 to Brent Turner and David Duckworth asked Defendants to identify "the factual basis and each document, witness, and communication that [they] relied upon" in issuing the February 2017, April 2017, and July 2017 guidance-related statements discussed above in §VII.

98. In response to these interrogatories, Defendants identified a total of 22 documents that they claim "reasonably supported" Acadia's FY17 initial guidance (February 2017), affirmation (April 2017), and narrowing (July 2017).[133] These include:

(a) Acadia internal financial reports from December 2018 to March 2019.[134] These reports cover periods more than a year after the FY17 guidance was issued, affirmed, and narrowed, and therefore were not available to Defendants at that time.

(b) Audit committee minutes from February 2017, April 2017, and October 2017.[135] These minutes note that discussions took place regarding recent financial performance and issuance/affirmation/adjustment of guidance, but provide no bases, justification, or figures to support the feasibility of reaching Acadia's FY17 budget or guidance.

(c) Board materials from a February 23, 2017 meeting containing (among other things) minutes from Board meetings that took place on October 26, 2016 and January 12, 2017.[136] These minutes note that the board reviewed 2016 performance to date and the 2017 draft budget in October 2016, and approved the final 2017 budget in January 2017. The materials note "Key assumptions" underlying the 2017 budget, including:

(i) U.S. and UK same-facility and total growth in revenue, patient days, and EBITDA.

(ii) Expansion projects "expected to add approximately 500 beds in the U.S. and 300 beds in the UK."

(iii) Full realization of UK synergies of £16m in 2017.

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[132] Exhibit 609 at ACADIA01254298.

[133] See Acadia's Responses and Objections to Plaintiffs' Second Set of Interrogatories, dated June 2, 2023, Responses to Interrogatory Nos. 12, 14, and 15; Brent Turner's Responses and Objections to Plaintiffs' First Set of Interrogatories, dated June 2, 2023, Responses to Interrogatory Nos. 9, 11, and 12; David Duckworth's Responses and Objections to Plaintiffs' First Set of Interrogatories, dated June 2, 2023, Responses to Interrogatory Nos. 9, 11, and 12.

[134] ACADIA00000519.

[135] ACADIA00007551; ACADIA00009395; ACADIA00010721.

[136] ACADIA00011157.

These materials provide no reasonable justification to support feasibility of reaching the Priory Group FY17 budget or Acadia's FY17 guidance. No bases, justification, or figures are provided to support the budgeted improvement in Priory Group ADC or agency cost.

(d) Board materials from a May 25, 2017 meeting containing (among other things) minutes from Board meetings that took place on February 23, 2017 and March 29, 2017.[137] The materials provide no reference to or discussion of Acadia's FY17 guidance.

(e) Board materials from a July 27, 2017 meeting containing (among other things) minutes from a Board meeting that took place on May 25, 2017.[138] The materials provide no reference to or discussion of Acadia's FY17 guidance.

(f) Board materials from an October 27, 2016 meeting containing (among other things) minutes from Board meetings that took place on July 15, 2016, July 20, 2016, July 28, 2016, and October 12, 2016, and materials for Acadia's 2017 draft budget.[139] The materials provide no reference to or discussion of Acadia's FY17 guidance.

(g) Board materials from a November 2, 2017 meeting containing (among other things) minutes from a Board meeting that took place on July 27, 2017.[140] These minutes note that discussions took place regarding recent financial performance and adjustment of guidance, but provide no bases, justification, or figures to support the feasibility of reaching Acadia's FY17 budget or guidance.

(h) Priory Group Monthly Operating Reports from January 2017 through December 2017:[141] See above for an analysis of key items from these reports. These documents provide no reasonable justification to support feasibility of reaching the Priory Group FY17 budget or Acadia's FY17 guidance.

99. In summary, none of the documents identified by Defendants in their interrogatory responses document how Acadia issued, affirmed, and/or revised the adjusted EBITDA and revenue figures in its FY17 guidance.

DATED: February 7, 2025

MICHAEL J. WILLIS, PhD

[137] ACADIA00011919.

[138] ACADIA00012040.

[139] ACADIA00012355.

[140] ACADIA00012571.

[141] ACADIA00031071; ACADIA00031234; ACADIA00031334; ACADIA00031386; ACADIA 00031454; ACADIA00042447; ACADIA00084636; ACADIA00085805; ACADIA00085851; ACADIA 00085884; ACADIA00342458; ACADIA00342891; ACADIA00777211.

APPENDIX A

Author's CV

MICHAEL J. WILLIS, Ph.D.

EXPERIENCE

University of Cambridge, Judge Business School, 2017-present
Management Practice Associate Professor, Executive Master of Accounting Programme Director

- Designed and led development of a unique master's degree programme in leadership and innovation for accounting professionals. Hired and trained staff, sourced internal and external faculty, recruited students, and developed extensive new curriculum.
- Developed and delivered financial reporting and sustainability reporting curriculum for the Executive Master of Accounting, MBA, MFin, and Global EMBA covering IFRS, US GAAP, TCFD, ISSB, ESRS, and other global standards.
- Degree programme teaching:
    - Financial Reporting and Analysis (Master of Finance core, Global EMBA core)
        - Topics in Financial Statement Analysis (MBA elective)
        - Financial Reporting in Financial Service Firms (Master of Finance elective)
- Executive Master of Accounting courses:
    - Sustainability: a unique module covering the motivation for ESG reporting standards, a global perspective on the standards themselves, and the elements of a healthy reporting ecosystem.
    - Internal and External Audit
    - Structured and Unstructured Data
    - Descriptive Data Analytics
    - Analytics for Financial Reporting and Risk Management
- Executive education, design and direction:
    - Boston Consulting Group, Climate and Sustainability Programme
    - Grant Thornton, Leading the Partnership Programme
    - ESG Strategy for Finance Leaders
- Executive education, teaching sessions:
    - Accounting and Finance for Non Financial Managers
    - General Management Programme
    - Strategic Management Programme
    - ESG Disclosures: Challenges and Opportunities
        - Boston Consulting Group
        - Chanel Legal Leadership Team, FP&A Team, International Finance Leadership Team
        - Forvia Finance Leadership Team
        - Wilson Natural Trust Allies
        - Nyenrode Dorectors' Programme
        - CJBS Open ESG Leadership Programme

        - Chinese University Hong Kong EMBA
    - Governance: KMPG ESG 201 Firm-wide Training
    - Performance Evaluation and Incentives (Everbright China)
    - How Disclosures Impact Share Price (TomTom)
    - Financial Statement Analysis in Banks (Certified Bank Director Programme)
    - Accounting and Finance for Non Financial Managers
    - General Management Programme
    - Strategic Management Programme

University of Colorado Boulder, Leeds School of Business, 2012-2017
Senior Instructor of Accounting, Faculty Director of Business Core Integration

- Winner of the Robert S. Wasley Teaching Award, 2015
- Led design and delivery of integrated, team-taught undergraduate core curriculum.
- Taught introductory accounting, intermediate accounting, cost management, and accounting ethics to undergraduate, graduate, and executive audiences.

Harvard University Extension School, 2015-2017

- Taught online courses in financial accounting, managerial accounting, and financial statement analysis.

Gerson Lehrman Group, 2018-present

- Delivered training in financial reporting for revenue recognition, equity compensation, defined-benefit pensions, and deferred taxes.

Invited Presentations and Other Activities

- Expert witness for a matter involving revenue recognition in a principal/agent setting (US GAAP)
- Expert witness support for a matter involving taxability of a distribution (IFRS/International)
- ESG Disclosures: Challenges and Opportunities
    - CPA Australia: Hong Kong, London, Dubai, Singapore
    - Saudi Organisation for Certified Public Accountants
    - Hong Kong Institute for Certified Public Accountants
    - KPMG Shanghai, Shenzhen, Beijing
    - Ant Group, Hangzhou, China
    - China Institute for Certified Public Accountants
    - Ministry of Environment, Tokyo, Japan
    - CIMA/AICPA Africa Engage
- ESG Disclosures: Actions for Non-executive Directors: Climate Governance Initiative, Singapore
- Analytics in Accounting and Finance Careers (Invesco)

- Accounting and Data Analytics: Regulatory Considerations (Anguilla Financial Services Comission)
  Accounting and Data Analytics (First Intuition Cambridge)
- Climate-Related Financial Reporting (BDO ESG Forum, Hong Kong)
- Behavioral Ethics and Accounting (EY, Western Union)
- Shareholder Class Action Litigation and Disclosure (United States Securities and Exchange Commission, Analysis Group, Cornerstone, Washington and Lee University)
- Artificial Intelligence, Machine Learning, and Accounting (CPA Australia, Singapore)

EDUCATION

University of Pennsylvania, The Wharton School of Business
PhD in Accounting, 2012

Brigham Young University
MBA, 2007; BS in Computer Science, 2002

APPENDIX B

Materials Considered

Court Documents
Consolidated Complaint for Violations of the Federal Securities Laws, *St Clair County Employees' Retirement System vs. Acadia Healthcare Company Inc., et al.*, Case No. 3:18-cv-00988 (M.D. Tenn), filed April 1, 2019 (ECF No. 39)

Journals, Articles, and Educational Texts
Brown, L., et al., Inside the 'Black Box' of Sell-Side Financial Analysts, Journal of Accounting Research, 1-47 (2015).
Call, A., Hribar, P. Skinner, D and Volant, D. (2024). Corporate Managers' Perspectives on Forward Looking Guidance: Survey Evidence. Journal of Accounting and Economics, 78:101731.
Ciconte, W., Kirk, M., Tucker, J.W., (2014). Does the midpoint of range earnings forecasts represent managers' expectations? Review of Accounting Studies 19 (2), 628–660.
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Dorantes, C.-A., Li, C., Peters, G. F., & Richardson, V. J. (2013). The effect of enterprise systems implementation on the firm information environment. Contemporary Accounting Research, 30: 1427–1461.
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Hirst, D., L. Koonce, and S. Venkataraman. (2008) "Management Earnings Forecasts: A Review and Framework." Accounting Horizons 22: 315–38.
Lu, Y., Skinner, D.J. (2023). Do actions speak louder than words? The relation between payouts and guidance since 2000. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4322036.
Marshall, N. T., & Skinner, A. N. (2022). Forecast withdrawals and reporting reputation. The Accounting Review, 97(7): 347–377.
Shields, J. F., & Shields, M. D. (1998). Antecedents of participative budgeting. Accounting, Organizations and Society, 23(1): 49–76.
Shields, M.D. (2005). Operating Budgets and Budgeting—Benefits and Costs. In Handbook of Cost Management ed Weil, R. and Maher, M.

Date	**Deposition Transcripts & Exhibits**
11/14/2024	Brent Turner - Deposition Transcript & Exhibits (Exhibits 98, 705-733)
10/22/2024	Dave Hall - Deposition Transcript & Exhibits (Exhibits 554-574)
11/19/2024	David Duckworth - Deposition Transcript & Exhibits (Exhibits 155, 157, 262, 591, 612, 618, 620, 625, 631, 640, 698, 735-757)
10/6/2021	Gretchen Hommrich (Rule 30(b)(6)) - Deposition Transcript & Exhibits (Exhibits 48, 87-105)
10/30/2024	Nigel Myers - Deposition Transcript & Exhibits (Exhibits 562, 564, 575, 591, 608-609, 611-658)
6/7/2022	Ron Fincher - Deposition Transcript & Exhibits (Exhibits 244-266)
11/1/2024	Tina Walton - Deposition Transcript & Exhibits (Exhibits 575, 614, 619, 621, 659-685)
10/24/2024	Trevor Torrington - Deposition Transcript & Exhibits (Exhibits 246, 564, 575-610)

Bates-Stamped Documents
ACADIA-REPROD-0165253
ACADIA00000050
ACADIA00000519
ACADIA00007551
ACADIA00009395
ACADIA00010721
ACADIA00011157
ACADIA00011919
ACADIA00012040
ACADIA00012355
ACADIA00012571
ACADIA00031071
ACADIA00031234
ACADIA00031334
ACADIA00031386
ACADIA00031454
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ACADIA01077451
ACADIA01197791
ACADIA01247301
ACADIA01301508
ACADIA01302287
ACADIA01302344
ACADIA01359803
ACADIA01360368
ACADIA01398980
ACADIA01402216

SEC Filings and Public Reports
Acadia Form 8 K, dated February 23, 2017, https://acadiahealthcare.gcs-web.com/static-files/24062d42-af90-475f-b605-7bab675485e1
Acadia Form 10 K for year ending December 31, 2015, https://acadiahealthcare.gcs-web.com/static-files/d932d944-8ae9-4d18-a474-e90e3f2176c4
Acadia Form 10 K for year ending December 31, 2016, https://acadiahealthcare.gcs-web.com/static-files/c77e4e90-97f1-4458-8b83-cd3a2cc57d2e
Press Release, Acadia Healthcare Completes Previously Announced Purchase of Partnerships in Care for Approximately $662 Million (July 2, 2014), https://www.businesswire.com/news/home/20140702005239/en/Acadia-Healthcare-Completes-Previously-Announced-Purchase-of-Partnerships-in-Care-for-Approximately-662-Million

SEC Filings and Public Reports
Priory Group No. 1 Limited Annual Report for year ended December 31, 2013, https://find-and-update.company-information.service.gov.uk/company/07480152/filing-history.
Priory Group No. 1 Limited Annual Report for year ended December 31. 2015, https://find-and-update.company-information.service.gov.uk/company/07480152/filing-history
Thomson Reuters Transcript, ACHC-Q3 2015 Acadia Healthcare Company Inc Earnings Call (Nov. 4, 2015)

Date	**Other Documents**
6/2/2023	Acadia's Responses and Objections to Plaintiffs' Second Set of Interrogatories
6/2/2023	Brent Turner's Responses and Objections to Plaintiffs' First Set of Interrogatories
6/2/2023	David Duckworth's Responses and Objections to Plaintiffs' First Set of Interrogatories
	FASB Statement of Financial Accounting Concepts No. 8: Conceptual Framework for Financial Reporting. Chapter 3, Qualitative Characteristics of Useful Financial Information. FASB, Connecticut. https://fasb.org/page/ShowPdf?path=Concepts_Statement_No_8_Chapter_3_As_Issued.pdf

APPENDIX C

Data Tables for Figures

Figure 1:[142]

Acadia FY15 Actual Contract Labor as a Percentage of Revenue (USD)					
	Q1 2015	**Q2 2015**	**Q3 2015**	**Q4 2015**	**2015 Total**
FY15 Revenue	365,782,055	453,663,259	479,729,369	495,319,531	1,794,494,214
FY15 Contract Labor	7,936,841	12,721,088	10,762,648	11,038,370	42,458,947
FY15 Contract Labor as a Percent of Revenue	2.17%	2.80%	2.24%	2.23%	2.37%

Acadia FY16 Actual Contract Labor as a Percentage of Revenue (USD)					
	Q1 2016	**Q2 2016**	**Q3 2016**	**Q4 2016**	**2016 Total**
FY 16 Revenue	616,812,570	756,548,125	734,664,870	702,888,532	2,810,914,097
FY 16 Contract Labor	15,833,313	23,729,452	22,868,761	22,512,048	84,943,574
FY16 Contract Labor as a Percentage of Revenue	2.57%	3.14%	3.11%	3.20%	3.02%

Acadia FY17 Budgeted Contract Labor as a Percentage of Revenue (USD)					
	Q1 2017	**Q2 2017**	**Q3 2017**	**Q4 2017**	**2017 Total**
FY 17 Budgeted Revenue	694,150,453	726,003,938	733,709,416	741,314,086	2,895,177,893
FY 17 Budgeted Contract labor	10,167,362	10,208,349	9,924,301	9,533,004	39,833,016
FY17 Budgeted Contract Labor as a Percentage of Revenue	1.46%	1.41%	1.35%	1.29%	1.38%

[142] See ACADIA00000050 for Actual FY15 figures. See Exhibit 747a for Actual FY16 and Budgeted FY17 figures.

Figure 2:[143]

Acadia Contract Labor (USD)						
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**
US Operations, FY 16 Actual	-	-	1,193,819	1,323,653	1,202,154	1,159,355
UK Operations, FY 16 Actual	-	-	5,130,756	4,912,412	5,174,347	5,173,912
US Operations, FY 17 Budgeted	122,736	123,554	141,823	133,872	143,991	134,382
UK Operations, FY 17 Budgeted	3,236,409	3,242,458	3,300,383	3,264,361	3,278,179	3,253,564
	Jul	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**
US Operations, FY 16 Actual	1,076,751	949,921	867,733	950,195	979,462	1,001,324
UK Operations, FY 16 Actual	5,186,117	5,356,557	5,215,984	5,418,371	5,526,812	5,834,129
US Operations, FY 17 Budgeted	126,921	123,289	124,960	124,209	120,949	120,538
UK Operations, FY 17 Budgeted	3,222,425	3,187,811	3,138,895	3,111,463	3,045,336	3,010,509

Figure 3:[144]

Priory Group FY16 Actual Results (GBP)					
	Q1 2016	**Q2 2016**	**Q3 2016**	**Q4 2016**	**FY16 Total**
Revenue	188,704,000	193,501,000	196,225,000	195,222,000	773,652,000
Agency Cost	6,871,634	7,778,522	9,286,534	10,779,793	34,716,483
Agency Cost as a Percentage of Revenue	3.64%	4.02%	4.73%	5.52%	4.49%

[143] See Exhibit 747A. Data for January and February 2016 are omitted because Exhibit 747A does not fully reflect the impact of the Priory acquisition until March.

[144] See Exhibit 654 for FY16 actual figures, which include PiC and Priory results net of disposed sites. See Exhibit 47a for FY17 budgeted revenue and Priory Group monthly MORs for FY17 budgeted agency cost.

Priory Group FY17 Budget (GBP)					
	Q1 2017	**Q2 2017**	**Q3 2017**	**Q4 2017**	**FY17 Total**
Revenue	198,635,146	208,742,743	212,297,395	216,990,251	836,665,536
Agency Cost	5,340,648	5,435,554	5,228,988	4,715,908	20,721,098
Agency Cost as a Percentage of Revenue	2.69%	2.60%	2.46%	2.17%	2.48%

Figures 4 and 5:[145]

Acadia FY 17 Monthly Cumulative Variances to Budget (USD)						
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**
Cumulative Adjusted EBITDA Variance to Budget	-6,120,320	-12,603,800	-7,599,653	-13,709,265	-14,998,286	-10,536,716
Cumulative Revenue Variance to Budget	-5,040,823	-10,033,264	-14,956,353	-20,816,337	-22,923,273	-25,064,216

	Jul	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**
Cumulative Adjusted EBITDA Variance to Budget	-18,721,651	-25,609,762	-21,747,131	-32,112,572	-38,200,649	-34,165,590
Cumulative Revenue Variance to Budget	-33,034,256	-36,831,640	-42,059,459	-49,227,372	-52,321,368	-59,360,610

[145] ACADIA00000050.

Figure 6:[146]

Acadia US Operations ADC FY17						
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**
Budgeted ADC	6,643	6,872	6,952	7,020	7,033	7,031
Actual ADC	6,533	6,735	6,800	6,940	6,955	6,706
ADC Variance	-110	-138	-153	-79	-78	-325
	Jul	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**
Budgeted ADC	7,009	7,031	7,158	7,228	7,090	6,825
Actual ADC	6,742	6,751	6,779	6,819	6,718	6,304
ADC Variance	-267	-280	-379	-409	-372	-521

Acadia UK Operations ADC FY17						
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**
Budgeted ADC	7,633	7,691	7,743	7,792	7,874	7,910
Actual ADC	7,443	7,462	7,485	7,472	7,532	7,552
ADC Variance	-190	-229	-257	-320	-342	-359
	Jul	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**
Budgeted ADC	7,933	7,900	7,939	8,010	8,055	8,047
Actual ADC	7,574	7,545	7,461	7,476	7,504	7,414
ADC Variance	-359	-355	-478	-534	-551	-633

Figure 7: [147]

Acadia Monthly Contract Labor Cumulative Budget Variances (USD)						
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**
Consolidated	-2,904,269	-4,505,142	-6,574,054	-8,439,171	-12,039,465	-16,226,223
US Operations	-498,354	-1,106,872	-1,728,729	-2,246,452	-2,903,734	-3,629,879
UK Operations	-2,405,915	-3,398,270	-4,845,325	-6,192,719	-9,135,731	-12,596,344
	Jul	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**
Consolidated	-21,324,736	-27,248,511	-32,601,670	-38,295,640	-44,153,278	-50,218,419
US Operations	-4,261,519	-4,851,092	-5,349,671	-5,915,581	-6,574,620	-7,218,855
UK Operations	-17,063,217	-22,397,419	-27,251,999	-32,380,059	-37,578,658	-42,999,564

[146] *Ibid.*

[147] See Consolidated MORs for January-November data and ACADIA00000050 for December data.