

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2024

OR

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

For the transition period from to

Commission File Number: 001-40478

**LifeStance Health Group, Inc.**

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

4800 N. Scottsdale Road Suite 2500

Scottsdale, Arizona

(Address of principal executive offices)

86-1832801

(I.R.S. Employer  
Identification No.)

85251

(Zip Code)

Registrant's telephone number, including area code: (602) 767-2100

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	LFST	The Nasdaq Stock Market LLC

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

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

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

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

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

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

As of May 1, 2024, the registrant had 382,287,766 shares of common stock, \$0.01 par value per share, outstanding.

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### Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, and other future conditions. Forward-looking statements can be identified by words such as “anticipate,” “believe,” “envision,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “target,” “potential,” “will,” “would,” “could,” “should,” “continue,” “contemplate” and other similar expressions, although not all forward-looking statements contain these identifying words. For example, all statements we make relating to: our ability to grow our business, expand access to our patients and our payors and invest in our platform; our plan to partner with additional hospital systems, large primary care groups and other specialist groups; our expectation that we will continue to open de novo center and acquire new centers; our growth rates and financial results; our plans and objectives for future operations, growth or initiatives and strategies; and our expected market opportunity are forward-looking statements.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties, factors and assumptions described in Part II, Item 1A, “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2023 filed with the Securities and Exchange Commission (the “SEC”) on February 28, 2024, including, among other things:

- if reimbursement rates paid by third-party payors are reduced or if third-party payors otherwise restrain our ability to obtain or deliver care to patients, our business could be harmed;
- we may not grow at the rates we historically have achieved or at all, even if our key metrics may imply future growth, including if we are unable to successfully execute on our growth initiatives and business strategies;
- if we fail to manage our growth effectively, our expenses could increase more than expected, our revenue may not increase proportionally or at all, and we may be unable to execute on our business strategy;
- our ability to recruit new clinicians and retain existing clinicians;
- we conduct business in a heavily regulated industry and if we fail to comply with these laws and government regulations, we could incur penalties or be required to make significant changes to our operations or experience adverse publicity, which could have a material adverse effect on our business, results of operations and financial condition;
- we are dependent on our relationships with supported practices, which we do not own, to provide health care services, and our business would be harmed if those relationships were disrupted or if our arrangements with these entities became subject to legal challenges;
- we operate in a competitive industry, and if we are not able to compete effectively, our business and financial performance would be harmed;
- the impact of health care reform legislation and other changes in the healthcare industry and in health care spending on us is currently unknown, but may harm our business;
- if our or our vendors’ security measures fail or are breached and unauthorized access to our employees’, patients’ or partners’ data is obtained, our systems may be perceived as insecure, we may incur significant liabilities, including through private litigation or regulatory action, our reputation may be harmed, and we could lose patients and partners;
- our business depends on our ability to effectively invest in, implement improvements to and properly maintain the uninterrupted operation and data integrity of our information technology and other business systems;
- our existing indebtedness could adversely affect our business and growth prospects; and
- the other factors set forth under “Risk Factors.”

The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this report. We undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future developments or otherwise, except as required by law.

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements (Unaudited).**

**LIFESTANCE HEALTH GROUP, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
For the quarterly period ended March 31, 2024

**LIFESTANCE HEALTH GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**

(unaudited)

(In thousands, except for par value)

	March 31, 2024	December 31, 2023
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 49,451	\$ 78,824
Patient accounts receivable, net	175,937	125,405
Prepaid expenses and other current assets	18,729	21,502
<b>Total current assets</b>	<b>244,117</b>	<b>225,731</b>
<b>NONCURRENT ASSETS</b>		
Property and equipment, net	182,428	188,222
Right-of-use assets	165,845	170,703
Intangible assets, net	208,529	221,072
Goodwill	1,293,346	1,293,346
Other noncurrent assets	12,051	10,895
<b>Total noncurrent assets</b>	<b>1,862,199</b>	<b>1,884,238</b>
<b>Total assets</b>	<b>\$ 2,106,316</b>	<b>\$ 2,109,969</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 11,938	\$ 7,051
Accrued payroll expenses	100,432	102,478
Other accrued expenses	37,272	35,012
Contingent consideration	4,454	8,169
Operating lease liabilities, current	49,729	46,475
Other current liabilities	3,639	3,688
<b>Total current liabilities</b>	<b>207,464</b>	<b>202,873</b>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net	279,870	280,285
Operating lease liabilities, noncurrent	173,255	181,357
Deferred tax liability, net	15,970	15,572
Other noncurrent liabilities	760	952
<b>Total noncurrent liabilities</b>	<b>469,855</b>	<b>478,166</b>
<b>Total liabilities</b>	<b>\$ 677,319</b>	<b>\$ 681,039</b>
<b>COMMITMENTS AND CONTINGENCIES (see Note 12)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock – par value \$0.01 per share; 25,000 shares authorized as of March 31, 2024 and December 31, 2023; 0 shares issued and outstanding as of March 31, 2024 and December 31, 2023	—	—
Common stock – par value \$0.01 per share; 800,000 shares authorized as of March 31, 2024 and December 31, 2023; 382,105 and 378,725 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively	3,821	3,789
Additional paid-in capital	2,204,233	2,183,684
Accumulated other comprehensive income	2,886	2,303
Accumulated deficit	(781,943)	(760,846)
<b>Total stockholders' equity</b>	<b>1,428,997</b>	<b>1,428,930</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,106,316</b>	<b>\$ 2,109,969</b>

*The accompanying Notes are an integral part of these Unaudited Consolidated Financial Statements.*

**LIFESTANCE HEALTH GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
**(unaudited)**

*(In thousands, except for Net Loss per Share)*

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
TOTAL REVENUE	\$ 300,437	\$ 252,589
OPERATING EXPENSES		
Center costs, excluding depreciation and amortization shown separately below	205,711	182,987
General and administrative expenses	88,934	84,626
Depreciation and amortization	22,564	19,069
Total operating expenses	\$ 317,209	\$ 286,682
LOSS FROM OPERATIONS	\$ (16,772)	\$ (34,093)
OTHER EXPENSE		
Gain on remeasurement of contingent consideration	2,015	1,037
Transaction costs	—	(86)
Interest expense, net	(5,903)	(5,092)
Other expense	(74)	(45)
Total other expense	\$ (3,962)	\$ (4,186)
LOSS BEFORE INCOME TAXES	(20,734)	(38,279)
INCOME TAX (PROVISION) BENEFIT	(363)	4,037
NET LOSS	\$ (21,097)	\$ (34,242)
NET LOSS PER SHARE, BASIC AND DILUTED	(0.06)	(0.09)
Weighted-average shares used to compute basic and diluted net loss per share	376,331	360,902
NET LOSS	\$ (21,097)	\$ (34,242)
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gains (losses) on cash flow hedge, net of tax	583	(1,270)
COMPREHENSIVE LOSS	\$ (20,514)	\$ (35,512)

*The accompanying Notes are an integral part of these Unaudited Consolidated Financial Statements.*

**LIFESTANCE HEALTH GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(unaudited)**  
*(In thousands)*

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensiv e Income	Accumulate d Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances at December 31, 2023	378,725	\$ 3,789	\$ 2,183,684	\$ 2,303	\$ (760,846)	\$ 1,428,930
Net loss	—	—	—	—	(21,097)	(21,097)
Issuance of common stock upon vesting of restricted stock units	5,687	56	(56)	—	—	—
Forfeitures	(2,307)	(24)	24	—	—	—
Other comprehensive income	—	—	—	583	—	583
Stock-based compensation expense	—	—	20,581	—	—	20,581
Balances at March 31, 2024	<u>382,105</u>	<u>\$ 3,821</u>	<u>\$ 2,204,233</u>	<u>\$ 2,886</u>	<u>\$ (781,943)</u>	<u>\$ 1,428,997</u>

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensiv e Income	Accumulate d Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances at December 31, 2022	375,964	\$ 3,761	\$ 2,084,324	\$ 3,274	\$ (572,636)	\$ 1,518,723
Net loss	—	—	—	—	(34,242)	(34,242)
Adoption of ASU 2016-13	—	—	—	—	(1,948)	(1,948)
Issuance of common stock upon vesting of restricted stock units	1,711	17	(17)	—	—	—
Forfeitures	(1,138)	(11)	(3,354)	—	—	(3,365)
Other comprehensive loss	—	—	—	(1,270)	—	(1,270)
Stock-based compensation expense	—	—	27,231	—	—	27,231
Balances at March 31, 2023	<u>376,537</u>	<u>\$ 3,767</u>	<u>\$ 2,108,184</u>	<u>\$ 2,004</u>	<u>\$ (608,826)</u>	<u>\$ 1,505,129</u>

*The accompanying Notes are an integral part of these Unaudited Consolidated Financial Statements.*

**LIFESTANCE HEALTH GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited)**  
*(In thousands)*

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (21,097)	\$ (34,242)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	22,564	19,069
Non-cash operating lease costs	9,687	10,113
Stock-based compensation	20,581	23,866
Amortization of discount and debt issue costs	424	549
Gain on remeasurement of contingent consideration	(2,015)	(1,037)
Other, net	(47)	45
Change in operating assets and liabilities, net of businesses acquired:		
Patient accounts receivable, net	(50,532)	(17,138)
Prepaid expenses and other current assets	2,491	(4,543)
Accounts payable	4,981	(5,466)
Accrued payroll expenses	(2,045)	7,663
Operating lease liabilities	(9,608)	(8,736)
Other accrued expenses	2,778	1,967
Net cash used in operating activities	<u>\$ (21,838)</u>	<u>\$ (7,890)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(5,104)	(7,729)
Acquisitions of businesses, net of cash acquired	—	(19,820)
Net cash used in investing activities	<u>\$ (5,104)</u>	<u>\$ (27,549)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of long-term debt	(731)	(586)
Payments of contingent consideration	(1,700)	(4,302)
Net cash used in financing activities	<u>\$ (2,431)</u>	<u>\$ (4,888)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(29,373)</b>	<b>(40,327)</b>
Cash and Cash Equivalents - Beginning of period	78,824	108,621
<b>CASH AND CASH EQUIVALENTS – END OF PERIOD</b>	<u><b>\$ 49,451</b></u>	<u><b>\$ 68,294</b></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest, net	\$ 6,270	\$ 5,059
Cash paid for taxes, net of refunds	\$ (252)	\$ (13)
<b>SUPPLEMENTAL DISCLOSURES OF NON CASH INVESTING AND FINANCING ACTIVITIES</b>		
Contingent consideration incurred in acquisitions of businesses	\$ —	\$ 1,985
Acquisition of property and equipment included in liabilities	\$ 3,104	\$ 8,297

*The accompanying Notes are an integral part of these Unaudited Consolidated Financial Statements.*



**LIFESTANCE HEALTH GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

*(In thousands, except per share amounts)*

**NOTE 1 NATURE OF THE BUSINESS**

**Description of Business**

LifeStance Health Group, Inc. ("LifeStance" or the "Company") operates as a provider of outpatient mental health services, spanning psychiatric evaluations and treatment, psychological and neuropsychological testing, and individual, family and group therapy.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Company's significant accounting policies are discussed in Note 2 "Summary of Significant Accounting Policies" in Item 15 of its Annual Report on Form 10-K for the year ended December 31, 2023. During the three months ended March 31, 2024, there have been no significant changes to these policies.

**Basis of Presentation and Principles of Consolidation**

The Company has prepared the accompanying unaudited consolidated financial statements pursuant to the rules and regulations of the SEC regarding interim financial reporting, which include the accounts of LifeStance, its wholly-owned subsidiaries and variable interest entities ("VIEs") in which LifeStance has an interest and is the primary beneficiary. Pursuant to these rules and regulations, the Company has omitted certain information and footnote disclosures it normally includes in its annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). All intercompany balances and transactions have been eliminated in consolidation. In management's opinion, the Company has made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly state its consolidated financial condition, results of operations and cash flows. The Company's interim period operating results do not necessarily indicate the results that may be expected for any other interim period or the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto in the Company's audited financial statements for the year ended December 31, 2023 in the Company's Annual Report on Form 10-K.

**Use of Accounting Estimates**

The preparation of consolidated financial statements in conformity with GAAP requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Variable Interest Entities**

The Company evaluates its ownership, contractual and other interests in entities to determine if it has any variable interest in a VIE. These evaluations are complex, involve judgment, and the use of estimates and assumptions based on available information. If the Company determines that an entity in which it holds a contractual or ownership interest is a VIE and that the Company is the primary beneficiary, the Company consolidates such entity in its consolidated financial statements. The primary beneficiary of a VIE is the party that meets both of the following criteria: (i) has the power to make decisions that most significantly affect the economic performance of the VIE; and (ii) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. The Company performs ongoing reassessments of whether changes in the facts and circumstances regarding the Company's involvement with a VIE will cause the consolidation conclusion to change.

The Company acquires and operates certain care centers which are deemed to be Friendly-Physician Entities ("FPEs"). As part of an FPE acquisition, the Company acquires 100% of the non-medical assets, however due to legal requirements the physician-owners must retain 100% of the equity interest. The Company's agreements with FPEs generally consist of both a Management Service Agreement, which provides for various administrative and management services to be provided by the Company to the FPE, and Stock Transfer Restriction ("STR") agreements with the physician-owners of the FPEs, which provide for the transition of ownership interests of the FPEs under certain conditions. The outstanding voting equity instruments of the FPEs are owned by the nominee shareholders appointed by the Company under the terms of the STR agreements. The Company has the right to receive income as an ongoing management fee, which effectively absorbs all of the residual interests and has also provided financial support through loans to the FPEs. The Company has exclusive responsibility for the provision of all nonmedical services including facilities, technology and intellectual property required for the day-to-day operation and management of each of the FPEs, and makes recommendations to the FPEs in establishing the guidelines for the employment and compensation of the physicians and other employees of the FPEs. In addition, the STR agreements provide that the Company has the right to designate an appropriately licensed person(s) to purchase the equity interest of the FPE for a nominal amount in the event of a succession event at the Company's discretion. Based on the

provisions of these agreements, the Company determined that the FPEs are VIEs due to the equity holder having insufficient capital at risk, and the Company has a variable interest in the FPEs.

The contractual arrangements described above allow the Company to direct the activities that most significantly affect the economic performance of the FPEs. Accordingly, the Company is the primary beneficiary of the FPEs and consolidates the FPEs under the VIE model. Furthermore, as a direct result of nominal initial equity contributions by the physicians, the financial support the Company provides to the FPEs (e.g., loans) and the provisions of the contractual arrangements and nominee shareholder succession arrangements described above, the interests held by noncontrolling interest holders lack economic substance and do not provide them with the ability to participate in the residual profits or losses generated by the FPEs. Therefore, all income and expenses recognized by the FPEs are allocated to the Company. The Company does not hold interests in any VIEs for which the Company is not deemed to be the primary beneficiary.

As noted previously, the Company acquires 100% of the non-medical assets of the VIEs. The aggregate carrying values of the VIEs total assets and total liabilities not purchased by the Company but included on the consolidated balance sheets were not material at March 31, 2024 and December 31, 2023.

#### Recent Accounting Pronouncements Not Yet Adopted

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* ("ASU 2023-07"). ASU 2023-07 improves reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses on an interim and annual basis. ASU 2023-07 is effective for public companies for annual periods beginning on or after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. ASU 2023-07 will apply retrospectively to all prior periods presented in the financial statements. The Company is in process of evaluating the impact of adoption of ASU 2023-07 on the Company's consolidated financial statements and disclosures.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* ("ASU 2023-09"). ASU 2023-09 improves the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. ASU 2023-09 is effective for public business entities for annual periods beginning after December 15, 2024. Early adoption is permitted. ASU 2023-09 will apply on a prospective basis and retrospective application is permitted. The Company is in process of evaluating the impact of adoption of ASU 2023-09 on the Company's consolidated financial statements and disclosures.

#### NOTE 3 TOTAL REVENUE

The Company's total revenue is dependent on a series of contracts with third-party payors, which is typical for providers in the health care industry. The Company has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the payor mix with third-party payors, which have different reimbursement rates.

The payor mix of fee-for-service revenue from patients and third-party payors consists of the following:

	Three Months Ended March 31,			
	2024		2023	
	Amount	% of Total Revenue	Amount	% of Total Revenue
Commercial	\$ 273,766	91 %	\$ 228,919	91 %
Government	13,532	5 %	10,951	4 %
Self-pay	10,321	3 %	9,747	4 %
Total patient service revenue	297,619	99 %	249,617	99 %
Nonpatient service revenue	2,818	1 %	2,972	1 %
<b>Total</b>	<b>\$ 300,437</b>	<b>100 %</b>	<b>\$ 252,589</b>	<b>100 %</b>

Among the commercial payors, the table below represents insurance companies that individually represented 10% or more of revenue:

	Three Months Ended March 31,	
	2024	2023
Payor A	17 %	19 %
Payor B	15 %	13 %

#### NOTE 4 PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following:

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Leasehold improvements	\$ 171,629	\$ 170,212
Computers and peripherals	27,717	27,302
Internal-use software	6,999	7,197
Furniture, fixtures and equipment	42,991	42,316
Medical equipment	842	842
Construction in process	8,443	9,037
Total	\$ 258,621	\$ 256,906
Less: Accumulated depreciation	(76,193)	(68,684)
<b>Total property and equipment, net</b>	<b>\$ 182,428</b>	<b>\$ 188,222</b>

Depreciation expense consists of the following:

	<u>Three Months Ended March 31,</u>	
	<u>2024</u>	<u>2023</u>
Depreciation expense	\$ 10,021	\$ 8,896

#### NOTE 5 LEASES

The Company leases its office facilities and office equipment which are accounted for as operating leases. Some leases contain clauses for renewal at the Company's option with renewal terms that generally extend the lease term from one to seven years.

The components of lease expense for the Company's operating leases in its unaudited consolidated statements of operations and comprehensive loss were as follows:

	<u>Three Months Ended March 31,</u>	
	<u>2024</u>	<u>2023</u>
Operating lease costs	\$ 13,682	\$ 14,308

Variable lease costs and short-term lease costs were not material.

The weighted-average remaining lease term and discount rate for operating lease liabilities included in the consolidated balance sheets are as follows:

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Weighted-average remaining lease term (in years)	4.5	4.6
Weighted-average discount rate	7.22 %	7.11 %

Supplemental cash flow information related to operating leases was as follows:

	<u>Three Months Ended March 31,</u>	
	<u>2024</u>	<u>2023</u>
<b>Cash paid for amounts included in the measurement of lease liabilities</b>		
Operating cash flows from operating leases	\$ 16,029	\$ 15,339
<b>Noncash lease activity</b>		
Right-of-use lease assets obtained in exchange for new operating lease liabilities	\$ 4,828	\$ 6,878

The future minimum lease payments under noncancellable operating leases as of March 31, 2024 are as follows:

<b>Year Ended December 31,</b>	<b>Amount</b>
Remainder of 2024	\$ 47,647
2025	63,170
2026	55,683
2027	42,088
2028	29,683
Thereafter	24,085
<b>Total lease payments</b>	<b>\$ 262,356</b>
Less: imputed interest	(39,372)
<b>Total lease liabilities</b>	<b>\$ 222,984</b>

Related party lease transactions were not material as of March 31, 2024 and December 31, 2023 and for the three months ended March 31, 2024 and 2023.

## NOTE 6 GOODWILL AND INTANGIBLE ASSETS

### Goodwill

Goodwill was \$1,293,346 as of March 31, 2024 and December 31, 2023. There have been no changes to the goodwill carrying value during the period.

### Intangible Assets

Intangible assets consist of the following:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (Years)
<b>March 31, 2024</b>				
Regional trade names	\$ 36,694	\$ (30,607)	\$ 6,087	4.0
LifeStance trade names	235,500	(40,641)	194,859	22.5
Non-competition agreements	94,535	(86,952)	7,583	4.2
<b>Total intangible assets</b>	<b>\$ 366,729</b>	<b>\$ (158,200)</b>	<b>\$ 208,529</b>	
<b>December 31, 2023</b>				
Regional trade names	\$ 36,694	\$ (26,399)	\$ 10,295	5.0
LifeStance trade names	235,500	(38,024)	197,476	22.5
Non-competition agreements	94,535	(81,234)	13,301	4.2
<b>Total intangible assets</b>	<b>\$ 366,729</b>	<b>\$ (145,657)</b>	<b>\$ 221,072</b>	

Gross carrying amount is based on the fair value of the intangible assets determined at the acquisition date. Total intangible asset amortization expense consists of the following:

	Three Months Ended March 31,	
	2024	2023
Amortization expense	\$ 12,543	\$ 10,173

## NOTE 7 BUSINESS COMBINATIONS

During the three months ended March 31, 2023, the Company completed the acquisitions of 3 outpatient mental health practices. There were no completed acquisitions during the three months ended March 31, 2024. The Company accounted for the acquisitions as business combinations using the acquisition method of accounting. The purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the respective acquisition dates.

Total consideration transferred for these acquisitions consisted of the following:

	Three Months Ended March 31, 2023
Cash consideration	\$ 20,000
Contingent consideration, at initial fair value	1,985
<b>Total consideration transferred</b>	<b>\$ 21,985</b>

The results of the acquired businesses have been included in the Company's consolidated financial statements beginning as of their acquisition dates. It is impracticable to provide historical supplemental pro forma financial information along with revenue and earnings subsequent to the acquisition dates for acquisitions during the period due to a variety of factors, including access to historical information and the operations of acquirees being integrated within the Company shortly after closing and not operating as discrete entities within the Company's organizational structure.

*Fair Values of Assets Acquired and Liabilities Assumed*

The following table summarizes the fair values of assets acquired and liabilities assumed as of the dates of acquisition:

	<b>Three Months Ended</b>	
	<b>March 31, 2023</b>	
<b>Allocation of Purchase Price</b>		
Cash	\$	181
Patient accounts receivable		372
Prepaid expenses and other current assets		138
Property and equipment		221
Right-of-use assets		368
Other noncurrent assets		22
Intangible assets		843
Goodwill		20,733
<b>Total assets acquired</b>		<b>22,878</b>
<b>Total liabilities assumed</b>		<b>893</b>
<b>Fair value of net assets</b>	<b>\$</b>	<b>21,985</b>

The majority of the tangible assets acquired and liabilities assumed were recorded at their carrying values as of the respective dates of acquisition, as their carrying values approximated their fair values due to their short-term nature. The fair values of goodwill and other intangible assets acquired in these acquisitions were estimated primarily based on the income approach. The income approach estimates fair value based on the present value of the cash flows that the assets are expected to generate in the future. The Company developed estimates for the expected future cash flows and discount rates used in the present value calculations.

The following table summarizes the fair values of acquired intangible assets as of the dates of acquisition:

	<b>Three Months Ended</b>	
	<b>March 31, 2023</b>	
Regional trade names <sup>(1)</sup>	\$	435
Non-competition agreements <sup>(2)</sup>		408
<b>Total</b>	<b>\$</b>	<b>843</b>

(1) Useful lives for regional trade names are 5 years.

(2) Useful lives for non-competition agreements are 5 years.

**Contingent Consideration**

Under the provisions of the acquisition agreements, the Company may pay additional cash consideration in the form of earnouts, contingent upon the acquirees achieving certain performance and operational targets (see Note 8).

The following table summarizes the maximum contingent consideration based on the acquisition agreements:

	<b>Three Months Ended</b>	
	<b>March 31, 2023</b>	
<b>Contingent consideration</b>		
Maximum contingent consideration based on acquisition agreements	\$	2,650

**Goodwill**

Goodwill is primarily attributable to the assembled workforce, customer and payor relationships and anticipated synergies and economies of scale expected from the integration of the businesses. The synergies include certain cost savings, operating efficiencies, and other strategic benefits projected to be achieved as a result of the acquisition. All goodwill is deductible for tax purposes.

**NOTE 8 FAIR VALUE MEASUREMENTS**

*Contingent Consideration*

The Company measures its contingent consideration liability at fair value on a recurring basis using Level 3 inputs. The Company estimates the fair value of the contingent consideration liability based on the likelihood and timing of the contingent earn-out payments. The following is the summary of the significant assumptions used for the fair value measurement of the contingent consideration liability as of March 31, 2024 and December 31, 2023.

<b>Valuation Technique</b>		<b>Range of Significant Assumptions</b>	
		<b>March 31, 2024</b>	<b>December 31, 2023</b>
Probability-weighted analysis based earn-outs	Probability	0% - 100%	0% - 100%
	Discount rate	9.7%	9.7%

As of March 31, 2024 and December 31, 2023, the Company adjusted the fair value of the contingent consideration liability due to remeasurement at the reporting date.

#### Hedging Activities

The Company uses derivative financial instruments, including an interest rate swap, for hedging and non-trading purposes to manage its exposure to changes in interest rates. The Company entered into a hedge transaction (interest rate swap) using a derivative financial instrument for the purpose of hedging the Company's exposure to interest rate risks, which the contractual terms of the hedged instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. The objective of entering into the interest rate swap is to eliminate the variability of cash flows in the Secured Overnight Financing Rate ("SOFR") interest payments associated with the variable-rate loan over the life of the loan. In August 2022, the Company entered into an interest rate swap agreement to pay a fixed rate of 3.24% on a total notional value of \$189,000 of debt. As a result of the interest rate swap, 94.5% of the term loan previously exposed to interest rate risk from changes in SOFR is now hedged against the interest rate swap at a fixed rate. The interest rate swap matures on September 30, 2025. As of March 31, 2024, the notional value was \$186,165. As changes in interest rates impact the future cash flow of interest payments, the hedge provides a synthetic offset to interest rate movements.

The Company used the income approach to value the derivative for the interest rate swap using observable market data for all significant inputs and standard valuation techniques to convert future amounts to a single present value amount, assuming that participants are motivated but not compelled to transact. This derivative instrument (interest rate swap) is designated and qualifies as a cash flow hedge, with the entire gain or loss on the derivative reported as a component of other comprehensive income. Amounts recorded in accumulated other comprehensive income are released to earnings in the same period that the hedged transaction impacts consolidated earnings within interest expense, net. The cash flows from the derivative treated as a cash flow hedge is classified in the Company's consolidated statements of cash flows in the same category as the item being hedged.

For the three months ended March 31, 2024 and 2023, the Company included immaterial gains on the hedged instrument (variable-rate borrowings) in the same line item (interest expense, net) as the offsetting gain on the related interest rate swap in the unaudited consolidated statements of operations and comprehensive loss.

The following table summarizes the location of the interest rate swap in the unaudited consolidated balance sheets:

	Consolidated balance sheets location	March 31, 2024	December 31, 2023
Interest rate swap	Other noncurrent assets	\$ 3,913	\$ 2,931

The amount of estimated cash flow hedge unrealized gains and losses that are expected to be reclassified to earnings in the next twelve months is not material.

#### Fair Value Measured on a Recurring Basis

The following table presents information about the Company's assets and liabilities that are measured at fair value on a recurring basis:

	March 31, 2024	December 31, 2023
<b>Assets Measured at Fair Value</b>		
Money market funds	\$ 28,487	\$ 64,766
<b>Level 1</b>	<b>\$ 28,487</b>	<b>\$ 64,766</b>
Interest rate swap asset	\$ 3,913	\$ 2,931
<b>Level 2</b>	<b>\$ 3,913</b>	<b>\$ 2,931</b>
<b>Total assets measured at fair value</b>	<b>\$ 32,400</b>	<b>\$ 67,697</b>
<b>Liabilities Measured at Fair Value</b>		
Contingent consideration liability:		
Beginning balance	\$ 8,169	\$ 17,824
Additions related to acquisitions	—	1,985
Payments of contingent consideration	(1,700)	(7,668)
Gain on remeasurement	(2,015)	(3,972)
Ending balance	4,454	8,169
<b>Level 3</b>	<b>\$ 4,454</b>	<b>\$ 8,169</b>
<b>Total liabilities measured at fair value</b>	<b>\$ 4,454</b>	<b>\$ 8,169</b>

#### NOTE 9 LONG-TERM DEBT

On May 4, 2022, the Company entered into a credit agreement (the "2022 Credit Agreement") among LifeStance Health Holdings, Inc., Lynnwood Intermediate Holdings, Inc., Capital One, National Association, and each lender party thereto. The 2022 Credit Agreement established commitments in respect of a term loan facility of \$200,000, a revolving loan facility of up to \$50,000 and a delayed draw term loan facility of up to \$100,000. The commitments under the term loan facility and the revolving facility were

available to be drawn on May 16, 2022. The Company borrowed \$200,000 in term loans on that date, with a maturity date of May 16, 2028. The remaining commitments under the delayed draw term loan facility are scheduled to terminate on the second anniversary of May 16, 2022. Once drawn upon, the delayed draw term loan facility has a maturity date of May 16, 2028. The loans under the term loan facility and the delayed draw term loan facility bear interest at a rate per annum equal to (x) adjusted term SOFR (which adjusted term SOFR is subject to a minimum of 0.75%) plus an applicable margin of 4.50% or (y) an alternate base rate (which will be the highest of (i) the prime rate, (ii) 0.50% above the federal funds effective rate and (iii) one-month adjusted term SOFR (which adjusted term SOFR is subject to a minimum of 0.75%) plus 1.00%) plus an applicable margin of 3.50%. The term loans are collateralized by substantially all of the assets of the Company. The revolving loan has interest only payments until the maturity date of May 16, 2027.

The 2022 Credit Agreement requires the Company to maintain compliance with certain restrictive financial covenants related to earnings, leverage ratios, and other financial metrics. The Company was in compliance with all debt covenants at March 31, 2024 and December 31, 2023.

Long-term debt consists of the following:

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Term loans	\$ 197,000	\$ 197,500
Delayed Draw term loans	91,763	91,994
<b>Total long-term debt</b>	<b>288,763</b>	<b>289,494</b>
Less: Current portion of long-term debt	(2,925)	(2,925)
Less: Unamortized discount and debt issue costs <sup>(1)</sup>	(5,968)	(6,284)
<b>Total Long-Term Debt, Net of Current Portion and Unamortized Discount and Debt Issue Costs</b>	<b>\$ 279,870</b>	<b>\$ 280,285</b>

- (1) The unamortized debt issue costs related to long-term debt are presented as a reduction of the carrying amount of the corresponding liabilities on the unaudited consolidated balance sheets. Unamortized debt issue costs related to delayed draw term loan commitments and revolving loans are presented within other noncurrent assets on the unaudited consolidated balance sheets.

The current portion of long-term debt is included within other current liabilities on the unaudited consolidated balance sheets.

Interest expense, net consists of the following:

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Interest expense, net	\$ 5,903	\$ 5,092

Future principal payments on long-term debt as of March 31, 2024 are as follows:

<b>Year Ended December 31,</b>	<b>Amount</b>
Remainder of 2024	\$ 2,194
2025	2,925
2026	2,925
2027	2,925
2028	277,794
<b>Total</b>	<b>\$ 288,763</b>

The fair value of long-term debt is based on the present value of future payments discounted by the market interest rates or the fixed rates based on current rates offered to the Company for debt with similar terms and maturities, which is a Level 2 fair value measurement. Long-term debt is presented at carrying value on the unaudited consolidated balance sheets. The fair value of long-term debt at March 31, 2024 and December 31, 2023 was \$306,805 and \$304,955, respectively.

#### **Revolving Loan**

Under the 2022 Credit Agreement, the Company has a revolving loan commitment from Capital One in the amount of \$50,000. Any borrowing on the revolving loan under the 2022 Credit Agreement is due in full on May 16, 2027. The revolving loan bears interest at a rate per annum equal to (x) adjusted term SOFR plus an applicable margin of 3.25% or (y) an alternate base rate (which will be the highest of (i) the prime rate, (ii) 0.50% above the federal funds effective rate and (iii) one-month adjusted term SOFR plus 1.00%) plus an applicable margin of 2.25%. The unused revolving loan incurs a commitment fee of 0.50% per annum.

There are no amounts outstanding on the revolving loan as of March 31, 2024 and December 31, 2023.

## NOTE 10 STOCK-BASED COMPENSATION

### 2021 Equity Incentive Plan

Effective June 9, 2021, the Company's Board of Directors (the "Board") and its stockholders as of that date adopted and approved the LifeStance Health Group, Inc. 2021 Equity Incentive Plan (the "2021 Equity Incentive Plan"). The 2021 Equity Incentive Plan permits the grant of awards or restricted or unrestricted common stock, stock options, stock appreciation rights, restricted stock units, performance awards, and other stock-based awards to employees and directors of, and consultants and advisors to, the Company and its affiliates. On January 1, 2024, the number of shares of common stock reserved and available for issuance under the 2021 Equity Incentive Plan increased by 18,936 shares.

### Restricted Stock Awards ("RSA")

The following is a summary of RSA transactions as of and for the three months ended March 31, 2024:

	Unvested Shares		Weighted-Average Grant Date Fair Value
Unvested, December 31, 2023	5,479	\$	11.98
Vested	(13)		11.98
Forfeited	(2,307)		11.98
<b>Unvested, March 31, 2024</b>	<b>3,159</b>	<b>\$</b>	<b>11.98</b>

### Restricted Stock Units ("RSU")

The following is a summary of RSU transactions as of and for the three months ended March 31, 2024:

	Unvested Shares		Weighted-Average Grant Date Fair Value
Outstanding, December 31, 2023	23,378	\$	7.24
Granted	11,965		7.37
Vested	(5,687)		6.66
Canceled and forfeited	(1,313)		7.24
<b>Outstanding, March 31, 2024</b>	<b>28,343</b>	<b>\$</b>	<b>7.41</b>

### Stock Options

The following is a summary of stock option activity as of and for the three months ended March 31, 2024:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, December 31, 2023	13,476	\$ 7.42	8.70	\$ 5,565
Granted	—	—		
Exercised	—	—		—
Canceled and forfeited	—	—		
<b>Outstanding, March 31, 2024</b>	<b>13,476</b>	<b>\$ 7.42</b>	<b>8.46</b>	<b>\$ 800</b>
Exercisable at March 31, 2024	1,123	\$ 7.42	8.46	\$ 67
Vested or expected to vest at March 31, 2024	13,476	\$ 7.42	8.46	\$ 800

### Stock-Based Compensation Expense

The Company recognized stock-based compensation expense related to RSAs, RSUs, and stock options within general and administrative expenses in the unaudited consolidated statements of operations and comprehensive loss as follows:

	Three Months Ended March 31,	
	2024	2023
Stock-based compensation expense	\$ 20,581	\$ 23,866

As of March 31, 2024, the Company had \$203,722 in unrecognized compensation expense related to all non-vested RSUs and stock options that will be recognized over the weighted-average remaining service period of 2.1 years.

### 2021 Employee Stock Purchase Plan

Effective June 9, 2021, the Board and its stockholders as of that date adopted and approved the LifeStance Health Group, Inc. 2021 Employee Stock Purchase Plan (the "ESPP"). The ESPP is more fully described in Note 11 in the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.



As of March 31, 2024, no shares of common stock have been purchased under the Company's ESPP.

## NOTE 11 INCOME TAXES

The provision (benefit) for income taxes is as follows:

	Three Months Ended March 31,	
	2024	2023
Provision (benefit) for income taxes	\$ 363	\$ (4,037)

The effective tax rates are as follows:

	Three Months Ended March 31,	
	2024	2023
Effective tax rate	(1.7)%	10.5%

The difference between the Company's effective tax rate and the U.S. statutory tax rate of 21% was primarily the result of non-deductible equity awards. The Company regularly evaluates the realizability of its deferred tax assets and establishes a valuation allowance if it is more likely than not that some or all the deferred tax assets will not be realized.

## NOTE 12 COMMITMENTS AND CONTINGENCIES

### *Professional Liability Insurance*

The medical malpractice insurance coverage is subject to a \$3,000 per claim limit and an annual aggregate shared limit of \$8,000. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured. The Company is not aware of any unasserted claims, unreported incidents, or claims outstanding that are expected to exceed malpractice insurance coverage limits as of March 31, 2024 and December 31, 2023.

### *Health Care Industry*

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government healthcare program participation requirements, reimbursement for patient services, and Medicare fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with imposition of significant fines and penalties, as well as significant repayments for patient services billed.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare companies have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in companies entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Company's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Company. In addition, the contracts the Company has with commercial payors also provide for retroactive audit and review of claims.

Management believes that the Company is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

### *General Contingencies*

The Company is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions, injuries to employees, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant reduction in insurance coverage from the previous year in any of the Company's policies.

### *Litigation*

The Company may be involved from time-to-time in legal actions relating to the ownership and operations of its business. Liabilities related to loss contingencies are recognized when the Company believes it is probable a liability has occurred and the amount can be reasonably estimated by management.

In the first half of 2023, two related hybrid collective/class action lawsuits, captioned *Armand et al. v. LifeStance Health Group, Inc.* and *Jessica McAfee et al. v. LifeStance Health Group, Inc.*, were filed against the Company, in the United States District Court for the Middle District of Florida on January 1, 2023 and the United States District Court for the District of Arizona on June 22, 2023, respectively, by a putative collective or class representing employees of the Company related to advance on compensation and alleged underpayments for time worked. The lawsuit seeks unspecified monetary damages. The process of resolving these matters is

inherently uncertain and may develop over an extended period of time; therefore, at this time, the ultimate resolution cannot be predicted. The Company has not recorded any material accruals for loss contingencies and in management's opinion no material range of loss is estimable for this matter as of March 31, 2024.

On April 26, 2023, a class action litigation captioned *Strong v. LifeStance Health Group, Inc.* was filed in the United States District Court for the District of Arizona against the Company by a putative class representing users of the Company's website who allege various privacy-related claims premised on the Company's use of pixel technologies on its website. The lawsuit seeks unspecified monetary damages. The process of resolving these matters is inherently uncertain and may develop over an extended period of time; therefore, at this time, the ultimate resolution cannot be predicted. The Company has not recorded any material accruals for loss contingencies and in management's opinion no material range of loss is estimable for this matter as of March 31, 2024.

#### NOTE 13 NET LOSS PER SHARE

The following table presents the calculation of basic and diluted net loss per share ("EPS") for the Company's common shares:

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Net loss available to common stockholders'	\$ (21,097)	\$ (34,242)
Weighted-average shares used to compute basic and diluted net loss per share	376,331	360,902
<b>Net loss per share, basic and diluted</b>	<b>\$ (0.06)</b>	<b>\$ (0.09)</b>

The Company has issued potentially dilutive instruments in the form of RSAs, RSUs and stock options. The Company did not include any of these instruments in its calculation of diluted loss per share for the three months ended March 31, 2024 and 2023 because to include them would be anti-dilutive due to the Company's net loss during the period. See Note 10 for the issued, vested and unvested RSAs, RSUs and stock options. The Company excluded the following potential common shares, presented based on amounts outstanding at each period end, from the computation of diluted net loss per share:

	<b>As of March 31,</b>	
	<b>2024</b>	<b>2023</b>
RSAs	3,159	15,533
RSUs	28,343	28,262
Stock options	13,476	13,476
	<b>44,978</b>	<b>57,271</b>

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our audited financial statements and the accompanying notes as well as "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2023. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth under "Risk Factors" Part II, Item 1A in this Quarterly Report on Form 10-Q as well as those discussed in the Annual Report on Form 10-K for the year ended December 31, 2023, our actual results could differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.*

*Unless stated otherwise or the context otherwise requires, the terms "we," "us," "our," "our business," "LifeStance" and "our Company" and similar references refer to LifeStance Health Group, Inc. and its consolidated subsidiaries and supported practices. References to "our employees" and "our clinicians" refer collectively to employees and clinicians, respectively, of our subsidiaries and supported practices. References to "our patients" refer to the patients treated by such clinicians.*

### **Our Business**

We are reimagining mental health through a tech-enabled care delivery model built to expand access, address affordability, improve outcomes and lower overall health care costs. We are one of the nation’s largest outpatient mental health platforms based on the number of clinicians we employ through our subsidiaries and our supported practices and our geographic scale, employing 6,866 licensed mental health clinicians as of March 31, 2024. Our patient-focused platform combines a personalized, digitally-powered patient experience with differentiated clinical capabilities and in-network insurance relationships to fundamentally transform patient access and treatment. By revolutionizing the way mental health care is delivered, we believe we have an opportunity to improve the lives and health of millions of individuals.

Our model is built to empower each of the healthcare ecosystem’s key stakeholders—patients, clinicians, payors and primary care and specialist physicians—by aligning around our shared goal of delivering better outcomes for patients and providing high-quality mental health care.

- *Patients* - We are the front-door to comprehensive outpatient mental healthcare. Our clinicians offer patients a full spectrum of outpatient services to treat mental health conditions. Our in-network payor relationships improve patient access by allowing patients to access care without significant out-of-pocket cost or delays in receiving treatment. Our personalized, data-driven comprehensive care meets patients where they are, through convenient virtual and in-person settings. We support our patients throughout their care continuum with purpose-built technological capabilities, including online assessments, digital provider communication, and seamless internal referral and follow-up capabilities.
- *Clinicians* - We empower clinicians to focus on patient care and relationships by providing what we believe is a superior workplace environment, as well as clinical and technology capabilities to deliver high-quality care. We offer a unique employment model for clinicians in a collaborative clinical environment, employing our clinicians through our subsidiaries and supported practices. Our integrated platform and national infrastructure reduce administrative burdens for clinicians while increasing engagement and satisfaction.
- *Payors* - We partner with payors to deliver access to high-quality outpatient mental healthcare to their members at scale. Through our extensive scale, we offer payors a pathway to reduce overall cost of care in the broader healthcare system while supporting improved physical and mental health outcomes.
- *Primary care and specialist physicians* - We collaborate with primary care and specialist physicians to enhance patient care. Primary care is an important setting for the treatment of mental health conditions—primary care physicians are often the sole contact of patients with a mental illness and, in many instances where patients have a chronic condition, specialist physicians step into the role of primary physicians. We partner with primary care physicians and specialist physician groups across the country to provide a mental healthcare network for referrals and, in certain instances, through virtual and physical co-location to improve the diagnosis and treatment of their patients.

### **Key Factors Affecting Our Results**

#### ***Expanding Center Capacity and Visits Within Existing Centers***

We have built a powerful organic growth engine that enables us to drive growth within our existing footprint.

### *Our Clinicians*

As of March 31, 2024, we employed 6,866 psychiatrists, advanced practice nurses, psychologists and therapists through our subsidiaries and supported practices. We generate revenue on a per visit basis (total revenue per visit ("TRPV")) as clinical services are rendered by our clinicians. We generate lower revenue and experience lower clinician productivity in periods that have fewer business days than other periods. We measure productivity by the number of visits that are performed by a clinician, which is driven by the time clinicians make available to see patients and our ability to fill clinician's schedules by attracting new patients, scheduling patients, and converting scheduled appointments to completed visits also impacts our ability to generate revenue. Further, clinician productivity also impacts clinician compensation, as clinician compensation is primarily driven by the number of visits provided by each clinician. Recruiting new clinicians and retaining existing clinicians enables us to see more patients by expanding our patient visit capacity.

We believe our dedicated employment model offers a superior value proposition compared to independent practice. Our network relationships provide clinicians with ready access to patients. We also enable clinicians to manage their own patient volumes. Our platform promotes a clinically-driven professional culture and streamlines patient access and care delivery, while optimizing practice administration processes through technology. We believe we are an employer of choice in mental health, allowing us to employ highly qualified clinicians.

We believe we have significant opportunity to grow our employed clinician base from our current base of 6,866 clinicians employed through our subsidiaries and supported practices, as of March 31, 2024. We have developed a rigorous and exclusive in-house national clinician recruiting model that works closely with our regional clinical teams to select the best candidates and expand capacity in a timely manner. As we grow our clinician base, we can grow our business, expand access for our patients and our payors and invest in our platform to further reinforce our differentiated offering to clinicians. We have available physical capacity to add clinicians to our existing centers, as well as an opportunity to add new clinicians with the targeted roll-out of de novo centers. Our virtual care offering also allows clinicians to see more patients without investments in incremental physical space, expanding our patient visit capacity beyond in-person only levels.

### *Our Patients*

We believe our ability to attract and retain patients to drive growth in our visits and meet the availability of our clinician base will enable us to grow our revenue. We believe we have a significant opportunity to increase the number of patients we serve in our existing markets. Our clinicians treated patients through 1.9 million visits in the three months ended March 31, 2024. We believe our ability to deliver more accessible, flexible, affordable and effective mental healthcare is a key driver of our patient growth. We believe we provide a superior and differentiated mental healthcare experience that integrates virtual and in-person care to deliver care in a convenient way for our patients, meeting our patients where they are. Our in-network payor relationships allow our patients to access affordable care without significant out-of-pocket cost or delays in receiving treatment. We treat mental health conditions across the outpatient spectrum through a clinical approach that delivers improved patient outcomes. We support our patients throughout their care continuum with purpose-built technological capabilities, including online assessments, digital provider communication, and seamless internal referral and follow-up capabilities.

We utilize multiple strategies to add new patients to our platform, including our primary care and specialist physician relationships, internal referrals from our clinicians, our payor relationships and our dedicated marketing efforts. We have established a large network of national, regional and local payors that enables their members to be referred to us as patients. Payors refer patients to our platform to drive improvement in health outcomes for their members, reduction in total medical costs and increased member satisfaction and retention. Within our markets, we partner with primary care practice groups, specialists, health systems and academic institutions to refer patients to our centers and clinicians. Our local marketing teams build and maintain relationships with our referring partner networks to create awareness of our platform and services, including the opening of new centers and the introduction of newly hired clinicians with appointment availability. We also use online marketing to develop our national brand to increase brand awareness and promote additional channels of patient recruitment.

### *Our Primary Care and Specialist Physician Referral Relationships*

We have built a powerful patient referral network through partnerships with primary care physicians and specialist physician groups across the country. We deliver value to our provider partners by offering a more efficient referral pathways, delivering improved outcomes for our shared patients, and enabling more integrated care and lower total healthcare costs. As we continue to scale nationally, we plan to partner with additional hospital systems, large primary care groups and other specialist groups to help streamline their mental health network needs and drive continued patient growth across our platform. Our vision over time is to further integrate our mental healthcare services with those of our medical provider partners. By co-locating and driving towards integration with primary care and specialty providers, we can enhance our clinicians' access to patients. We anticipate that we will continue to grow these relationships while evolving our offering toward a fully-integrated care model in which primary care and our mental health clinicians work together to develop and provide personalized treatment plans for shared patients. We believe these efforts will help to further align our model with that of other healthcare providers increasing our value to them and driving new opportunities to partner to grow our patient base and revenue opportunities.

### *Our Payors*

Our payor relationships, including national contracts with multiple payors, allow access to our services through in-network coverage for their members. We believe the alignment of our model with our payor partners' population health objectives encourages third-party payors to partner with us. We believe we deliver value to our payor partners in several ways, including access to a national clinician employee base, lower total medical costs, and stronger member and client value proposition through the offering of in-network mental health services. The strength of our payor relationships and our value proposition has historically allowed us to secure rate parity between in-person and virtual visits, either by contract or payor policy. To expand this network and grow access to covered patients, we continue to evaluate new payor relationships and national contracts where we believe the payor's policies and approach to mental healthcare align with our mission while also seeking to drive regional rate improvement, including terminating certain of our lower-volume payor contracts, to support continued investment in our differentiated model for delivering mental healthcare. We believe our payor relationships differentiate us from our competitors and are a critical factor in our ability to expand our market footprint in new regions by leveraging our existing national payor relationships. As we continue to grow, we believe our scale, breadth and access will continue to be enhanced, further strengthening the value of our platform to payors.

As part of our ongoing business operations, we renegotiate our existing payor contracts and enter into new payor contracts. Our results of operations can fluctuate based on the reimbursement rates resulting from these payor contract negotiations and renegotiations. To the extent that payors, particularly payors comprising a significant portion of our revenue, negotiate lower reimbursement rates or elect not to cover some or all of our services, our business and results of operations could be adversely impacted.

### ***Expand and Optimize our Center Base Within Existing and New Markets***

We believe we have built a powerful market growth engine that allows us to rapidly grow our presence within our markets and unlock potential latent demand through our differentiated scale, access and affordability.

#### *De Novo Centers*

Our de novo center strategy is a central component of our organic growth engine to build our capacity and increase density in our existing metropolitan statistical areas. We believe there is a significant opportunity to use de novo center openings to address potential patient need in our existing markets and new markets that we have determined are attractive to enter. We systematically locate our centers within a given market to ensure convenient coverage for in-person access to care. We believe our successful de novo program and national clinician recruiting team can support additions of new centers and clinicians.

We continue to utilize a more sustainable design for all new de novo centers that reimagines the mental healthcare experience for both patients and clinicians while reinforcing our commitment to sustainability.

#### *Acquisitions*

We believe the highly fragmented nature of the mental health market provides us with a meaningful opportunity to execute on our acquisition playbook. We seek to acquire select practices that meet our standards of high-quality clinical care and align with our mission. We believe our guiding principle of creating a national platform built with a patient and clinician focus makes us a partner of choice for smaller, independent practices. Our acquisition strategy is deployed both to enter new markets and in our existing markets. In new markets, acquisitions allow us to establish a presence with high-quality practices with a track record of clinical excellence and in-network payor relationships that can be integrated into our national platform. In existing markets, acquisitions allow us to grow our geographic reach and clinician base to expand patient access.

#### *Real Estate Optimization*

In connection with our expansion through de novo builds and acquisitions, in 2023, we announced a strategic re-focus, to prioritize resources and close certain centers as a direct result of changes to our business model driven by a shift to more virtual visits initiated by the COVID-19 pandemic. As a result, we completed a significant reduction in physical space and exited several underoccupied offices by both negotiating terminations of and abandoning certain real estate leases during 2023. We plan to continue to optimize our real estate footprint on a go-forward basis as part of our recurring operations.

### ***Center Margin***

As we grow our platform, we seek to generate consistent returns on our investments. See “—Key Metrics and Non-GAAP Financial Measures—Center Margin” for our definition of Center Margin and reconciliation to loss from operations. We believe this metric best reflects the economics of our model as it includes all direct expenses associated with our patients' care. We seek to grow our Center Margin through a combination of (i) growing revenue through clinician hiring and retention, patient growth and engagement, hybrid virtual and in-person care, existing office expansion, and in-network reimbursement levels, and (ii) leveraging on our fixed cost base at each center. For acquired centers, we also seek to realize operational, technology and reimbursement synergies to drive Center Margin growth.

## Investments in Growth

We will continue to focus on long-term growth through investments in our centers and technology. In addition, we expect our general and administrative expenses to increase in the foreseeable future due to our planned investments in growth initiatives including our strategic initiatives and public company infrastructure.

## Key Metrics and Non-GAAP Financial Measures

We evaluate the growth of our footprint through a variety of metrics and indicators. The following table sets forth a summary of the key financial metrics we review to evaluate our business, measure our performance, identify trends affecting our business, formulate our business plan and make strategic decisions:

	Three Months Ended March 31,	
	2024	2023
<i>(in thousands)</i>		
Total revenue	\$ 300,437	\$ 252,589
Revenue growth	19%	24%
Loss from operations	(16,772)	(34,093)
Center Margin	94,726	69,602
Net loss	(21,097)	(34,242)
Adjusted EBITDA	27,651	10,104

Center Margin and Adjusted EBITDA are not measures of financial performance under generally accepted accounting principles ("GAAP") and are not intended to be substitutes for any GAAP financial measures, including revenue, loss from operations or net loss, and, as calculated, may not be comparable to companies in other industries or within the same industry with similarly titled measures of performance. Therefore, non-GAAP measures should be considered in addition to, not as a substitute for, or in isolation from, measures prepared in accordance with GAAP.

### Center Margin

We define Center Margin as loss from operations excluding depreciation and amortization and general and administrative expenses. Therefore, Center Margin is computed by removing from loss from operations the costs that do not directly relate to the delivery of care and only including center costs, excluding depreciation and amortization. We consider Center Margin to be an important measure to monitor our performance relative to the direct costs of delivering care. We believe Center Margin is useful to investors to measure whether we are sufficiently controlling the direct costs of delivering care.

Center Margin is not a financial measure of, nor does it imply, profitability. The relationship of loss from operations to center costs, excluding depreciation and amortization is not necessarily indicative of future profitability from operations. Center Margin excludes certain expenses, such as general and administrative expenses, and depreciation and amortization, which are considered normal, recurring operating expenses and are essential to support the operation and development of our centers. Therefore, this measure may not provide a complete understanding of the operating results of our Company as a whole, and Center Margin should be reviewed in conjunction with our GAAP financial results. Other companies that present Center Margin may calculate it differently and, therefore, similarly titled measures presented by other companies may not be directly comparable to ours. In addition, Center Margin has limitations as an analytical tool, including that it does not reflect depreciation and amortization or other overhead allocations.

The following table provides a reconciliation of loss from operations, the most closely comparable GAAP financial measure, to Center Margin:

	Three Months Ended March 31,	
	2024	2023
<i>(in thousands)</i>		
Loss from operations	\$ (16,772)	\$ (34,093)
Adjusted for:		
Depreciation and amortization	22,564	19,069
General and administrative expenses <sup>(1)</sup>	88,934	84,626
<b>Center Margin</b>	<b>\$ 94,726</b>	<b>\$ 69,602</b>

- (1) Represents salaries, wages and employee benefits for our executive leadership, finance, human resources, marketing, billing and credentialing support and technology infrastructure and stock-based compensation for all employees.

### Adjusted EBITDA

We present Adjusted EBITDA, a non-GAAP performance measure, to supplement our results of operations presented in accordance with generally accepted accounting principles, or GAAP. We believe Adjusted EBITDA is useful in evaluating our operating performance, and may be helpful to securities analysts, institutional investors and other interested parties in understanding

our operating performance and prospects. Adjusted EBITDA is not intended to be a substitute for any GAAP financial measure and, as calculated, may not be comparable to companies in other industries or within the same industry with similarly titled measures of performance. Therefore, our Adjusted EBITDA should be considered in addition to, not as a substitute for, or in isolation from, measures prepared in accordance with GAAP, such as net income or loss.

We define Adjusted EBITDA as net loss excluding interest expense, depreciation and amortization, income tax provision (benefit), gain on remeasurement of contingent consideration, stock-based compensation, loss on disposal of assets, transaction costs, executive transition costs, litigation costs, strategic initiatives, real estate optimization and restructuring charges, amortization of cloud-based software implementation costs, and other expenses. We include Adjusted EBITDA in this Quarterly Report because it is an important measure upon which our management assesses, and believes investors should assess, our operating performance. We consider Adjusted EBITDA to be an important measure because it helps illustrate underlying trends in our business and our historical operating performance on a more consistent basis.

However, Adjusted EBITDA has limitations as an analytical tool, including:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash used for capital expenditures for such replacements or for new capital expenditures;
- Adjusted EBITDA does not include the dilution that results from equity-based compensation or any cash outflows included in equity-based compensation, including from our repurchases of shares of outstanding common stock; and
- Adjusted EBITDA does not reflect interest expense on our debt or the cash requirements necessary to service interest or principal payments.

A reconciliation of net loss to Adjusted EBITDA is presented below for the three months ended March 31, 2024 and 2023. We encourage investors and others to review our financial information in its entirety, not to rely on any single financial measure and to view Adjusted EBITDA in conjunction with net loss.

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
<i>(in thousands)</i>		
Net loss	\$ (21,097)	\$ (34,242)
Adjusted for:		
Interest expense, net	5,903	5,092
Depreciation and amortization	22,564	19,069
Income tax provision (benefit)	363	(4,037)
Gain on remeasurement of contingent consideration	(2,015)	(1,037)
Stock-based compensation expense	20,581	23,866
Loss on disposal of assets	74	45
Transaction costs <sup>(1)</sup>	—	86
Executive transition costs	31	160
Litigation costs <sup>(2)</sup>	537	403
Strategic initiatives <sup>(3)</sup>	751	407
Real estate optimization and restructuring charges <sup>(4)</sup>	(147)	—
Amortization of cloud-based software implementation costs <sup>(5)</sup>	11	—
Other expenses <sup>(6)</sup>	95	292
<b>Adjusted EBITDA</b>	<b>\$ 27,651</b>	<b>\$ 10,104</b>

- (1) Primarily includes capital markets advisory, consulting, accounting and legal expenses related to our acquisitions.
- (2) Litigation costs include only those costs which are considered non-recurring and outside of the ordinary course of business based on the following considerations, which we assess regularly: (i) the frequency of similar cases that have been brought to date, or are expected to be brought within two years, (ii) the complexity of the case (e.g., complex class action litigation), (iii) the nature of the remedy(ies) sought, including the size of any monetary damages sought, (iv) the counterparty involved, and (v) our overall litigation strategy. During the three months ended March 31, 2024 and 2023, litigation costs included cash expenses related to three distinct litigation matters, including (x) a securities class action litigation, (y) a privacy class action litigation and (z) a compensation model class action litigation. For a discussion of certain legal proceedings in which we are involved, please read Note 12, Commitments and Contingencies, to our unaudited consolidated financial statements in this report.
- (3) Strategic initiatives consist of expenses directly related to a multi-phase system upgrade in connection with our recent and significant expansion. During each of the three months ended March 31, 2024 and 2023, we continued a process of evaluating and adopting critical enterprise-wide systems for (i) human resources management, (ii) clinician credentialing and onboarding process, and for the three months ended March 31, 2023, (iii) a scalable electronic health resources

system. Strategic initiatives represents costs, such as third-party consulting costs and one-time costs, that are not part of our ongoing operations related to these enterprise-wide systems. We considered the frequency and scale of this multi-part enterprise upgrade when determining that the expenses were not normal, recurring operating expenses.

- (4) Real estate optimization and restructuring charges consist of cash expenses and non-cash charges related to our real estate optimization initiative, which include certain asset impairment and disposal costs, certain gains and losses related to early lease terminations, and exit and disposal costs related to our real estate optimization initiative to consolidate our physical footprint. As the decision to close these centers was part of a significant strategic project driven by a historic shift in behavior, the magnitude of center closures has been and is expected to be greater than what would be expected as part of ordinary business operations and do not constitute normal recurring operating activities. During the three months ended March 31, 2024, real estate optimization and restructuring charges consisted of certain gains and losses related to early lease terminations of previously abandoned real estate leases in 2023.
- (5) Represents amortization of capitalized implementation costs related to cloud-based software arrangements that are included within general and administrative expenses included in our unaudited consolidated statements of operations and comprehensive loss.
- (6) Primarily includes costs incurred to consummate or integrate acquired centers, certain of which are wholly-owned and certain of which are supported practices, in addition to the compensation paid to former owners of acquired centers and related expenses that are not reflective of the ongoing operating expenses of our centers. Acquired center integration and other are components of general and administrative expenses included in our unaudited consolidated statements of operations and comprehensive loss. Former owner fees is a component of center costs, excluding depreciation and amortization included in our unaudited consolidated statements of operations and comprehensive loss. These costs are summarized for each period in the table below:

	Three Months Ended March 31,	
	2024	2023
<i>(in thousands)</i>		
Acquired center integration <sup>(1)</sup>	\$ 95	\$ 109
Former owner fees <sup>(2)</sup>	—	38
Other <sup>(3)</sup>	—	145
<b>Total</b>	<b>\$ 95</b>	<b>\$ 292</b>

- (1) Represents costs incurred pre- and post-center acquisition to integrate operations, including expenses related to conversion of compensation model, legacy system costs and data migration, consulting and legal services, and overtime and temporary labor costs.
- (2) Represents short-term agreements, generally with terms of three to six months, with former owners of acquired centers, to provide transition and integration services.
- (3) Primarily includes severance expense unrelated to integration services.

## Results of Operations

The following table sets forth a summary of our financial results for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
	2024	2023
<i>(in thousands)</i>		
TOTAL REVENUE	\$ 300,437	\$ 252,589
<b>OPERATING EXPENSES</b>		
Center costs, excluding depreciation and amortization shown separately below	205,711	182,987
General and administrative expenses	88,934	84,626
Depreciation and amortization	22,564	19,069
Total operating expenses	\$ 317,209	\$ 286,682
LOSS FROM OPERATIONS	\$ (16,772)	\$ (34,093)
<b>OTHER EXPENSE</b>		
Gain on remeasurement of contingent consideration	2,015	1,037
Transaction costs	—	(86)
Interest expense, net	(5,903)	(5,092)
Other expense	(74)	(45)
Total other expense	\$ (3,962)	\$ (4,186)
LOSS BEFORE INCOME TAXES	(20,734)	(38,279)
INCOME TAX (PROVISION) BENEFIT	(363)	4,037
NET LOSS	\$ (21,097)	\$ (34,242)



## **Total Revenue**

Total revenue increased \$47.8 million, or 19%, to \$300.4 million for the three months ended March 31, 2024 from \$252.6 million for the three months ended March 31, 2023. This was primarily due to an increase of \$48.0 million of patient service revenue slightly offset by a decrease of \$0.2 million of nonpatient revenue. The increase in patient service revenue was mainly due to a net increase of 905 in total clinicians from organic hiring, resulting in an increase in patient visits of 0.2 million, or 15%. Additionally, TRPV increased year-over-year primarily driven by payor rate increases.

We anticipate revenue growth to continue to be driven by our in-house clinician recruiting and de novo strategies as well as our ability to increase patient visits at existing centers through our ability to accommodate virtual sessions in addition to our in-person visits.

## **Operating Expenses**

### *Center costs, excluding depreciation and amortization*

Center costs, excluding depreciation and amortization increased \$22.7 million, or 12%, to \$205.7 million for the three months ended March 31, 2024 from \$183.0 million for the three months ended March 31, 2023. This was primarily due to a \$22.3 million increase in center-based compensation due to the increase in the total number of clinicians from organic hiring, resulting in an overall increase in patient visits of 0.2 million. In addition, occupancy costs consisting of center rent and utilities and other center operating expenses consisting of office supplies and insurance attributed to the increase of \$0.4 million primarily due to our new centers.

We expect our center costs, excluding depreciation and amortization to continue to increase in the short- to medium-term as we strategically invest to expand our business through our in-house clinician recruiting and de novo strategies and to potentially capture more of our market opportunity.

### *General and administrative expenses*

General and administrative expenses increased \$4.3 million, or 5%, to \$88.9 million for the three months ended March 31, 2024 from \$84.6 million for the three months ended March 31, 2023. This was primarily due to an increase in salaries, wages and employee benefits of \$7.9 million, which was offset by a decrease of \$3.3 million in stock-based compensation expense primarily relating to the RSUs granted at the time of our initial public offering ("IPO") without a similar expense in 2024. The increase is partially attributable to the increase in third-party consulting costs and one-time costs associated with our strategic initiatives of \$0.4 million related to the multi-phase system upgrade in connection with our recent and significant expansion and an increase of \$0.2 million in occupancy costs. This increase was slightly offset by a decrease of \$0.9 million in other operating expenses, including professional services and legal expenses for ongoing litigation.

### *Depreciation and amortization*

Depreciation and amortization expense increased \$3.5 million to \$22.6 million for the three months ended March 31, 2024 from \$19.1 million for the three months ended March 31, 2023. This was primarily due to the amortization of intangibles and depreciation during the periods.

## **Other Expense**

### *Interest Expense, net*

Interest expense increased \$0.8 million to \$5.9 million for the three months ended March 31, 2024 from \$5.1 million for the three months ended March 31, 2023. This increase was primarily due to higher borrowings outstanding during the period.

### *Income Tax (Provision) Benefit*

Income tax provision decreased \$4.4 million to \$0.4 million for the three months ended March 31, 2024 from a \$4.0 million benefit for the three months ended March 31, 2023 primarily due to non-deductible equity awards for the three months ended March 31, 2024.

## **Liquidity and Capital Resources**

We measure liquidity in terms of our ability to fund the cash requirements of our business operations, including working capital needs, capital expenditures, including to execute on our de novo strategy, contractual obligations, debt service, acquisitions, settlement of contingent considerations obligations, and other commitments with cash flows from operations and other sources of funding. Our principal sources of liquidity to date have included cash from operating activities, cash on hand and amounts available under that certain credit agreement entered into on May 4, 2022 by the Company, LifeStance Health Holdings, Inc., Lynnwood Intermediate Holdings, Inc., Capital One, National Association, and each lender party thereto (the "2022 Credit Agreement"). We had cash and cash equivalents of \$49.5 million and \$78.8 million as of March 31, 2024 and December 31, 2023, respectively. The decrease in our cash and cash equivalents is primarily due to the disruption to our operations resulting from the attack on Change Healthcare information technology systems. In February 2024, Change Healthcare's information technology systems were taken offline, and services have not been fully restored. As a result, certain of our operations during the quarter were disrupted by Change Healthcare's inability to send our insurance claims to payors and some payors' inability to process and send payments. While we identified an alternative claim

processing clearinghouse and significant progress has been made in resuming claim submissions, this event caused delays in our claims submission to payors resulting in a lag in the related cash remittance to us during the period. It is anticipated that the delays in claims processing and cash remittance by payors will be resolved in 2024.

We believe that our existing cash and cash equivalents will be sufficient to fund our operating and capital needs for at least the next 12 months from the issuance date of our March 31, 2024 unaudited financial statements, without any additional financing. Our assessment of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties. Our actual results could vary because of, and our future capital requirements will depend on many factors, including our growth rate, the timing and extent of spending to acquire new centers and expand into new markets and the expansion of marketing activities. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies. We have based this estimate on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, or if we cannot expand our operations or otherwise capitalize on our business opportunities because we lack sufficient capital, our business, results of operations and financial condition would be adversely affected.

Our future obligations primarily consist of our debt and lease obligations. We expect our cash generation from operations and future ability to refinance or secure additional financing facilities to be sufficient to repay our outstanding debt obligations and lease payment obligations. As of March 31, 2024 and December 31, 2023, there was an aggregate principal amount of \$288.8 million and \$289.5 million outstanding under the 2022 Credit Agreement, respectively. As of March 31, 2024, our non-cancellable future minimum operating lease payments totaled \$262.4 million.

#### **Debt**

On May 4, 2022, LifeStance Health Holdings, Inc., one of our subsidiaries, entered into the 2022 Credit Agreement. The 2022 Credit Agreement establishes commitments in respect of a senior secured term loan facility of \$200.0 million (the “Term Loan Facility”), a senior secured revolving loan facility of up to \$50.0 million (the “Revolving Facility”) and a senior secured delayed draw term loan facility of up to \$100.0 million (the “Delayed Draw Term Loan Facility”).

The loans under the Term Loan Facility and the Delayed Draw Term Loan Facility bear interest at a rate per annum equal to (x) adjusted term SOFR (which adjusted term SOFR is subject to a minimum of 0.75%) plus an applicable margin of 4.50% or (y) an alternate base rate (which will be the highest of (i) the prime rate, (ii) 0.50% above the federal funds effective rate and (iii) one-month adjusted term SOFR (which adjusted term SOFR is subject to a minimum of 0.75%) plus 1.00%) plus an applicable margin of 3.50%. The loans under the Revolving Facility bear interest at a rate per annum equal to (x) adjusted term SOFR plus an applicable margin of 3.25% or (y) an alternate base rate (which will be the highest of (i) the prime rate, (ii) 0.50% above the federal funds effective rate and (iii) one-month adjusted term SOFR plus 1.00%) plus an applicable margin of 2.25%.

The 2022 Credit Agreement also contains a maximum first lien net leverage ratio financial maintenance covenant that requires the First Lien Net Leverage Ratio as of the last day of each fiscal quarter to not exceed 8.50:1.00. First Lien Net Leverage Ratio means the ratio of (a) Consolidated First Lien Secured Debt outstanding as of the last day of the test period, minus the Unrestricted Cash Amount on such last day, to (b) Consolidated EBITDA for such test period, in each case on a pro forma basis. As of March 31, 2024, we were in compliance with all financial covenants under the 2022 Credit Agreement.

#### **Cash Flows**

The following table summarizes our cash flows for the periods indicated:

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
<i>(in thousands)</i>		
Net cash used in operating activities	\$ (21,838)	\$ (7,890)
Net cash used in investing activities	(5,104)	(27,549)
Net cash used in financing activities	(2,431)	(4,888)
Net decrease in cash and cash equivalents	\$ (29,373)	\$ (40,327)
Cash and cash equivalents, beginning of period	78,824	108,621
Cash and cash equivalents, end of period	<u>\$ 49,451</u>	<u>\$ 68,294</u>

#### **Cash Flows Used In Operating Activities**

During the three months ended March 31, 2024, operating activities used \$21.8 million of cash, primarily impacted by our \$21.1 million net loss and \$51.2 million in non-cash charges. This was partially offset by changes in our operating assets and liabilities of \$51.9 million. During the three months ended March 31, 2023, operating activities used \$7.9 million of cash, primarily impacted by our \$34.2 million net loss and \$52.6 million in non-cash charges. This was partially offset by changes in our operating assets and liabilities of \$26.3 million.

#### *Cash Flows Used In Investing Activities*

During the three months ended March 31, 2024, investing activities used \$5.1 million of cash resulting from our purchases of property and equipment. During the three months ended March 31, 2023, investing activities used \$27.5 million of cash, primarily resulting from our business acquisitions of \$19.8 million and purchases of property and equipment of \$7.7 million.

#### *Cash Flows Used In Financing Activities*

During the three months ended March 31, 2024, financing activities used \$2.4 million of cash, resulting primarily from payments of loan obligations of \$0.7 million and payments of contingent consideration of \$1.7 million. During the three months ended March 31, 2023, financing activities used \$4.9 million of cash, resulting primarily from payments of loan obligations of \$0.6 million and payments of contingent consideration of \$4.3 million.

#### **Critical Accounting Estimates**

Our consolidated financial statements have been prepared in accordance with GAAP. The consolidated financial statements included elsewhere in this Quarterly Report include the results of LifeStance Health Group, Inc., its wholly-owned subsidiaries and VIEs consolidated by LifeStance Health Group, Inc. in which LifeStance Health Group, Inc. has an interest and is the primary beneficiary for the period ended March 31, 2024. Preparation of the consolidated financial statements requires our management to make judgments, estimates and assumptions that impact the reported amount of total revenue and expenses, assets and liabilities and the disclosure of contingent assets and liabilities. We consider an accounting estimate to be critical when (1) the estimate made in accordance with GAAP is complex in nature or involves a significant level of estimation uncertainty and (2) the use of different judgments, estimates and assumptions have had or are reasonably likely to have a material impact on the financial condition or results of operations in our consolidated financial statements. Actual results could differ materially from those estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected. For a description of our policies regarding our critical accounting estimates, see “Critical Accounting Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2023. There have been no significant changes in our critical accounting estimates or methodologies to our consolidated financial statements.

#### **Recently Adopted and Issued Accounting Pronouncements**

Recently issued and adopted accounting pronouncements are described in Note 2 to our unaudited consolidated financial statements.

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Market risk represents the risk of loss that may impact our financial condition due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of exposure due to potential changes in inflation or interest rates. We do not hold financial instruments for trading purposes.

##### **Interest Rate Risk**

Our primary market risk exposure is changing prime rate-based interest rates. Interest rate risk is highly sensitive due to many factors, including U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control.

As of March 31, 2024, we had an aggregate principal amount of \$288.8 million outstanding under our credit facilities. In the current economic environment, we manage interest expense using a combination of variable-rate debt and a fixed-interest-rate swap. In August 2022, we entered into a hedge transaction (interest rate swap) using a derivative financial instrument for the purpose of hedging our exposure to interest rate risks, which the contractual terms of the hedged instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. The objective of entering into the interest rate swap is to eliminate the variability of cash flows in the Secured Overnight Financing Rate interest payments associated with variable-rate loan over the life of the loan under our credit facilities.

We do not believe that an increase or decrease in interest rates of 100 basis points would have a material effect on our business, financial condition or results of operations.

##### **Inflation Risk**

Based on our analysis of the periods presented, we believe that inflation has not had a material effect on our operating results. There can be no assurance that future inflation will not have an adverse impact on our operating results and financial condition.

#### **Item 4. Controls and Procedures.**

##### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange

Act of 1934, as amended, or the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, as a result of the material weaknesses in internal control over financial reporting described below, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of March 31, 2024 due to the material weaknesses described below.

### **Previously Reported Material Weaknesses**

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. As previously reported in the Annual Report on Form 10-K for the year ended December 31, 2023, in connection with the preparation of our consolidated financial statements as of and for the year ended December 31, 2019, we identified material weaknesses in our internal control over financial reporting, which continue to exist as of March 31, 2024. The material weaknesses we identified were as follows:

We did not design and maintain an effective control environment commensurate with our financial reporting requirements due to an insufficient complement of resources in the accounting/finance and IT functions, with an appropriate level of knowledge, experience and training. This material weakness contributed to the following additional material weaknesses:

- We did not maintain formal accounting policies and procedures, and did not design and maintain effective controls related to significant accounts and disclosures to achieve complete, accurate and timely financial accounting, reporting and disclosures, including controls over account reconciliations, segregation of duties and the preparation and review of journal entries.

These material weaknesses resulted in material misstatements related to the identification and valuation of intangible assets acquired in business combinations that impacted the classification of intangible assets and goodwill, related impacts to amortization and income tax expense, and the restatement of our previously issued annual consolidated financial statements as of and for the years ended December 31, 2019 and 2018 with respect to such intangibles assets acquired in business combinations. Additionally, these material weaknesses could result in a misstatement of substantially all of the financial statement accounts and disclosures that would result in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected.

- We did not design and maintain effective controls over IT general controls for information systems that are relevant to the preparation of our consolidated financial statements. Specifically, we did not design and maintain: (i) program change management controls for financial systems to ensure that information technology program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately; (ii) user access controls to ensure appropriate segregation of duties and that adequately restrict user and privileged access to financial applications, programs, and data to appropriate Company personnel; (iii) computer operations controls to ensure that critical batch jobs are monitored and data backups are authorized and monitored; and (iv) testing and approval controls for program development to ensure that new software development is aligned with business and IT requirements.

These IT deficiencies did not result in a material misstatement to our consolidated financial statements; however, the deficiencies, when aggregated, could impact maintaining effective segregation of duties, as well as the effectiveness of IT-dependent controls (such as automated controls that address the risk of material misstatement to one or more assertions, along with the IT controls and underlying data that support the effectiveness of system-generated data and reports) that could result in misstatements potentially impacting all financial statement accounts and disclosures that would not be prevented or detected. Accordingly, we have determined these deficiencies in the aggregate constitute a material weakness.

### **Remediation Plan for Material Weaknesses**

We are in the process of designing and implementing measures designed to improve our internal control over financial reporting and remediate the control deficiencies which led to the material weaknesses. As of March 31, 2024, our remediation measures are ongoing and include the following:

- hired a new head of Internal Audit with extensive Sarbanes-Oxley Act experience;
- engaged with external consultants with healthcare and IT expertise to assist with enhancing our internal control environment design and development;
- hired additional accounting and IT personnel, including a new Senior Vice President of IT and Security, to enhance our technical reporting, transactional accounting, and IT capabilities. We designed and implemented controls to support training, development, and technical research capabilities for those personnel, along with the development and implementation of policies and procedures to support the external financial reporting functions. We continue to evaluate our staffing needs and plan to hire additional personnel as necessary to support our operations;

- performing detailed risk assessments for significant financial processes to identify, design, and implement control activities related to internal control over financial reporting;
- development and implementation of controls related to the formalization of our accounting policies and procedures and financial reporting;
- development and implementation of controls related to significant accounts and disclosures to achieve complete, accurate and timely financial accounting, reporting and disclosures, including controls over account reconciliations, segregation of duties and the preparation and review of journal entries;
- development and implementation of IT security and governance controls to address program change of internally and externally developed systems and computer operations associated with information systems impacting the preparation of our consolidated financial statements;
- development and implementation of controls related to the periodic monitoring and review of user access rights, segregation of duties conflicts, and, where it is determined there is a need for an individual to have conflicting access, a periodic review of the underlying activities is performed by an independent person who does not have such conflicting access;
- development and implementation of controls related to computer operations surrounding critical batch jobs and data backups; and
- development and implementation of program change management controls, including new or material modifications, related to testing, authorization and implementation of program and data changes affecting financial IT applications and accounting records.

We have made progress towards designing and implementing the plan to remediate the material weaknesses and will continue to review, revise, and improve the design and implementation of our internal controls as appropriate. Although we have made enhancements to our control procedures, these material weaknesses will not be considered remediated until our controls are effectively designed and operational for a sufficient period of time, tested, and management concludes that these controls are operating effectively.

We intend to evaluate current and projected resource needs on a regular basis and hire additional qualified resources as needed. Our ability to maintain qualified and adequate resources to support our business and our projected growth will be a critical component of our internal control environment.

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

We are taking actions to remediate the material weaknesses relating to our internal control over financial reporting. There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **Limitations on Effectiveness of Disclosure Controls and Procedures**

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

For a discussion of certain legal proceedings in which we are involved, please read Note 12, Commitments and Contingencies, to our unaudited consolidated financial statements in this report, which is incorporated into this item by reference.

### Item 1A. Risk Factors.

There have been no material changes to our risk factors as previously disclosed under Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023.

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

None.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

During our fiscal quarter ended March 31, 2024, none of our directors or officers (as defined in Rule 16a-1(f) under the Securities Exchange Act of 1934, as amended) entered into, modified (as to amount, price or timing of trades) or terminated (i) contracts, instructions or written plans for the purchase or sale of our securities that are intended to satisfy the conditions specified in Rule 10b5-1(c) under the Exchange Act for an affirmative defense against liability for trading in securities on the basis of material nonpublic information or (ii) non-Rule 10b5-1 trading arrangements (as defined in Item 408(c) of Regulation S-K).

**Item 6. Exhibits.**

Exhibit Number	Description	Description of Exhibit Incorporated Herein by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
31.1*	<a href="#"><u>Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>					X
31.2*	<a href="#"><u>Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>					X
32.1*	<a href="#"><u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>					X
32.2*	<a href="#"><u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>					X
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.					
101.SCH	Inline XBRL Taxonomy Extension Schema with Embedded Linkbase Document					
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)					

\* Filed herewith.

+ Indicates a management contract or compensatory plan, contract or arrangement.

**SIGNATURES**

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

LifeStance Health Group, Inc.

Date: May 9, 2024

By: \_\_\_\_\_ /s/ David Bourdon

**David Bourdon**  
*Chief Financial Officer and Treasurer*  
*(principal financial and accounting officer)*



**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kenneth Burdick, certify that:

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

Date: May 9, 2024

By: \_\_\_\_\_ /s/ Kenneth Burdick  
**Kenneth Burdick**  
Chief Executive Officer



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of LifeStance Health Group, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth Burdick, Chief Executive Officer of LifeStance Health Group, Inc., hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2024

By: \_\_\_\_\_  
/s/ Kenneth Burdick  
**Kenneth Burdick**  
*Chief Executive Officer*

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of LifeStance Health Group, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David Bourdon, Chief Financial Officer and Treasurer of LifeStance Health Group, Inc., hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2024

By: \_\_\_\_\_ /s/ David Bourdon  
**David Bourdon**  
*Chief Financial Officer and Treasurer*

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