

EXHIBIT 12

[Redacted]

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

EXPERT WITNESS REBUTTAL REPORT

Prepared by:
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**Exhibit
764**

06/27/2025

I. Introduction and Summary of Opinions

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. I previously submitted a report in this matter dated February 7, 2025 on behalf of Plaintiffs (the “Willis Report”), in which I reached the following conclusions:¹

(i) 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.

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

(iii) 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 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.

(iv) 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.

3. Following my issuance of the Willis Report, counsel for Plaintiffs in this matter asked me to consider and evaluate the arguments and conclusions in the Expert Report of Todd A. Rahn, CPA, dated February 7, 2025, issued by Defendants (the “Rahn Report”). This rebuttal report presents my analysis and conclusions relating to the Rahn Report and the issues raised therein.

4. Based on my review of the Rahn Report and the evidence produced in this case, it is my expert opinion that:

(i) Mr. Rahn’s opinions concerning Acadia’s budget and guidance-setting processes ignore fundamental flaws in those processes and key contemporaneous evidence contradicting his opinions.

¹ Defined terms in this report have the same meanings as used in the Willis Report unless otherwise noted.

(ii) Mr. Rahn's opinions concerning the process for the 2017 consolidated budget ignore key facts and make no assessment of the unreasonable assumptions included in the budget.

(iii) Mr. Rahn's opinions concerning the initial FY17 guidance Acadia issued in February 2017 provide no analysis of the inputs to the guidance or of Acadia's actual performance in early 2017.

(iv) Mr. Rahn's opinions concerning Acadia's affirmance of FY17 guidance in April 2017 ignore the key negative performance trends and faulty budget assumptions that further materialized in Q1 2017.

(v) Mr. Rahn's opinions concerning Acadia's narrowing of FY17 guidance in July 2017 similarly ignore the key negative performance trends and faulty budget assumptions that further materialized in Q2 2017.

(vi) Mr. Rahn's opinion that there was no need to further adjust Acadia's FY17 guidance in August 2017 is self-contradictory and flawed.

(vii) Mr. Rahn's opinions concerning the downward revisions of Acadia's FY17 guidance in October 2017 ignore the adverse facts that had previously materialized.

5. My credentials and qualifications are set forth in the Willis Report. My current curriculum vitae is attached to this Reply Report as **Rebuttal Appendix A**. A list of additional materials I have considered in my work for this report is contained in **Rebuttal Appendix B**, as well as in the citations in the footnotes to this report.

6. 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.

7. 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. Overview of the Rahn Report

8. Mr. Rahn concludes that Acadia's processes for setting its budget and guidance were "reasonable, appropriate, and incorporate[d] several best practices" including, in its budgeting process, a bottom-up approach, documentation of assumptions, and review by multiple stakeholders. He notes that Acadia presented its earnings guidance as a range of outcomes, periodically reviewed actual performance relative to budget/guidance, and involved its audit committee in budget review and guidance approval.²

9. Mr. Rahn reviews Acadia's process for setting its FY17 consolidated budget and concludes that the process was "consistent with Acadia's typical processes and incorporated several best practices" including two email communications regarding budget

² Rahn Report, ¶¶25-41.

targets, and documentation for a February 2017 board meeting presenting “key assumptions” underlying the budget.³

10. Mr. Rahn claims that Acadia’s initial FY17 guidance was consistent with its budget, and followed its “typical” process, “incorporating best practices.” He notes that Acadia issued its guidance as a “conservative” range based on the consolidated budget discussed and approved by the board.⁴

11. Mr. Rahn reviews Acadia’s decision to affirm its initial guidance in an April 25, 2017 press release. He concludes that this decision was “reasonable and...consistent with its historical business practices.”⁵ In support of this, Mr. Rahn claims that as of April 25, 2017, Acadia was “on track” to meet its initial guidance. He notes that Acadia’s first quarter performance was weakest in each fiscal year from 2014 -2016. He discusses the potential impact of Brexit on Acadia’s performance, and notes that Acadia mentioned this risk of Brexit in its 10-K filing for the year ending December 31, 2016. Mr. Rahn notes that Acadia management compared actual performance to budgeted performance in the first quarter of 2017.⁶

12. Mr. Rahn concludes that Acadia’s process for reviewing and narrowing its guidance at the end of Q2 2017 was reasonable and consistent with historical practice. Again he claims that Acadia was “on track” to meet its initial guidance, and that there was reason for optimism regarding performance for the rest of FY17. Mr. Rahn also notes that the risks inherent in budgets and guidance persisted in Q2 2017.⁷

13. Mr. Rahn claims that, as of July 31, 2017, while Acadia was not “on track” to meet its narrowed EBITDA guidance, it was “on track” to meet its narrowed revenue guidance. He claims that it was reasonable to expect improvements in ADC, agency spend, and opening of new facilities/beds beginning in September 2017. He also highlights an increase in ADF and claims that Q3-4 2014 performance relative to budget gave cause for optimism in July 2017.⁸

14. Mr. Rahn concludes that, at the end of Q3 2017, Acadia was no longer “on track” to meet its initial guidance, and therefore, Acadia’s decision to revise its guidance was reasonable. He notes poor performance in revenue, EBITDA, agency cost, and backdated agency hits.⁹

III. Analysis of the Rahn Report

15. The Rahn report makes numerous errors, omissions, and misleading claims that I explain below. These include:

- Failure to review contemporaneous emails and data from the relevant period.

³ *Ibid.* ¶¶42-47.

⁴ *Ibid.* ¶¶48-55.

⁵ *Ibid.* §D.

⁶ *Ibid.* ¶¶56-83.

⁷ *Ibid.* ¶¶84-104.

⁸ *Ibid.* ¶¶105-117.

⁹ *Ibid.* ¶¶118-135.

- Failure to review Acadia’s FY17 rushed, top-down budgeting process for its UK operations.
- Failure to analyze Acadia’s flawed assumptions in its FY17 budget, particularly for its UK operations.
- Failure to analyze Acadia’s performance, particularly in its UK operations, prior to and during FY17.
- Failure to review Priory Group’s monthly forecast data.

16. Mr. Rahn cites and relies on more than 350 documents in coming to his conclusions¹⁰ – a substantially larger number of documents than the 22 documents that Defendants previously identified in response to Plaintiffs’ interrogatories asking for the factual bases of Acadia’s February 2017, April 2017, and July 2017 guidance-related statements.¹¹ I understand that Plaintiffs intend to move to preclude Mr. Rahn from offering any opinions that rely on materials beyond those previously identified in Defendants’ interrogatory responses. Nevertheless, I address some of those additional materials within this rebuttal report where appropriate.

A. Mr. Rahn’s Opinions Concerning Acadia’s Budget and Guidance-Setting Processes Ignore Key Contemporaneous Evidence

17. Mr. Rahn ignores several fundamental flaws in Acadia’s budget and guidance-setting process. He notes that “[a] company’s earnings guidance is a forward-looking statement of *expected financial outcomes* as of a particular date,”¹² or a *forecast*. Acadia derived its guidance by developing *budgeted* amounts and subtracting a “buffer.”¹³ A budget is not a forecast, but rather a plan for reaching a *desired* outcome. Companies undertake budgeting processes expecting to achieve benefits such as the communication of goals and expectations, coordination of plans, and setting of benchmarks for incentive compensation designed to motivate particular actions.¹⁴ Budgeting processes optimized for these outcomes may intentionally *not* be optimized to calculate an expected financial outcome.¹⁵

18. Although budgeting processes are not forecasts, they may be conducted in ways that cause them to be more or less accurate. As noted in the Willis Report, in environments featuring high information asymmetry between executives and lower level managers, a bottom-up budgeting process can lead to more accurate budgets if executives learn from the knowledge of managers.¹⁶

¹⁰ *Ibid.* Appendix B.

¹¹ Willis Report, ¶¶97-98.

¹² Rahn Report, ¶32, emphasis added.

¹³ Below I will discuss the lack of evidence that the buffer was calculated in a careful and reasonable way.

¹⁴ Shields, M.D., *Operating Budgets and Budgeting – Benefits and Costs*, in Weil, R. and M. Maher, *Handbook of Cost Management* (2005) P. 545.

¹⁵ Hartmann, F., K. Krauss, G. Nilsson, R. Anthony, V. Govindarajan, *Management Control Systems* (2021). “Target setting is about setting ambitious and motivating targets to make people try harder, forecasting is about giving a realistic description of the future.” P. 272. “If we want the budget to be motivating we may want to make a so-called stretch budget. A stretch budget is an optimistic budget made to make managers and employees walk an extra mile to reach the goal. But if we want the budget to be a realistic forecast so that we distribute the appropriate amount of resources to different parts of the organization, we should not have any stretch goals.” P.269.

¹⁶ Willis Report, ¶¶35-36.

19. Mr. Rahn claims throughout his report that Acadia’s budgeting process was “bottom-up”. However, he defines the term “bottom-up” inconsistently. He begins with “Bottom-up budgeting is a method whereby each department or reporting unit within a company *creates its own budget*.”¹⁷ Later he describes it as a setting where facilities or operating units “have a *certain degree of autonomy* to develop [their] own consolidated budget.”¹⁸

20. Not only do these definitions conflict, they are overly simplistic. Academic research has defined “participative budgeting” as one in which executives and lower level managers have both *involvement* and *influence* in the budgeting process.¹⁹ There is a spectrum of involvement and influence: at one end, executives may simply dictate budgeted numbers with no input from managers. At the other end, executives may allow managers to choose their budgets with full autonomy. Most organizations fall somewhere in the middle.²⁰

21. When evaluating Acadia’s budgeting process, the relevant question is: based on the evidence, what was the nature of Acadia’s executives’ and managers’ *involvement* and *influence* in the budget process, and did that facilitate more accurate outcomes through mitigation of information asymmetry?

22. To support his claim that Acadia’s process was appropriately “bottom-up” and “collaborative,” Mr. Rahn relies on testimony from Acadia CFO David Duckworth and then Acadia Healthcare Division CFO Marty Garcia, and notes Acadia executives’ communication of performance targets to managers.²¹ However, Mr. Rahn does not review or address any communications from managers upward to assess their level of involvement and influence. The evidence shows that managers had little real influence in the budget process, and that CEO Joey Jacobs and his fellow Acadia executives, rather than learning from managers in order to generate more accurate budgets, set performance expectations and regularly increased amounts proposed by managers. For instance:

(i) On September 17, 2016, Marty Garcia sent his FY17 budget targets to Debbie Lyro, then Acadia Healthcare Operations CFO. Lyro’s responded by changing “many” of his conservative assumptions so that Jacobs wouldn’t get angry:

“First let me say that while ma[n]y Of your rate reductions may be valid, your division will get a lot of attention because you will be dragging down the company growth %. So I would rethink any place you were conservative. I am afraid that halfway through the review, Joey [Jacobs] will just get out the red pen and start marking everything up because he will think you sandbagged. For example I would not budget that weak of a Riverwoods rate. My having to say it is going to be due to an increase in indigent care will really not go over well. I understand wanting to be conservative but you do

¹⁷ Rahn Report, ¶18, emphasis added.

¹⁸ *Ibid.* ¶26, emphasis added.

¹⁹ Shields, J. F., & M.D. Shields, *Antecedents of participative budgeting*, Accounting, Organizations and Society, 23(1), 49-76 (1998).

²⁰ Shields (2005) P. 547.

²¹ Rahn Report, ¶¶26-31. Exhibits 155, 363, 365, and 742.

not want to make Joey angry about it by having every facility showing an issue. I have adjusted many of the rates back to the original increases.”²²

(ii) Lyro emailed Garcia on September 19, 2016 letting him know that “Ron [Fincher, Acadia COO] made the following changes to your targets” followed by increases to budgeted EBITDA for several facilities where he felt margin “needed to be higher.”²³

(iii) With respect to Acadia’s UK operations, and as reflected in a November 23, 2016 email to the UK tax authority, “[f]acility and UK Group budgets [we]re influenced by the *expected performance* set by the US Board and are agreed and monitored monthly.”²⁴

(iv) On February 21, 2018, Priory CFO Nigel Myers emailed Priory CEO Trevor Torrington and commented that “[Joey Jacobs] should not moan about missing his ridiculous budget.”²⁵

(v) On September 23, 2018, Myers and Torrington went back and forth on FTE performance against budget to present to Joey Jacobs and David Duckworth, with Torrington observing that “[Joey Jacobs] will still try and maintain that [the figure] is unacceptable.”²⁶

23. Mr. Rahn does not acknowledge or address any of this evidence demonstrating the amount of influence that Jacobs and his fellow Acadia executives exerted in setting the budget.

B. Mr. Rahn’s Opinions Concerning the Process for the 2017 Consolidated Budget Ignore Key Facts and Make No Assessment of the Unreasonable Assumptions Included in the Budget

24. Mr. Rahn ignores evidence that Acadia’s process for generating its FY17 budget for UK operations was conducted in a top-down, overly accelerated way.²⁷ Given the high level of information asymmetry between Acadia executives and Priory Group management due to the recent acquisition and limited information flows from Priory Group to Acadia,²⁸ this approach to the setting of the FY17 budget was likely to produce inaccurate and unrealistic assumptions. As noted in the Willis Report, Tom Riall, then CEO of Priory Group, wrote in an August 9, 2016 email that:

“[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*

²² Exhibit 362.

²³ Exhibit 364.

²⁴ Exhibit 744.

²⁵ Exhibit 656.

²⁶ Exhibit 658.

²⁷ Mr. Rahn’s discussion of the timeline for preparing the 2017 consolidated budget (Rahn Report, ¶43) omits any reference to the preparation of the UK budget, which was prepared on a more-accelerated schedule. Exhibit 564.

²⁸ Willis Report, ¶43, Torrington Dep. 37:21-38:7.

done top down by the Div FD's in conjunction with the Div Sales Teams ... I realise that this puts you all, (particularly our finance teams) under significant pressure but we have no option ... we haven't got a minute to lose."²⁹

25. Mr. Rahn limits his analysis of the FY17 budget to the information presented in a single board meeting document.³⁰ He does not analyze any of the revenue or cost assumptions Acadia made in developing the budget to determine whether they are reasonable, nor does he cite any justification made about their accuracy.

26. The Willis Report notes that Acadia made particularly aggressive assumptions about contract labor and agency cost, and ADC. In Acadia's FY17 budget, these assumptions deviated from historical trends without justification. The Willis Report also cites communication among Priory Group leadership in 2016 showing that agency cost and ADC problems were known prior to Acadia's preparation of the FY17 budget.³¹ Mr. Rahn's opinions do not address these issues.

C. Mr. Rahn's Opinions Concerning the Initial FY17 Guidance Acadia Issued in February 2017 Provide No Analysis of the Inputs to the Guidance or of Acadia's Actual Performance in Early 2017

27. Mr. Rahn claims that "all the assumptions underlying the [2017] annual budget were documented."³² The mere fact that assumptions are stated in documents is irrelevant in assessing the *reasonableness* of Acadia's budget assumptions themselves, which Mr. Rahn does not review. Nor does the documentation of assumptions demonstrate that Acadia justified and vetted those assumptions through a rigorous process designed to develop an accurate forecast.

28. Mr. Rahn claims that Acadia "involved various stakeholders to ensure an appropriate level of review, consensus and approval of the 2017 Consolidated Budget."³³ He does not cite any evidence to support this claim other than referring to the prior section. He does not assess the quality and rigor of the review and approval process to support his claim.

29. Mr. Rahn notes that Acadia "incorporated a buffer" between its budget and guidance range and describes this as an "acceptable margin of error."³⁴ However, he provides no support for this claim that the buffer amount was acceptable, nor does he cite documentation of how buffer amounts were calculated. He does not cite evidence of any process to

²⁹ 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).

³⁰ Rahn Report, ¶¶45-46; ACADIA00011157.

³¹ Willis Report, §B.

³² Rahn Report, ¶48.

³³ *Ibid.*

³⁴ Rahn Report, ¶52.

independently generate *expected* outcomes at Acadia (as opposed to *desired* outcomes, as the budget was intended).

30. Mr. Rahn claims that as “part of evaluating the reasonableness of Acadia’s 2017 Initial Earnings Guidance, I reviewed the documents produced in this matter to confirm that Acadia consistently applied its internal processes for developing and reviewing its earnings guidance.”³⁵ However, the only documents he cites in this section are board meeting materials³⁶ and Acadia’s guidance press release.³⁷ He ignores contemporaneous evidence that Acadia’s guidance was indeed unreasonable. I review this evidence below.

31. Table 1 shows selected consolidated actual and budgeted figures for January 2017, which Defendants received prior to issuing FY 17 guidance.

Table 1: January 2017 Consolidated Results (USD) ³⁸				
	Actual	Budget	Budget Variance	Budget Variance %
Net Revenue	228,310,560	233,351,384	-5,040,824	-2.16%
EBITDA	38,839,061	44,959,381	-6,120,320	-13.61%
EBITDA Margin	17.01%	19.27%		
ADC	13,976	14,276	-300	-2.10%
Contract Labor	5,057,822	2,138,241	2,919,581	136.54%

32. Consolidated results for January 2017 were already worse than budgeted along every dimension shown in the above table. The negative EBITDA budget variance of \$6.1M means that Acadia’s EBITDA buffer of \$15.7M had already been eroded by almost 40%.

33. Table 2 shows selected Priory Group results for January 2017, which also indicate poor performance relative to budget.

Table 2: Priory Group January 2017 Results ³⁹				
£'000	Actual	Budgeted	Variance	Variance %
Revenue	65,927	67,443	-1,516	-2.25%
EBITDA	12,305	13,379	-1,074	-8.03%
Agency cost	3,592	2,442	1,150	47.10%
ADC	7,443	7,652	-209	-2.73%
EBITDA margin	18.66%	19.84%		

³⁵ Rahn Report, ¶53.

³⁶ ACADIA00011157.

³⁷ Exhibit 746.

³⁸ ACADIA00000050 at ACADIA00000327-328. Consolidated January 2017 results were finalized by no later than January 15, 2017. ACADIA00577318.

³⁹ See ACADIA01359507-17 for actuals and budget other than agency cost. See ACADIA00342889-919 for actual agency cost. See ACADIA01197791 for Priory agency cost and ACADIA01301508 for PiC agency cost.

34. As part of its regular Monthly Operating Report (MOR), Priory group included a forecast for the upcoming month. In contrast with the budget, prepared before the year began and designed to plan for desired outcomes, these forecasts were predictions. Because they were made monthly throughout the year they incorporated more timely information than the annual budget.⁴⁰ Prior to issuing FY 17 guidance in its February 23 press release, Defendants received Priory Group’s forecast for February results. Table 3 shows forecast and budgeted amounts for February 2017.

Table 3: Priory Group February Forecast (£'000)⁴¹			
	Forecast	Budget	Variance
Revenue	60,338	62,042	-1,704
EBITDA	9,544	11,012	-1,468
EBITDA Margin	15.82%	17.75%	
Wage Costs	37,115	37,991	-876
Wage Cost as % of Revenue	61.51%	61.23%	
Other Costs	11,145	10,505	640
ADC	8,004	8,213	-209

35. Every item in Priory Group’s February forecast had an unfavorable variance relative to the budget, apart from wage costs, which had a favorable variance in pounds, but an unfavorable variance as a percentage of revenue.

D. Mr. Rahn’s Opinions Concerning Acadia’s Affirmance of FY17 Guidance in April 2017 Ignore the Key Negative Performance Trends and Faulty Budget Assumptions that Further Materialized in Q1 2017

36. Mr. Rahn acknowledges the negative variances between reported and budgeted revenue and EBITDA for Q1 2017 in U.S. facilities, UK facilities, and at the consolidated level.⁴² Table 4 below reproduces data from Rahn Report Table 3, omitting “corporate/other” but including EBITDA margin and variances in millions of USD.

Table 4: Q1 2017 Actual Results vs Budget (Millions of USD)			
	U.S. Facilities	UK Facilities	Consolidated
Actual Revenue	440.2	239	679.2
Budgeted Revenue	447	248.3	694.2
Difference (\$)	-6.8	-9.3	-15
Difference (%)	-1.50%	-3.80%	-2.20%
Reported EBITDA	112.1	44.2	136.4
Budgeted EBITDA	113.4	50.4	144
Difference (\$)	-1.3	-6.2	-7.6

⁴⁰ Myers Dep. 62:11-63:3.

⁴¹ Exhibit 625.

⁴² Rahn Report, ¶58, Table 3.

Difference (%)	-1.10%	-12.30%	-5.30%
Reported EBITDA Margin	25.47%	18.49%	20.08%
Budgeted EBITDA Margin	25.37%	20.30%	20.74%
Difference (bps)	10	-181	-66

37. Mr. Rahn ignores two relevant Q1 results in his analysis of revenue and EBITDA:

(i) The Q1 consolidated EBITDA budget variance was -\$7.6M. This means that just under half of the \$15.7M buffer between budgeted EBITDA and the lower bound of the guidance range had been eroded at the end of Q1, when Acadia affirmed its FY 17 guidance.

(ii) The largest Q1 budget variance presented above, in percentage terms, is the EBITDA variance for UK facilities, comprising \$6.2M of the \$7.6M consolidated variance in dollars. In addition, the reported EBITDA margin for UK facilities was significantly lower than budgeted.

38. Mr. Rahn does not review Acadia's performance on key revenue and cost drivers for Q1 2017. As discussed in the Willis Report, Acadia's results were both worse than budgeted and trending more negative with respect to ADC, contract labor, and agency cost.⁴³

39. To support his opinion that Acadia's decision to affirm guidance was reasonable, Mr. Rahn compares Q1 2017 revenue and EBITDA with actual Q1 2016 revenue and EBITDA.⁴⁴ These comparisons have no direct bearing on the reasonableness of Acadia's budget or guidance. However, they do reveal negative trends in Acadia's year-on-year performance that Mr. Rahn fails to discuss. Data from Rahn Report Table 4 is reproduced below, omitting "corporate/other" and including EBITDA margin:

Table 5: Q1 2017 Actual Results vs Q1 2016 Actual Results (\$M)			
	U.S. Facilities	UK Facilities	Consolidated
Q1 2017 Revenue	440.2	239	679.2
Q1 2016 Revenue	408.3	207	616.8
% Difference	7.8%	15.5%	10.1%
Q1 2017 EBITDA	112.1	44.2	136.4
Q1 2016 EBITDA	106.8	44.9	131
% Difference	5.0%	-1.6%	4.1%
Q1 2017 EBITDA Margin	25.47%	18.49%	20.08%
Q1 2016 EBITDA Margin	26.16%	21.69%	21.24%
Difference (bps)	-69	-320	-116

⁴³ Willis Report, §C.

⁴⁴ Rahn Report, ¶58.

40. Mr. Rahn claims that these results “represented year-over-year growth relative to Q1 2016 on a consolidated basis”. While these results represent “growth” in the sense that consolidated revenue and EBITDA increased from Q1 2016 to Q1 2017, they do not suggest improvement supporting Acadia’s decision to affirm annual guidance in Q1. In fact, they reflect evidence of worsening operational performance:

(i) EBITDA margin decreased for U.S. facilities, UK facilities, and consolidated operations.

(ii) While revenue for UK facilities increased in dollar terms, EBITDA *decreased* in dollar terms. Were this “growth” trend of costs rising more quickly than revenue to continue, Acadia’s UK EBITDA would decline even as revenue increased.

41. Mr. Rahn claims that as of the end of Q1 2017, Acadia was still “on track” to meet its guidance. However, this assumes that Acadia would be able to meet its budgeted targets for Q2-Q4 2017.⁴⁵

42. In support of his assumption that Acadia was “on track” to meet its budget for the remainder of Q2-Q4 2017, Mr. Rahn makes a single observation: that Acadia’s first quarter had been the “weakest” quarter of each year between 2014-2016 in terms of revenue and EBITDA.⁴⁶ Mr. Rahn ignores that Acadia’s Q1 2017 performance relative to budget was the *worst it had ever been* during this time period. Table 6 compares consolidated actual and budgeted revenue and adjusted EBITDA for the first quarters of 2014-2017.

Table 6: Q1 Revenue and Adjusted EBITDA, Actual and Budgeted, 2014-2017⁴⁷				
In USD	Q1 2014	Q1 2015	Q1 2016	Q1 2017
Actual Revenue	201,498,035	365,782,055	616,812,573	679,194,097
Budgeted Revenue	204,015,160	362,119,240	622,581,686	694,150,451
Variance (\$)	-2,517,125	3,662,815	-5,769,113	-14,956,354
Variance (%)	-1.23%	1.01%	-0.93%	-2.15%
Actual EBITDA	39,354,324	78,771,718	130,984,185	136,413,102
Budgeted EBITDA	38,827,292	76,129,584	127,601,631	144,012,756
Variance (\$)	527,032	2,642,134	3,382,554	-7,599,654
Variance (%)	1.36%	3.47%	2.65%	-5.28%

43. Acadia’s Q1 2017 revenue and adjusted EBITDA variances were the largest quarterly negative variances between 2014-2017. Moreover, Q1 2017 was the *only* first quarter between 2014-2017 in which Acadia missed its budgeted adjusted EBITDA target.

⁴⁵ Rahn Report, ¶¶60-63.

⁴⁶ Rahn Report, ¶¶65-68.

⁴⁷ ACADIA00000050.

44. Mr. Rahn does not acknowledge that before affirming FY 17 guidance in April, Defendants received Priory Group's forecast for April.⁴⁸ Table 7 shows forecast and budgeted figures for April 2017:

Table 7: Priory Forecast and Budget for April 2017				
£'000	April Forecast	April Budget	Difference	Difference (% budget)
EBITDA	11,236	13,479	-2,243	-16.64%
Revenue	64,976	67,766	-2,790	-4.12%
EBITDA Margin	17.29%	19.89%	-197.2 bps	
Wage Costs	42,434	43,256	-822	-1.90%
ADC	7,500	7,789	-289	-3.71%

45. Priory Group forecasted April EBITDA to be £2.2M below budget, and revenue to be £2.8M below budget. Wage costs were the only figure with a favorable variance relative to the budgeted amount. However, the forecast represented an increase in wage cost as a percentage of revenue relative to budget (65.3% vs. 63.8%) and relative to actual wage cost in March 2017 from (65.3% vs 62.4%).⁴⁹

46. Priory Group's forecasts for February and March were significantly more accurate than Acadia's budget:

Table 8: Budget accuracy vs forecast accuracy (£000)⁵⁰		
Revenue	February	March
Actual	60,173	66,905
Budgeted	62,035	69,168
Forecast	60,338	66,427
Budget variance	-1,862	-2,263
Forecast variance	-165	478
EBITDA	February	March
Actual	9,499	13,909
Budgeted	11,005	15,365
Forecast	9,544	13,612
Budget variance	-1,506	-1,456
Forecast variance	-45	297

47. In summary, Q1 2017 performance relative to budget, Q1 2017 performance relative to Q1 2014-2016, Q1 2017 trends, and Priory Group's own forecast of April 2017

⁴⁸ Exhibit 631.

⁴⁹ March 2017 revenue and wage costs were \$66,095,000 and £41,578,000 respectively. ACADIA01361844-55.

⁵⁰ ACADIA01359507-17, ACADIA01361783-95, ACADIA01361844-55.

results all suggest that it was not reasonable to expect Acadia to meet its budget for Q2-Q4 2017, nor was it reasonable to affirm annual guidance in April 2017.

48. Acadia's monthly recognition of incentive compensation expense also suggests that Defendants did not believe it was probable that budgeted targets would be reached.

49. U.S. GAAP requires that annual bonus compensation be recorded as an expense in the period in which the bonus was earned (meaning when the work was performed on which the bonus would be based), provided that the bonus payment is both probable and can be reasonably estimated.⁵¹ Therefore, companies with an annual bonus plan contingent on financial performance must assess the probability of the financial targets being met and record the appropriate expense throughout the year.

50. As a hypothetical example, suppose a company budgeted \$1.2M for annual cash bonus compensation contingent on reaching financial targets, with a \$100,000 of the expense to be recorded monthly. At the end of each month, if it is probable that the financial targets will be reached, \$100,000 should be recorded as incentive compensation expense. If it is not probable that targets will be reached, the company should record a smaller amount of incentive compensation expense than budgeted, or, if necessary, a reduction to previously recognized amounts.

51. Acadia used cash bonus plans to incentivize employees. For example, the FY17 compensation plan for Acadia executives, including Defendants, included a cash payment linked to Acadia's adjusted EBITDA and adjusted EPS for the year. If Acadia failed to reach 95% of budgeted adjusted EBITDA for FY17, no cash bonus would be paid out. If actual performance exceeded 95%, Acadia executives would be eligible to receive a bonus depending on adjusted EBITDA and adjusted EPS for the year. Executives would receive the maximum bonus payout if adjusted EBITDA and adjusted EPS were 105% of budgeted amounts.⁵²

52. Bonus plans contingent on reaching EBITDA and other financial metrics were in place in FY 17 for other Acadia employees. Acadia divisional and facility leaders were eligible for cash bonuses contingent on EBITDA.⁵³ Priory Group executives were eligible to receive bonuses contingent on reaching financial targets.⁵⁴ Priory group Healthcare team members received cash bonuses contingent on reaching budgeted EBITDA.⁵⁵ Acadia also employed treatment placement specialists, who were paid a commission for placing patients in facilities.⁵⁶

53. U.S. GAAP required Acadia to record incentive compensation expense throughout the year if payouts were probable and estimable.

54. If Acadia management believed it was probable that budgeted targets would be met, then the pattern of monthly and quarterly accruals for bonus compensation should have

⁵¹ ASC 450-20-25-2.

⁵² Acadia Healthcare, Inc. Proxy Statement filed 13 April 2017.

⁵³ ACADIA-REPROD-0166848, Garcia Dep 39:23-41:9, Complaint, ¶221, Exhibits 72, 73, 143, 144, 230, and 737.

⁵⁴ Myers Dep 27:19-22, Torrington Dep 139:2-3, 19-22.

⁵⁵ ACADIA01402609.

⁵⁶ Fincher Dep 101:20-102:21, Complaint, ¶210.

closely tracked budgeted amounts. However, Acadia's incentive compensation expense in Q1 was significantly lower than budgeted.⁵⁷ Table 9 presents Acadia's budgeted and actual monthly incentive compensation expense for FY17.⁵⁸

Table 9: FY 17 Monthly Incentive Compensation, USD						
	January	February	March	April	May	June
Actual	3,047,036	2,974,651	-351,179	2,871,618	3,013,281	-888,897
Budgeted	3,258,797	3,236,627	3,260,127	3,279,636	3,264,300	3,262,369
Monthly Variance	-211,761	-261,976	-3,611,306	-408,018	-251,019	-4,151,266
YTD Actual	3,047,036	6,021,687	5,670,507	8,542,125	11,555,406	10,666,509
YTD Budgeted	3,258,797	6,495,424	9,755,550	13,035,186	16,299,486	19,561,855
YTD Variance	-211,761	-473,737	-4,085,043	-4,493,061	-4,744,079	-8,895,346
	July	August	September	October	November	December
Actual	2,029,058	2,736,542	-979,815	2,411,937	2,381,364	-3,795,306
Budgeted	3,277,916	3,271,155	3,281,479	3,286,163	3,254,616	3,260,137
Monthly Variance	-1,248,858	-534,613	-4,261,294	-874,226	-873,252	-7,055,443
YTD Actual	12,695,567	15,432,108	14,452,293	16,864,230	19,245,594	15,450,288
YTD Budgeted	22,839,770	26,110,925	29,392,404	32,678,567	35,933,182	39,193,319
YTD Variance	-10,144,204	-10,678,817	-14,940,111	-15,814,336	-16,687,589	-23,743,031

55. Acadia's budgeted incentive compensation for the year was \$39,193,319, to be recognized roughly straight-line each month. In January and February, Acadia recorded incentive compensation of \$3,047,036 (6.5% below the budgeted amount) and \$2,974,651 (8.1% below the budgeted amount).

56. However, in March, Acadia did not record additional incentive compensation expense, but instead reversed previously recognized expense by \$351,179. At the end of March, Acadia's YTD accrued incentive compensation expense was only 58.1% of the budgeted amount. This suggests that at the end of Q1 2017, Acadia executives did not believe it probable that the company would reach budgeted financial performance that would trigger payment of budgeted bonus amounts.

57. An alternative interpretation of this accrual reversal is that Acadia executives did believe cash bonus payouts were probable, but knowingly understated incentive compensation to inflate reported Q1 earnings.⁵⁹ If Acadia had recorded incentive compensation equal to the budgeted amount in Q1 (consistent with the probable realization of budgeted targets), Acadia would have reported results as shown in Table 10. Notably, if Acadia had recorded budgeted incentive compensation, it would have reported adjusted EPS of \$0.43, missing its first quarter adjusted EPS guidance range of \$0.45 to \$0.47.

⁵⁷ Incentive compensation was budgeted as if targets were met, "not at max potential". Exhibit 742.

⁵⁸ ACADIA00000050.

⁵⁹ For an example of an SEC enforcement action alleging underreporting of bonus accruals to meet an earnings target, see <https://www.sec.gov/files/litigation/admin/2023/34-96819.pdf>. I have not seen documentation produced by Defendants to support incentive compensation journal entries.

Table 10: Incentive Compensation and Reported Results⁶⁰		
	Q1 2017 (as reported)	Q1 2017 (with budgeted incentive compensation)
Revenue	679,194,000	679,194,000
Adjusted EBITDA	136,369,000	132,283,957 ⁶¹
Adjusted EBITDA Margin	20.08%	19.48%
Adjusted Income	39,876,000	36,947,024 ⁶²
Diluted Shares Outstanding	86,908,000	86,908,000
Adjusted EPS	0.46	0.43

58. Mr. Rahn notes that Brexit “caused a notable level of economic uncertainty and volatility, particularly in the end of 2016 and the beginning of 2017”.⁶³ He claims that “it was virtually impossible for Acadia to predict or forecast the impact it would have on its operations”. However, he lays out an argument for Brexit’s potential impact on “the supply and resulting costs of labor in the U.K.’s healthcare industry and, more specifically, Acadia’s cost of labor.”⁶⁴

59. Importantly, Acadia’s rising cost of labor (particularly agency costs in the UK) was a known issue prior to Brexit. As shown in the Willis Report, Acadia was aware since at least Dec 2015 (in connection with Priory due diligence) that agency costs were predicted to increase in the UK due to nursing shortages.⁶⁵

60. The potential for Brexit to exacerbate the shortage in nursing staff and increasing agency costs was noted in multiple healthcare publications during 2016.⁶⁶

⁶⁰ For reported figures including the Q1 effective tax rate of 28.3% see Acadia Healthcare, Inc. Form 10-Q for the quarter ended March 31, 2017. Recalculated figures incorporate the full Q1 budgeted incentive compensation expense of \$9,755,550 (see ACADIA00000050).

⁶¹ Q1 adjusted EBITDA with budgeted incentive compensation accrual = Q1 reported adjusted EBITDA - Q1 incentive compensation budget variance.

⁶² Q1 adjusted income with budgeted incentive compensation accrual = Q1 reported adjusted income - (Q1 incentive compensation budget variance X (1 – effective tax rate)).

⁶³ Rahn Report, ¶71.

⁶⁴ *Ibid.* ¶75.

⁶⁵ Willis Report, ¶68b, Exhibit 741 at KPMG-AHC-0000649.

⁶⁶ “In 2014, the UK National Audit Office estimated that there was a 27,980 (7.2%) shortfall in nursing, midwifery and health visiting staff. Strategies to address this shortfall, such as using temporary staffing and recruiting from overseas, could be affected by Brexit. Using temporary staff is expensive for healthcare providers already struggling to balance their books. This is especially relevant as further “efficiencies” are required. Recruiting from overseas could become more difficult if access to the European workforce is restricted in a post-Brexit UK... There is already some evidence that European nurses who have been working in the UK are returning to their home countries.” McKeever, S., *Brexit: an uncertain journey*, Evidence Based Nursing 19(4), 97-98 (2016). See also Iacobucci, G, *Brexit could worsen NHS staff shortages, doctors warn*, British Medical Journal 353, i3064-3065 (2016), and Marangozov, R., M. Williams and S. Bevan, *Beyond Brexit: Assessing key risks to the nursing workforce in England*, Institute for Employment Studies (2016) available at <https://www.employment-studies.co.uk/system/files/resources/files/hrp12.pdf>.

61. In spite of this trend, and the potential, as Mr. Rahn notes, for Brexit to exacerbate that trend, Acadia's consolidated budget assumed an aggressive decrease in contract labor, reflecting an unrealistic assumption for agency cost in the UK. Mr. Rahn does not point to any evidence from Acadia documents or external sources justifying this assumption.

62. Figure 1 shows Priory Group's actual agency cost for FY16 (net of divested sites), and actual and budgeted agency cost for FY17.⁶⁷

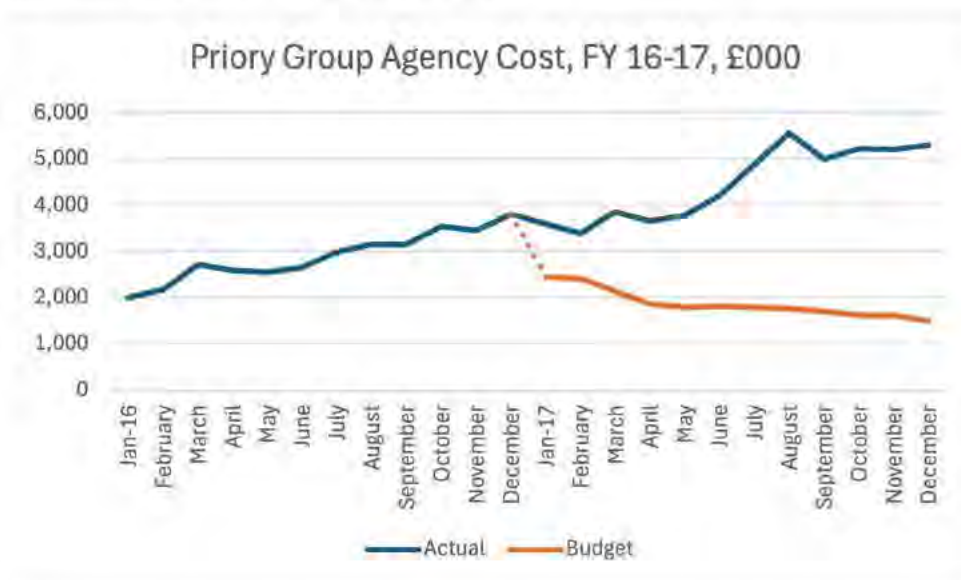


Figure 1

63. Mr. Rahn does not analyze Brexit's actual impact on Acadia in 2017. Acadia executives' public comments do not agree regarding the impact of Brexit. In its Q3 2017 earnings conference call, Acadia claimed that Brexit exacerbated labor shortages.⁶⁸

[REDACTED]

64. Mr. Rahn claims that "consistent with historical practice, Acadia performed a detailed review of its budgeted financial data in comparison to its actual results"⁷⁰ for Q1 2017. In support of this claim, he notes that "Priory Group's January actual revenue was £.5 million lower than budget" and "Priory Group's actual EBITDA was £.4 million higher than budget".⁷¹ However, these figures do not include PiC results and therefore are a misleading assessment of

⁶⁷ See ACADIA00342889-919 for actual monthly figures, and Willis Report ¶85 for an explanation of agency budget.

⁶⁸ Thomson Reuters Transcript, *Q3 2017 Acadia Healthcare Company Inc Earnings Call* (Oct. 25, 2017). Rahn Report, ¶126.

⁶⁹ Exhibit 497. Ms. Osteen would reiterate this point on Acadia's Q4 2019 earnings call, where in response to a question on whether Brexit would affect "staffing needs," Ms. Osteen stated that Priory leadership "don't see any significant impact from Brexit" as "historically, they really employ very few people from Europe, . . . less than 5% of their workforce." Thomson Reuters Transcript, *Q4 2019 Acadia Healthcare Company Inc Earnings Call* (Feb. 28, 2020).

⁷⁰ Rahn Report, ¶77.

⁷¹ Rahn Report, ¶80.

Acadia's UK performance. When PiC results are included, January revenue for Priory Group was £1.516 million *lower* than budget, and EBITDA was £1.074 million lower than budget.⁷²

E. Mr. Rahn's Opinions Concerning Acadia's Narrowing of FY17 Guidance in July 2017 Similarly Ignore the Key Negative Performance Trends and Faulty Budget Assumptions that Further Materialized in Q2 2017

65. Mr. Rahn acknowledges that Acadia again missed budgeted EBITDA and revenue in Q2 2017,⁷³ but claims that the negative variances "improved" relative to Q1 2017.⁷⁴ Below I review Q2 results more thoroughly. While there is some evidence of quarter-over-quarter operational improvement, continued negative budget variances show that the guidance buffer continued to erode, and that it was not reasonable to expect Acadia to meet guidance for FY 17. Table 11 presents Q1 and Q2 consolidated results:

Table 11: 2017 Consolidated Results, Q1, Q2, Q2 YTD⁷⁵			
Currency amounts in \$M	Q1	Q2	Q2 YTD
Actual Net Revenue	679.2	715.9	1395.1
Budgeted Net Revenue	694.2	726.0	1420.2
Revenue Variance	-15.0	-10.1	-25.1
Revenue Variance (%)	-2.15%	-1.39%	-1.76%
Actual EBITDA	136.4	162.4	298.8
Budgeted EBITDA	144.0	165.3	309.3
EBITDA Variance	-7.6	-2.9	-10.5
EBITDA Variance (%)	-5.28%	-1.78%	-3.41%
Actual EBITDA Margin	20.08%	22.68%	21.42%
Budgeted EBITDA Margin	20.75%	22.77%	21.78%
Actual ADC	14151.1	16162.7	15104.0
Budgeted ADC	14509.7	16724.6	15558.8
ADC Variance	-358.5	-561.9	-454.9
Actual Contract Labor	15.5	17.2	32.7
Budgeted Contract Labor	6.4	6.2	12.6
Contract Labor Variance	-9.1	-11.0	-20.1
Contract Labor Variance (%)	-142.26%	-177.47%	-159.55%

66. Q2 budget variances were uniformly negative for all items in the above table. Due to continued underperformance relative to budget in Q2, the YDT budget variance for

⁷² ACADIA01359507-17 at ACADIA01359508.

⁷³ Rahn Report, ¶86.

⁷⁴ Rahn Report, ¶87.

⁷⁵ ACADIA00000050.

adjusted EBITDA had increased to -\$10.5M (further eroding the initial buffer of \$15.7M). The YTD budget variance for revenue had increased to -\$25.1M. In both respects, Acadia was further away from its annual budget targets at the end of Q2 than in Q1.

67. ADC variance, increased significantly from -385.5 in Q1 to -561.9 in Q2, indicating worsening performance relative to Acadia's unrealistic budgeted assumption about volume growth. Contract labor variance grew from -\$9.1M to -\$11.1M, as Acadia's reliance on more costly contract labor continued to increase relative to budget.

68. Taken together, the above consolidated results do not, as Mr. Rahn suggests, constitute "improvement", or suggest that Acadia would be able to meet its initial guidance.

69. Table 12 summarizes Q1 and Q2 results for Priory Group.

Table 12: 2017 Priory Group Results, Q1, Q2, Q2 YTD⁷⁶			
Currency amounts in £M	Q1	Q2	Q2 YTD
Actual Revenue	193.0	199.1	392.1
Budgeted Revenue	198.6	208.7	407.4
Revenue Variance	-5.6	-9.7	-15.3
Revenue Variance (%)	-2.83%	-4.64%	-3.76%
Actual EBITDA	35.7	40.8	76.5
Budgeted EBITDA	39.7	44.8	84.6
EBITDA Variance	-4.0	-4.0	-8.0
EBITDA Variance (%)	-10.14%	-8.94%	-9.51%
Actual EBITDA margin	18.50%	20.51%	19.52%
Budgeted EBITDA Margin	20.01%	21.48%	20.76%
Actual ADC	7464.3	7517.7	7491.0
Budgeted ADC	7690.3	7859.7	7775.0
ADC Variance	-226.0	-342.0	-284.0
Actual Agency Cost	10.8	11.6	22.5
Budgeted Agency Cost	5.3	5.4	10.8
Agency Cost variance	5.5	6.2	11.7
Agency Cost Variance (%)	103.17%	114.05%	108.67%

70. As with the consolidated Q2 results, Priory Group budget variances were negative for all items in the above table. Crucially, ADC and agency cost variances were larger in Q2 than Q1, indicating significant negative trends in revenue and cost control.

⁷⁶ ACADIA00342889-919.

71. Mr. Rahn compares Q2 2017 results with Q2 2016 results.⁷⁷ Year-over-year performance improvement does not speak directly to the reasonableness of Acadia's budget, guidance, or the decision to merely narrow guidance. However, year-over-year comparisons can measure change in operational performance. In his review of Q2 performance, Mr. Rahn only cites that "Acadia's year-over-year performance improved as revenue increased approximately 6.4% on a pro forma basis from \$672.9 million to \$715.9 million for the three-month period ended June 30 of each respective year."⁷⁸ He ignores the year-over-year decline in EBITDA margin on a pro forma basis, shown in Table 13:

Table 13 EBITDA Margin, Three Months Ended June 30⁷⁹			
	2017	2016	Change
Same Facility	26.4	26.7	-30 bps
US Same Facility	28.4	28.6	-20 bps
UK Same Facility	22.4	23.0	-60 bps
US Facility	27.8	27.8	0 bps
UK Facility	20.5	21.2	-70 bps
Total Facility Results	25.2	25.4	-20 bps

72. Mr. Rahn ignores Priory Group results for Q2 2017 and Q2 2016 showing clear negative trends in performance. Table 14 shows these results, adjusted for divested sites:

Table 14: Priory Group Results Q2 2016 and 2017⁸⁰				
Currency amounts in £M	Q2 2016	Q2 2017	Q2 YTD 2016	Q2 YTD 2017
Revenue	193.5	199.1	382.2	392.1
Wages	121.0	125.4	240.3	249.0
Agency (included in wages)	7.8	11.6	14.7	22.5
Other Costs	24.0	25.3	50.4	51.4
Direct	6.6	7.3	13.3	14.3
Indirect	17.5	18.0	37.1	37.1
EBITDAR	48.4	48.4	91.5	91.7
Rent	7.3	7.6	14.6	15.2
EBITDA	41.1	40.8	76.9	76.5
EBITDA margin %	21.23%	20.51%	20.11%	19.52%
ADC	7526	7518	7493	7491
Wages % of revenue	62.56%	62.99%	62.87%	63.50%
Agency % of wages	6.43%	9.28%	6.10%	9.02%
Direct % of revenue	3.39%	3.65%	3.48%	3.63%
Indirect % of revenue	9.04%	9.04%	9.71%	9.47%

⁷⁷ Rahn Report, ¶88.

⁷⁸ *Ibid.*

⁷⁹ Exhibit 751.

⁸⁰ ACADIA00342889-919.

73. Notably, despite an increase in revenue, Q2 2017 and year-to-date results were worse than 2016 with respect to EBITDA and EBITDA margin, suggesting that growth at Acadia was not profitable. ADC declined slightly from 2016. Wages, agency cost, and direct cost all increased as a percentage of revenue.

74. Again, Mr. Rahn claims that Acadia was “on track” at the end of Q2 to meet revenue and EBITDA guidance.⁸¹ He cites no evidence to support this claim, and only assumes, contrary to Q1 and Q2 trends and budget variances, that Acadia would be able to meet its budget for the rest of the year.

75. Mr. Rahn claims that Q2 2017 operating results “supported Acadia’s optimism as to the remainder of the year”. To support this he cites: (1) Q1 to Q2 improvement in same same-facility net revenue and EBITDA increased in UK and U.S. hospitals,⁸² (2) positive comments from two analysts regarding Acadia’s Q1 results,⁸³ and (3) Acadia’s performance in FY14, when, Mr. Rahn claims, it missed revenue and EBITDA budget for Q1 and Q2 but still exceeded budget for both by the end of the year.⁸⁴ Below I review these claims.

(i) Quarter-over-quarter improvement in same facility revenue and EBITDA does not directly inform the likelihood of Acadia reaching its guidance. However, it does allow us to make conclusions about trends in performance relative to budget. As noted above, Q2 negative consolidated budget variances for adjusted EBITDA and revenue had grown larger (further eroding the buffer between budgeted and guidance amounts), as had negative variances for ADC and contract labor. While Mr. Rahn asserts that in Q1, Acadia was “on track” to meet guidance by meeting its Q2-Q4 budget targets, by the end of Q2, Acadia was even farther away from its budget targets.

(ii) Analysts’ comments on quarter-over-quarter improvement were based on information disclosed by Acadia. Analysts had no access to internal reports documenting the significant negative trends discussed above.

(iii) In reviewing Acadia’s performance relative to budget in 2014, Mr. Rahn ignores that the board-approved annual budgeted amounts differ significantly from budgeted amounts in the quarterly financial results. This suggests that the budget was updated during the year, perhaps due to the PiC acquisition. Table 15 summarizes these changes for FY14.

Table 15: Acadia FY14 Budget Updates⁸⁵				
\$ 000	Q1	Q2	Q3	Q4
Beginning Revenue Budget	198,420	209,030	208,927	211,603
Updated Revenue Budget	204,014	216,677	291,077	291,495
Change	5,594	7,647	82,150	79,892

⁸¹ Rahn Report, ¶90-91.

⁸² *Ibid.* ¶94.

⁸³ *Ibid.* ¶95.

⁸⁴ *Ibid.* ¶96.

⁸⁵ For beginning budgeted amounts see ACADIA00012801 at ACADIA00012813. For Q1-Q4 updated amounts see ACADIA00012867 at ACADIA00012937, ACADIA00012949 at ACADIA00013031, ACADIA00013042 at ACADIA00013061, ACADIA00011232 at ACADIA00011325.

Beginning EBITDA Budget	39,503	45,023	44,433	45,530
Updated EBITDA Budget	38,823	45,708	63,668	63,876
Change	-680	685	19,235	18,346

Because the Q1 and Q2 revenue budget were increased after their initial approval, what Mr. Rahn claims is a budget “miss” (relative to the updated budget) is actually overperformance relative to the initial annual budget. In addition, because of the changes to the initial budget, Mr. Rahn’s claim that FY14 performance relative to budget gives cause for optimism for FY17 performance is not valid. Table 16 summarizes the much smaller changes made to the 2017 budget.

Table 16: Acadia FY17 Beginning and Updated Budget⁸⁶				
\$ 000	Q1	Q2	Q3	Q4
Beginning Revenue Budget	694,150	726,004	733,709	741,315
Updated Revenue Budget	694,150	726,004	733,709	741,812
Change	0	0	0	497
Beginning EBITDA Budget	144,012	165,416	164,466	166,824
Updated EBITDA Budget	144,012	165,337	163,537	166,037
Change	0	-79	-929	-787

76. Mr. Rahn again claims, in the context of Q2 2017 performance, that “the...recency of Brexit made it difficult for Acadia to predict or forecast the impact it would have on Acadia’s operations, including the availability of labor.”⁸⁷ He cites no evidence that Brexit had an impact on Acadia’s cost of labor during Q2 2017.

77. Mr. Rahn does not acknowledge that before narrowing FY 17 guidance in July, Defendants received Priory Group’s forecast for July. Table 17 shows forecast and budgeted figures for July 2017:

Table 17: Priory Forecast and Budget for July 2017⁸⁸				
£'000	July Forecast	July Budget	Difference	Difference (% budget)
EBITDA	14,639	16,665	-2,026	-12.16%
Revenue	68,650	71,821	-3,171	-4.42%
EBITDA Margin	21.32%	23.20%	-188 bps	
Wage Costs	42,835	43,950	-1,115	-2.54%
ADC	7,607	7,930	-323	-4.07%

⁸⁶ For beginning budgeted amounts see ACADIA00011157 at ACADIA00011165. For updated amounts see ACADIA00011919 at ACADIA00011919_000115, ACADIA00012040 at ACADIA00012094, ACADIA00012571 at ACADIA00012647, ACADIA00011511 at ACADIA00011609.

⁸⁷ Rahn Report, ¶99.

⁸⁸ Exhibit 640.

78. Priory Group forecasted July EBITDA to be £2.0 M below budget, and revenue to be £3.1M below budget. Wage costs were the only figure with a favorable forecast relative to the budgeted amount.

79. If Acadia executives believed it was probable in Q2 2017 that budgeted targets for the year would be met, then the pattern of monthly and quarterly accruals for bonus compensation should have closely tracked budgeted amounts. In Q2 2017, Acadia's incentive compensation expense followed a similar pattern as Q1. In April and May, Acadia recorded incentive compensation of \$2,871,618 (12.4% below the budgeted amount) and \$3,013,281 (7.7% below the budgeted amount). In June Acadia reduced previously recorded incentive compensation by \$888,897. At the end of June, Acadia's YTD accrued incentive compensation expense was only 54.5% of the budgeted amount.⁸⁹ This suggests that at the end of Q2 2017 Acadia executives did not believe it probable that the company would reach budgeted financial performance that would trigger payment of bonuses.

80. If Acadia had recorded incentive compensation equal to the budgeted amount in Q2 (consistent with the probable realization of budgeted targets), it would have reported results as shown in Table 18.

Table 18: Incentive Compensation and Reported Results⁹⁰		
	Q2 2017 (as reported)	Q2 2017 (with budgeted incentive compensation)
Revenue	715,896,000	715,896,000
Adjusted EBITDA	162,200,000	157,389,697 ⁹¹
Adjusted EBITDA Margin	22.66%	21.98%
Adjusted Income	57,224,000	53,616,273 ⁹²
Diluted Shares Outstanding	87,080,000	87,080,000
Adjusted EPS	0.66	0.62

81. Tables 19 and 20 summarize Acadia's first quarter and second quarter year-to-date incentive compensation accruals from 2014-2017, along with guidance-related announcements made at the end of those quarters:

Table 19: Incentive Compensation and Q1 Guidance-Related Announcements⁹³
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⁸⁹ ACADIA00000050.

⁹⁰ For reported figures including the Q2 effective tax rate of 25.0% see Acadia Healthcare, Inc. Form 10-Q for the quarter ended June 30, 2017. Recalculated figures incorporate the full Q2 budgeted incentive compensation expense of \$9,806,305 (see ACADIA00000050).

⁹¹ Q2 adjusted EBITDA with budgeted incentive compensation accrual = Q2 reported adjusted EBITDA - Q2 incentive compensation budget variance.

⁹² Q2 adjusted income with budgeted incentive compensation accrual = Q2 reported adjusted income - (Q2 incentive compensation budget variance X (1 – effective tax rate)).

⁹³ For actual and budgeted incentive compensation amounts, see ACADIA00000050.

	Actual	Budgeted	Variance	Actual pct of Budgeted	Announcement
Q1 14	3,956,688	3,852,519	104,169	102.70%	Affirmed FY14 guidance ⁹⁴
Q1 15	9,063,672	6,498,642	2,565,030	139.47%	Raised FY15 guidance ⁹⁵
Q1 16	9,309,157	9,767,772	-458,615	95.30%	Affirmed FY16 guidance ⁹⁶
Q1 17	5,670,508	9,755,551	-4,085,043	58.13%	Affirmed FY17 guidance ⁹⁷

Table 20: Incentive Compensation and Q2 Guidance-Related Announcements					
	Actual (YTD)	Budgeted (YTD)	Variance (YTD)	Actual pct of Budgeted (YTD)	Announcement
Q2 14	9,297,117	7,740,909	1,556,208	120.10%	Affirmed FY14 guidance ⁹⁸
Q2 15	17,743,628	13,857,177	3,886,451	128.05%	Raised FY15 guidance ⁹⁹
Q2 16	12,779,214	19,384,746	-6,605,532	65.92%	Lowered FY16 guidance ¹⁰⁰
Q2 17	10,666,510	19,561,856	-8,895,346	54.53%	Narrowed FY17 guidance ¹⁰¹

82. In the first quarter of 2014, 2015, and 2016, Acadia's actual incentive compensation closely tracked (or exceeded) budgeted amounts. Q1 2017 marks a departure from this pattern, wherein Acadia affirmed guidance despite under-accruing incentive compensation.

83. In the second quarter of 2014 and 2015, Acadia recorded actual incentive compensation in excess of its budget and affirmed/raised guidance accordingly. In Q2 2016, Acadia recorded actual incentive compensation significantly below budget, and lowered FY16 guidance. In Q2 2017, however, despite the largest negative variance in actual and budgeted incentive compensation, Acadia chose to narrow its FY 17 guidance.

⁹⁴ Press Release, *Acadia Healthcare Reports 33.3% Growth in First Quarter Adjusted EPS to \$0.28 on 24.9% Increase in Revenue* (April 29, 2014), <https://acadiahealthcare.gcs-web.com/node/7491/pdf>.

⁹⁵ Press Release, *Acadia Healthcare First Quarter Adjusted EPS Increases 53.6% to \$0.43* (April 28, 2015), <https://acadiahealthcare.gcs-web.com/node/7611/pdf>.

⁹⁶ Press Release, *Acadia Healthcare Reports 27.9% Growth in First Quarter Adjusted EPS to \$0.55 on Revenue of \$616.8 Million* (April 28, 2016), <https://acadiahealthcare.gcs-web.com/node/7776/pdf>.

⁹⁷ Exhibit 749.

⁹⁸ Press Release, *Acadia Healthcare Reports Second Quarter Adjusted EPS Increase of 23.1% to \$0.32 on 20.5% Growth in Revenue* (July 29, 2014), <https://acadiahealthcare.gcs-web.com/node/7556/pdf>.

⁹⁹ Press Release, *Acadia Healthcare Reports 78.1% Growth in Second Quarter Adjusted EPS to \$0.57* (August 4, 2015), <https://acadiahealthcare.gcs-web.com/node/7661/pdf>.

¹⁰⁰ Press Release, *Acadia Healthcare Reports Second Quarter GAAP EPS of \$0.65 and Adjusted EPS of \$0.73, up 28.1%* (July 29, 2016), <https://acadiahealthcare.gcs-web.com/node/7811/pdf>.

¹⁰¹ Exhibit 751.

F. Mr. Rahn’s Opinion That There Was no Need to Further Adjust Acadia’s FY17 Guidance in August 2017 Is Self-Contradictory and Flawed

84. Mr. Rahn claims that as of July 31, 2017 Acadia was still “on track” to meet its 2017 revenue guidance¹⁰². Similar to claims made earlier in his report, he offers no evidence or analysis to support the assertion that Acadia would be able to meet its revenue guidance, and he ignores actual performance and trends from January – July 2017. Table 21 summarizes consolidated results in July 2017 and YTD:

Table 21: Consolidated Results, July 2017 and YTD¹⁰³		
Currency amounts in \$M	July	YTD
Actual Net Revenue	237.94	1633.03
Budget Net Revenue	245.91	1666.07
Revenue Variance	-7.97	-33.03
Revenue Variance (%)	-3.24%	-1.98%
Actual EBITDA	47.73	346.55
Budget EBITDA	55.92	365.27
EBITDA Variance	-8.18	-18.72
EBITDA Variance (%)	-14.64%	-5.13%
Actual EBITDA Margin	20.06%	21.22%
Budget EBITDA Margin	22.74%	21.92%
Actual ADC	14316	14276
Budgeted ADC	14942	14734
ADC Variance	-626	-461
Actual Contract Labor	7.09	39.80
Budget Contract Labor	1.99	14.59
Contract Labor Variance	-5.10	-25.20
Contract Labor Variance (%)	-256.00%	-172.71%

85. Mr. Rahn ignores that Acadia’s \$50M buffer between its budgeted revenue and the lower bound of its guidance had been eroded by \$33.3M at the end of July 2017. The consolidated revenue variance in July 2017 was the largest to date in FY17 in dollar terms (-\$7.97M) and as a percentage of budgeted net revenue (-3.24%). Acadia had not met its revenue or ADC budget in any month of 2017.

¹⁰² Rahn Report, ¶¶107-108.

¹⁰³ ACADIA00000050.

86. Mr. Rahn acknowledges that that as of July 31, 2017 Acadia was not on track to meet its 2017 EBITDA guidance, but claims management was optimistic that that business would turn around and improve.¹⁰⁴ This analysis suffers from multiple flaws.

87. Mr. Rahn's refers to the outcome in which Acadia met its budget for EBITDA from August – December as "expected EBITDA".¹⁰⁵ This is an assertion of probability that he does not support. He does not cite any evidence that this outcome is "expected" in the sense of "most likely" or even "likely," nor does he cite any evidence that "budgeted" outcomes were ever "expected" in that sense. On the contrary, significant negative trends in revenue, ADC, EBITDA, and contract labor from January – July 2017 suggest that it was not reasonable that Acadia could meet its EBITDA budget. Mr. Rahn ignores that Acadia's July 2017 Revenue and EBITDA budget variances were the largest in any month of 2017 to date.

88. Mr. Rahn claims that Acadia reasonably expected higher EBITDA in September 2017 due to decreased agency and labor costs in September and increased admissions in its education division.¹⁰⁶

89. As an initial matter, the assertion that Acadia expected performance improvement in September due to decreased labor costs tacitly acknowledges that management expected performance to be worse in August with higher labor costs. Moreover, in support of this assertion, Mr. Rahn relies solely on David Duckworth's deposition testimony and ignores both deposition testimony from Nigel Myers that agency costs increased in summer months,¹⁰⁷ and prior years' performance from July-September that contradicts his claim. Table 22 shows Priory Group results for July-September 2016.

Table 22, Priory Group Results, July-September 2016¹⁰⁸			
Currency figures in £'000	July	August	September
Revenue	66,326	66,112	63,787
Wages	40,967	41,796	40,647
Agency (included in wages)	2,990	3,153	3,144
EBITDA	14,961	13,551	12,718
EBITDA margin %	22.6	20.5	19.9
Wages % of revenue	61.8	63.2	63.7
Agency % of wages	7.3	7.5	7.7
ADC	7,562	7,516	7,492
Education ADC (included in total ADC)	1,316	1,289	1,273

90. From July to August 2016, Priory Group's performance worsened on every metric in the above table, including an increase in agency cost in pounds and as a percent of wages. From August to September 2016, agency cost did decrease, but only by £9,000, or .29%. Wages decreased by £1.33M, or 3.17%. However, agency cost *increased* as a percentage of

¹⁰⁴ Rahn Report, ¶¶109-117.

¹⁰⁵ *Ibid.* ¶109.

¹⁰⁶ *Ibid.* ¶110.

¹⁰⁷ Myers Dep. 50:8-23.

¹⁰⁸ ACADIA00342889-919.

wages, and wages *increased* as a percentage of revenue.¹⁰⁹ Decreases in total ADC and Education ADC led to a £2.3M decrease in revenue. Critically, EBITDA and EBITDA margin both decreased.

91. Tables 23 and 24 show Acadia's UK results for July-September 2014 and 2015, before the acquisition of Priory Group.

Table 23: Acadia UK Results, August and September 2015			
Currency figures in \$'000	July¹¹⁰	August¹¹¹	September¹¹²
Net Revenue	32,342	32,402	33,132
Salary Expense less Incentive Comp	16,368	15,968	16,460
Contract Labor	1,946	1,957	2,318
Contract Labor % of Total Labor	10.62%	10.92%	12.34%
EBITDA	7,201	8,247	7,571
EBITDA Margin	22.27%	25.45%	22.85%

Table 24: Acadia UK Results, August and September 2014			
Currency figures in \$'000	July¹¹³	August¹¹⁴	September¹¹⁵
Net Revenue	25,884	25,696	24,445
Salary Expense less Incentive Comp	12,639	12,530	12,081
Contract Labor	917	964	1,016
Contract Labor % of Total Labor	6.76%	7.14%	7.76%
EBITDA	6,947	7,086	6,245
EBITDA Margin	26.84%	27.58%	25.55%

92. Again, contract labor increased in dollars and as a percentage of total labor cost (salary expense less incentive compensation plus contract labor). EBITDA and EBITDA margin both increased in August, but fell in September.

93. Mr. Rahn also ignores Priory Group's forecast of August results, included in its July 2017 MOR.¹¹⁶ Table 25 presents this data:

Table 25: Priory Group Forecast and Budget for August 2017				
£'000	August Forecast	August Budget	Difference	Difference (% budget)

¹⁰⁹ This pattern of increased agency cost in August also continued in 2018 and 2019. ACADIA01198495.

¹¹⁰ *Ibid.* at ACADIA00000188.

¹¹¹ *Ibid.* at ACADIA00000196.

¹¹² *Ibid.* at ACADIA00000204.

¹¹³ *Ibid.* at ACADIA00000092.

¹¹⁴ *Ibid.* at ACADIA00000100.

¹¹⁵ *Ibid.* at ACADIA00000108.

¹¹⁶ ACADIA00042343.

EBITDA	12,898	15,380	-2,482	-16.14%
Revenue	67,436	70,695	-3,259	-4.61%
EBITDA Margin	19.13%	21.76%	-263 bps	
Wage Costs	43,275	44,260	-985	-2.23%
ADC	7,574	7,911	-337	-4.26%

94. Priory Group’s forecast of August results projected significantly worse results than budgeted for all items presented above.

95. Mr. Rahn cites a “commercial review published by Acadia’s UK healthcare operations in July 2017 indicat[ing] that recruiting had a great month in July and offers were made to 43 nurses during the month, reducing nursing vacancies.”¹¹⁷ Mr. Rahn ignores that at the time of the review, there were 527.5 nursing vacancies at Priory Healthcare and PiC,¹¹⁸ meaning that offers made (not accepted) amounted to only 8.2% of total vacancies.

96. Mr. Rahn claims that Acadia would have expected increased admissions in the fall¹¹⁹ but cites no evidence other than the testimony of Duckworth and Myers. Table 26 summarizes 2016 quarterly admissions for Priory Group.

Table 26: Priory Group 2016 Admissions¹²⁰				
	Q1	Q2	Q3	Q4
ADC	7459	7526	7523	7524
Beds (quarterly average)	8447	8460	8476	8628
Occupancy %	88.3%	89.0%	88.8%	87.2%

97. Priory Group’s quarterly performance in 2016 did not exhibit improvement in the fall. ADC decreased from Q2 to Q3 2016, despite an increase in beds of 16. From Q3 to Q4 2016, ADC increased by only one, despite beds increasing by 152.

98. Mr. Rahn points to Acadia’s plans to open 140 additional beds beginning in September 2017 as reason to expect “increasing revenue potential” for the remainder of FY17 “and going forward.”¹²¹ Mr. Rahn ignores that by July 2017, Acadia had already fallen behind its budgeted bed count by 58 beds. Figure 2 shows actual UK beds for FY16 and FY17, and budgeted beds for FY17.¹²²

¹¹⁷ Rahn Report, ¶111.

¹¹⁸ ACADIA01277496 at ACADIA01277521.

¹¹⁹ Rahn Report, ¶113.

¹²⁰ ACADIA00342889-919.

¹²¹ Rahn Report, ¶114. The revenue and profit potential of these beds “going forward” beyond the end of FY17 is not relevant in assessing the reasonableness of Acadia’s FY17 budget or guidance.

¹²² For budgeted beds see Exhibit 747a. For actual beds see ACADIA00342889-919.

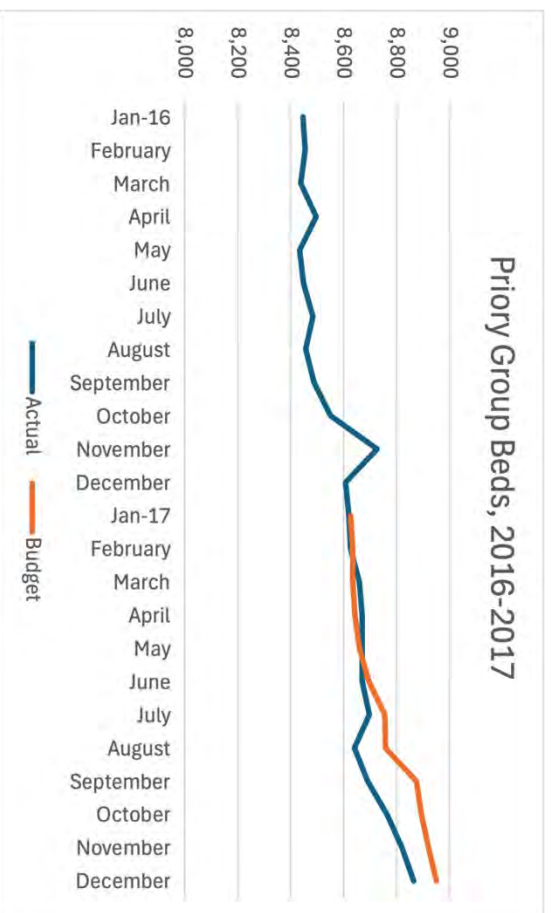


Figure 2

99. Mr. Rahn does not attempt to quantify the “increasing revenue potential” from the planned bed openings. Tables 27a and 27b below estimate incremental revenue and EBITDA in FY17 from new beds under the following optimistic assumptions:

- All beds open when planned
- All beds are occupied from opening date through December 31, 2017 at the highest monthly divisional occupancy rate in 2017 YTD
- All beds earn the highest monthly divisional ADF in 2017 YTD
- Divisions earn their highest monthly EBITDA margin in 2017 YTD

Table 27a: Acadia UK Bed Expansion Plans: Max Patient Days Calculation ¹²³				
Division	Opening Date	(1) Beds	(2) Remaining Days in 2017	(3) Max Patient Days, (1) X (2)
Education				
	September 1, 2017	24	121	2904
	September 5, 2017	30	117	3510
	September 30, 2017	42	92	3864
	October 1, 2017	20	91	1820
	November 30, 2017	10	31	310
Education Total				12408
Healthcare	November 10, 2017	12	51	612
Adult Care	December 15, 2017	2	16	32

¹²³ ACADIA01302926.

Table 27b: Acadia UK Bed Expansion Plans: Revenue and EBITDA Optimistic Projection¹²⁴						
Division	(1) Max Patient Days	(2) Occupancy	(3) ADF	(4) Revenue £M (1) X (2) X (3)	(5) EBITDA Margin	(6) EBITDA £M (4) X (5)
Education	12408	87.60%	266	2.89	25.7%	0.74
Healthcare	612	82.80%	502	0.25	21.6%	0.06
Adult Care	32	89.40%	187	0.01	25.4%	0.00
Total (£M)				3.15		0.80

100. Under these optimistic assumptions, new bed openings would only generate an incremental £3.15M of revenue in FY17 (.38% of budgeted UK revenue) and £.8M in EBITDA (.44% of budgeted UK EBITDA).

101. Mr. Rahn reiterates that Acadia’s underperformance relative to budget in Q1 and Q2 2014 and subsequent overperformance suggests that “Acadia had reason to believe that the Company could improve its EBITDA results such that it remained within its guidance range throughout 2017.”¹²⁵ As noted above, Acadia’s changes to budget amounts throughout FY14 make this comparison and claim invalid.

G. Mr. Rahn’s Opinions Regarding Acadia’s Downward Revisions of Guidance in October 2017 Ignore the Adverse Facts that Had Materialized Prior to Then

102. Mr. Rahn claims that “Acadia’s inability to meet its earnings guidance following Q3 2017 as it relates to the U.K. operations was primarily due to issues that arose in Q3 2017, specifically a failure of census to rebound and cost increases due to labor shortages.”¹²⁶ However, he ignores that negative trends and poor performance relative to budget in ADC and agency cost had been present and worsening throughout FY17.

103. Figure 3 presents Acadia UK actual ADC for FY16-17 and budgeted ADC for FY17.¹²⁷

¹²⁴ ACADIA00342889-919.

¹²⁵ Rahn Report, ¶116.

¹²⁶ Rahn Report, ¶126.

¹²⁷ ACADIA00342889-919.

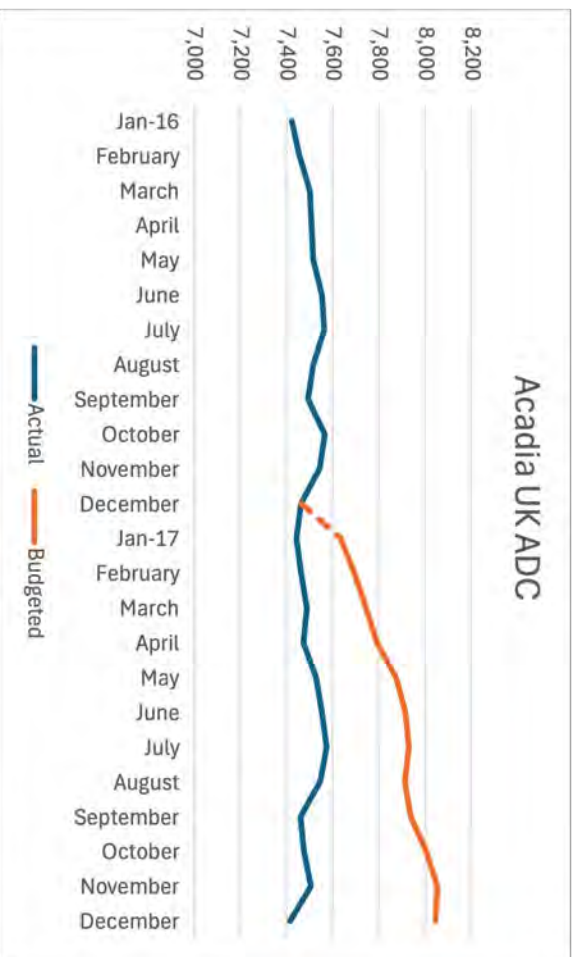


Figure 3

104. Mr. Rahm also ignores that agency cost had been increasing since at least 2015, and that, contrary to these trends, Acadia had unreasonably budgeted agency cost to continue to decrease in Q3 2017.

105. Mr. Rahm claims that backdated agency hits occurred because “The company does not always receive invoices from the agency company on a timely basis.”¹²⁸ This is a misleading attribution that ignores evidence that the problem was caused by a weak internal control environment at Priory Group.

(i) A July 5, 2017 email from Steve Ward attributes backdated hits to “under-reporting at site level from a number of Priory Sites... and for the PiC sites, under reporting (or in a lot of case, none reporting).”¹²⁹

(ii) Nigel Myers testified that regardless of when invoices were received, under-accruing was caused by under-reporting at the site level:

“Agency is also reported in terms of the hours, agency hours used, so within operations they would’ve used reports to look at, well, how many hours agency ever used in this week or within this -- on this day, in this month. And that -- the accountants would use that as a guide to accrue. So we always knew that agency use in a month, you won’t necessarily be invoiced by the agency company at the end of that month so you have to accrue. If the sites were underreporting the hours that had used, you would under-accrue the charge and then when the invoice came in later it would be higher than the actual hours -- the actual hours would be higher than the accrued hours.”¹³⁰

¹²⁸ Rahm Report, ¶129.

¹²⁹ Exhibit 637 at ACAD1A01254218.

¹³⁰ Myers Dep. 158:21-159:9.

106. Mr. Rahm cites a September 8, 2017 email from Myers to Duckworth stating: "Variance to Forecast Healthcare: -708k; with -203k lower ADC/revenue impact and -607k in wage costs, **due entirely to back dated agency charges, mostly in PIC sites**"¹³¹ (emphasis added by Rahm). Two points are relevant for context:

- (i) In this email, Myers is only attributing the "entire" wage cost variance to forecast in the Healthcare division of £-607k to backdated hits. He is not suggesting that the entire EBITDA variance to budget (£-3.3m) was driven by backdated hits.
- (ii) The impact of backdated hits on Q3 agency cost was £1.2m, which is only 7.8% of actual Q3 agency cost.¹³²

DATED: March 14, 2025

MICHAEL J. WILLIS, PhD



¹³¹ Exhibit 645.
¹³² Exhibit 651.

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
 - Senior 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 Directors' 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 Commission)
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, <i>St Clair County Employees' Retirement System vs. Acadia Healthcare Company Inc., et al.</i> , Case No. 3:18-cv-00988 (M.D. Tenn), filed April 1, 2019 (ECF No. 39)

Journals, Articles, and Educational Texts
Hartmann, F., K. Krauss, G. Nilsson, R. Anthony, V. Govindarajan, <i>Management Control Systems</i> (2021)
Iacobucci, GI, <i>Brexit could worsen NHS staff shortages, doctors warn</i> , British Medical Journal 353, i3064-3065 (2016)
Marangozov, R., M. Williams and S. Bevan, <i>Beyond Brexit: Assessing key risks to the nursing workforce in England</i> , Institute for Employment Studies (2016) available at https://www.employment-studies.co.uk/system/files/resources/files/hrp12.pdf
McKeever, S., <i>Brexit: an uncertain journey</i> , Evidence Based Nursing 19(4), 97-98 (2016)
Shields, J. F., & M.D. Shields, <i>Antecedents of participative budgeting</i> , Accounting, Organizations and Society, 23(1), 49-76 (1998).
Shields, M.D., <i>Operating Budgets and Budgeting – Benefits and Costs</i> , in Weil, R. and M. Maher, <i>Handbook of Cost Management</i> (2005)

Date	Deposition Transcripts & Exhibits
8/26/2022	Marty Garcia - Deposition Transcript & Exhibits (Exhibits 362, 363, 364, 365)
11/19/2024	David Duckworth - Deposition Transcript & Exhibits (Exhibits 155, 625, 631, 640, 737, 741, 742, 744, 746, 759, 751)
10/30/2024	Nigel Myers - Deposition Transcript & Exhibits (Exhibits 564, 626, 637, 645, 651, 656, 658)
10/24/2024	Trevor Torrington - Deposition Transcript
6/7/2022	Ron Fincher - Deposition Transcript
9/29/2021	Andrew Honeybone – Deposition Transcript (Exhibits 72 and 73)
5/25/2022	Kim Cashio – Deposition Transcript (Exhibit 230)
5/6/2022	Richard Clark – Deposition Transcript (Exhibits 143, 144)

Bates-Stamped Documents
ACADIA01361783-95
ACADIA-REPROD-0166848
ACADIA00000050
ACADIA00011157
ACADIA00011232
ACADIA00011511
ACADIA00011919
ACADIA00012040
ACADIA00012571
ACADIA00012801
ACADIA00012867
ACADIA00012949
ACADIA00013042
ACADIA00042343

ACADIA00342889-919
ACADIA00577318
ACADIA01197791
ACADIA01277496
ACADIA01301508
ACADIA01302926
ACADIA01359507-17
ACADIA01361783-95
ACADIA01361844-55
ACADIA01402609

SEC Filings and Public Reports

Acadia Healthcare, Inc. Proxy Statement filed 13 April 2017
Acadia Healthcare, Inc. Form 10-Q for the quarter ended March 31, 2017
Acadia Healthcare, Inc. Form 10-Q for the quarter ended June 30, 2017
Thomson Reuters Transcript, <i>Q3 2017 Acadia Healthcare Company Inc Earnings Call</i> (Oct. 25, 2017).
Thomson Reuters Transcript, <i>Q4 2019 Acadia Healthcare Company Inc Earnings Call</i> (Feb. 28, 2020).

Date	Other Documents
2/7/2025	Expert Report of Todd Rahn, CPA and accompanying documents
2/7/2025	Expert Report of Michael Willis, PhD
2/7/2023	Accounting and Auditing Enforcement Release No. 4373. https://www.sec.gov/files/litigation/admin/2023/34-96819.pdf
	FASB ASC 450-20, <i>Loss Contingencies</i> . https://asc.fasb.org/450/20/showallinonepage
4/29/2014	Press Release, <i>Acadia Healthcare Reports 33.3% Growth in First Quarter Adjusted EPS to \$0.28 on 24.9% Increase in Revenue</i> (April 29, 2014), https://acadiahealthcare.gcs-web.com/node/7491/pdf .
4/28/2015	Press Release, <i>Acadia Healthcare First Quarter Adjusted EPS Increases 53.6% to \$0.43</i> (April 28, 2015), https://acadiahealthcare.gcs-web.com/node/7611/pdf .
4/28/2016	Press Release, <i>Acadia Healthcare Reports 27.9% Growth in First Quarter Adjusted EPS to \$0.55 on Revenue of \$616.8 Million</i> (April 28, 2016), https://acadiahealthcare.gcs-web.com/node/7776/pdf .
7/29/2014	Press Release, <i>Acadia Healthcare Reports Second Quarter Adjusted EPS Increase of 23.1% to \$0.32 on 20.5% Growth in Revenue</i> (July 29, 2014), https://acadiahealthcare.gcs-web.com/node/7556/pdf .
8/4/2015	Press Release, <i>Acadia Healthcare Reports 78.1% Growth in Second Quarter Adjusted EPS to \$0.57</i> (August 4, 2015), https://acadiahealthcare.gcs-web.com/node/7661/pdf .
7/29/2016	Press Release, <i>Acadia Healthcare Reports Second Quarter GAAP EPS of \$0.65 and Adjusted EPS of \$0.73, up 28.1%</i> (July 29, 2016), https://acadiahealthcare.gcs-web.com/node/7811/pdf .