
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from _____ to _____

Commission File Number: 001-35331

ACADIA HEALTHCARE COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

**830 Crescent Centre Drive, Suite 610
Franklin, Tennessee 37067**
(Address, including zip code, of registrant's principal executive offices)

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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 2, 2013, there were 50,455,786 shares of the registrant's common stock outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2013	December 31, 2012
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 99,775	\$ 49,399
Accounts receivable, net of allowance for doubtful accounts of \$10,998 and \$7,484, respectively	78,780	63,870
Deferred tax assets	12,573	11,380
Other current assets	21,164	16,332
Total current assets	212,292	140,981
Property and equipment, net	268,531	236,942
Goodwill	565,586	557,402
Intangible assets, net	16,247	15,988
Other assets	22,521	32,100
Total assets	<u>\$ 1,085,177</u>	<u>\$ 983,413</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 9,555	\$ 7,680
Accounts payable	20,116	19,081
Accrued salaries and benefits	23,647	28,749
Other accrued liabilities	17,452	16,341
Total current liabilities	70,770	71,851
Long-term debt	560,098	465,638
Deferred tax liabilities – noncurrent	3,822	998
Other liabilities	13,628	12,376
Total liabilities	648,318	550,863
Equity:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized; no shares issued	—	—
Common stock, \$0.01 par value; 90,000,000 shares authorized; 49,964,426 and 49,887,300 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively	500	499
Additional paid-in capital	456,798	456,228
Accumulated deficit	(20,439)	(24,177)
Total equity	436,859	432,550
Total liabilities and equity	<u>\$ 1,085,177</u>	<u>\$ 983,413</u>

See accompanying notes.

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

	Three Months Ended March 31,	
	2013	2012
	(In thousands, except per share amounts)	
Revenue before provision for doubtful accounts	\$ 165,705	\$ 91,268
Provision for doubtful accounts	(4,492)	(1,705)
Revenue	161,213	89,563
Salaries, wages and benefits (including equity-based compensation expense of \$601 and \$578, respectively)	94,351	55,143
Professional fees	9,014	4,173
Supplies	8,598	4,445
Rents and leases	2,327	2,242
Other operating expenses	16,983	8,981
Depreciation and amortization	3,622	1,610
Interest expense, net	8,762	7,282
Debt extinguishment costs	9,350	—
Transaction-related expenses	1,474	695
Total expenses	154,481	84,571
Income from continuing operations before income taxes	6,732	4,992
Provision for income taxes	2,678	1,665
Income from continuing operations	4,054	3,327
(Loss) income from discontinued operations, net of income taxes	(316)	352
Net income	\$ 3,738	\$ 3,679
Basic earnings per share:		
Income from continuing operations	\$ 0.08	\$ 0.10
(Loss) income from discontinued operations	(0.01)	0.01
Net income	\$ 0.07	\$ 0.11
Diluted earnings per share:		
Income from continuing operations	\$ 0.08	\$ 0.10
(Loss) income from discontinued operations	(0.01)	0.01
Net income	\$ 0.07	\$ 0.11
Weighted-average shares outstanding:		
Basic	49,911	32,120
Diluted	50,250	32,333

See accompanying notes.

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

	Three Months Ended March 31,	
	2013	2012
(In thousands)		
Operating activities:		
Net income	\$ 3,738	\$ 3,679
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Depreciation and amortization	3,622	1,610
Amortization of debt issuance costs	540	587
Equity-based compensation expense	601	578
Deferred income tax expense	2,455	1,546
Loss (income) from discontinued operations, net of taxes	316	(352)
Debt extinguishment costs	9,350	—
Other	15	19
Change in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(9,522)	(4,686)
Other current assets	(1,072)	(714)
Other assets	(850)	(50)
Accounts payable and other accrued liabilities	(997)	3,484
Accrued salaries and benefits	(7,491)	(1,244)
Other liabilities	(271)	960
Net cash provided by continuing operating activities	434	5,417
Net cash used in discontinued operating activities	(267)	(482)
Net cash provided by operating activities	167	4,935
Investing activities:		
Cash paid for acquisitions, net of cash acquired	(22,375)	(90,400)
Cash paid for capital expenditures	(12,764)	(3,911)
Other	(133)	88
Net cash used in investing activities	(35,272)	(94,223)
Financing activities:		
Borrowings on long-term debt	150,000	25,000
Net increase in revolving credit facility	—	7,000
Principal payments on long-term debt	(1,875)	(2,000)
Repayment of long-term debt	(52,500)	—
Payment of debt issuance costs	(4,153)	(1,048)
Payment of premium on note redemption	(6,759)	—
Proceeds from stock option exercises	133	58
Excess tax benefit from equity awards	635	—
Net cash provided by financing activities	85,481	29,010
Net increase (decrease) in cash and cash equivalents	50,376	(60,278)
Cash and cash equivalents at beginning of the period	49,399	61,118
Cash and cash equivalents at end of the period	<u>\$ 99,775</u>	<u>\$ 840</u>
Effect of acquisitions:		
Assets acquired, excluding cash	\$ 43,330	\$ 93,131
Liabilities assumed	(9,271)	(2,731)
Prior year deposits paid for acquisitions	(11,684)	—
Cash paid for acquisitions, net of cash acquired	<u>\$ 22,375</u>	<u>\$ 90,400</u>

See accompanying notes.

Acadia Healthcare Company, Inc.
Notes to Condensed Consolidated Financial Statements
March 31, 2013
(Unaudited)

1. Description of Business and Basis of Presentation

Description of Business

Acadia Healthcare Company, Inc. (the "Company") develops and operates inpatient psychiatric facilities, residential treatment centers, group homes, substance abuse facilities and facilities providing outpatient behavioral healthcare services to serve the behavioral health and recovery needs of communities throughout the United States. At March 31, 2013, the Company operated 44 behavioral healthcare facilities with approximately 3,500 licensed beds in 21 states.

Basis of Presentation

The business of the Company is conducted through limited liability companies and C-corporations, each of which is a direct or indirect wholly-owned subsidiary of the Company. The Company's consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, all of which are 100% owned. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation of our financial position and results of operations have been included. The Company's fiscal year ends on December 31 and interim results are not necessarily indicative of results for a full year or any other interim period. The condensed consolidated balance sheet at December 31, 2012 has been derived from the audited financial statements as of that date. The information contained in these condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto for the fiscal year ended December 31, 2012 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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

2. Earnings Per Share

Basic and diluted earnings per share are calculated in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 260, "Earnings Per Share," based on the weighted-average number of shares outstanding in each period and dilutive stock options, unvested shares and warrants, to the extent such securities have a dilutive effect on earnings per share.

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The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2013 and 2012 (in thousands except per share amounts):

	Three Months Ended	
	March 31,	
	2013	2012
Numerator:		
Basic and diluted earnings per share:		
Income from continuing operations	\$ 4,054	\$ 3,327
(Loss) income from discontinued operations	(316)	352
Net income	<u>\$ 3,738</u>	<u>\$ 3,679</u>
Denominator:		
Weighted average shares outstanding for basic earnings per share	49,911	32,120
Effects of dilutive instruments	339	213
Shares used in computing diluted earnings per common share	<u>50,250</u>	<u>32,333</u>
Basic earnings per share:		
Income from continuing operations	\$ 0.08	\$ 0.10
(Loss) income from discontinued operations	(0.01)	0.01
Net income	<u>\$ 0.07</u>	<u>\$ 0.11</u>
Diluted earnings per share:		
Income from continuing operations	\$ 0.08	\$ 0.10
(Loss) income from discontinued operations	(0.01)	0.01
Net income	<u>\$ 0.07</u>	<u>\$ 0.11</u>

Approximately 0.6 million and 0.4 million shares of common stock issuable upon exercise of outstanding stock option award agreements were excluded from the calculation of diluted earnings per share for the three months ended March 31, 2013 and 2012, respectively, because their effect would have been anti-dilutive.

3. Acquisitions

Delta Medical Center

On January 31, 2013, the Company completed its acquisition of DMC-Memphis, Inc. d/b/a Delta Medical Center (“Delta”), a facility with 243 licensed beds located in Memphis, Tennessee with the majority of operating beds dedicated to inpatient psychiatric patients, for cash consideration of \$23.1 million.

Greenleaf Center

On January 1, 2013, the Company completed its acquisition of the assets of Greenleaf Center (“Greenleaf”), an inpatient psychiatric facility with 50 licensed beds located in Valdosta, Georgia, for cash consideration of \$6.3 million.

2012 Acquisitions

On December 31, 2012, the Company completed the acquisition of Behavioral Centers of America, LLC (“BCA”) and AmiCare Behavioral Centers, LLC (“AmiCare”). On November 11, 2012, the Company purchased 100% of the membership interests of The Pavilion at HealthPark, LLC (“Park Royal”). On August 31, 2012, the Company completed the acquisition of the assets of Timberline Knolls, LLC (“Timberline Knolls”). On March 1, 2012, the Company completed its acquisition of three inpatient psychiatric hospitals (the “Haven Facilities”) from Haven Behavioral Healthcare Holdings, LLC.

Summary of Acquisitions

The Company selectively seeks opportunities to expand and diversify its base of operations by acquiring additional facilities. The majority of the goodwill associated with the acquisitions completed in 2013 and 2012 is deductible for federal income tax purposes. The fair values assigned to certain assets and liabilities assumed by the Company have been estimated on a preliminary basis and are subject to change as new facts and circumstances emerge. Specifically, the Company is further assessing the valuation of certain intangible assets, certain tax matters as well as certain receivables and assumed liabilities of Delta, Greenleaf, BCA, AmiCare, Park Royal and Timberline Knolls. Management expects the Company to finalize its analyses as the necessary information becomes available to complete the measurement process. Once finalized, the Company will adjust the application of the acquisition method of accounting to reflect its final valuations.

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The preliminary fair values of assets acquired and liabilities assumed during the three months ended March 31, 2013 were as follows (in thousands):

Cash	\$ 675
Accounts receivable	5,788
Prepaid expenses and other current assets	2,744
Property and equipment	25,581
Goodwill	8,838
Intangible assets	356
Other assets	23
Total assets acquired	44,005
Accounts payable	5,795
Accrued salaries and benefits	1,830
Other accrued expenses	696
Other liabilities	950
Total liabilities assumed	9,271
Net assets acquired	<u>\$34,734</u>

The following table presents the preliminary fair values of assets acquired and liabilities assumed during 2012, at the corresponding acquisition dates (except that information for the Haven Facilities reflects final fair values) (in thousands):

	BCA	AmiCare	Park Royal	Timberline Knolls	Haven Facilities	Total
Cash	\$ 5	\$ 1,596	\$ 42	\$ —	\$ 5	\$ 1,648
Accounts receivable	6,987	3,684	1,450	2,845	4,138	19,104
Prepaid expenses and other current assets	958	1,735	1,258	168	683	4,802
Property and equipment	23,561	23,150	18,291	590	12,723	78,315
Goodwill	116,729	86,163	19,320	72,125	74,555	368,892
Intangible assets	1,161	1,267	1,035	3,317	1,200	7,980
Other assets	237	—	3,141	—	—	3,378
Total assets acquired	149,638	117,595	44,537	79,045	93,304	484,119
Accounts payable	3,516	504	695	1,970	1,183	7,868
Accrued salaries and benefits	2,207	2,508	443	653	1,523	7,334
Other accrued expenses	688	525	1,079	869	127	3,288
Debt	—	—	25,600	—	—	25,600
Other liabilities	275	1,495	—	—	—	1,770
Total liabilities assumed	6,686	5,032	27,817	3,492	2,833	45,860
Net assets acquired	<u>\$ 142,952</u>	<u>\$ 112,563</u>	<u>\$ 16,720</u>	<u>\$ 75,553</u>	<u>\$ 90,471</u>	<u>\$ 438,259</u>

Other

The qualitative factors comprising the goodwill acquired in the Delta, Greenleaf, BCA, AmiCare, Park Royal, Timberline Knolls and the Haven Facilities acquisitions include efficiencies derived through synergies expected by the elimination of certain redundant corporate functions and expenses, the ability to leverage call center referrals to a broader provider base, coordination of services provided across the combined network of facilities, achievement of operating efficiencies by benchmarking performance, and applying best practices throughout the combined companies.

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Transaction-related expenses were comprised of the following costs for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Legal, accounting and other fees	\$ 1,005	\$ 689
Severance and contract termination costs	469	6
	<u>\$ 1,474</u>	<u>\$ 695</u>

Pro Forma Information

The condensed consolidated statements of operations for the three months ended March 31, 2013 included revenue of \$67.4 million and income from continuing operations before income taxes of \$6.0 million for acquisitions completed in 2013 and 2012. The condensed consolidated statements of operations for the three months ended March 31, 2012 included revenue of \$3.9 million and income from continuing operations before income taxes of \$0.7 million for acquisitions completed in 2012.

The following table provides certain pro forma financial information for the Company as if the acquisitions completed in 2013 and 2012 occurred as of January 1, 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Revenue	<u>\$ 165,106</u>	<u>\$ 146,101</u>
Income from continuing operations, before income taxes	<u>\$ 6,556</u>	<u>\$ 9,931</u>

4. Goodwill and Other Intangible Assets

The following table summarizes changes in goodwill during the three months ended March 31, 2013 (in thousands):

Balance at January 1, 2013	\$ 557,402
Increase from 2013 acquisitions	8,838
Other	(654)
Balance at March 31, 2013	<u>\$ 565,586</u>

Other identifiable intangible assets and related accumulated amortization consisted of the following as of March 31, 2013 and December 31, 2012 (in thousands):

	Gross Carrying Amount		Accumulated Amortization	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Intangible assets subject to amortization:				
Trademarks	\$ 85	\$ 85	\$ (85)	\$ (85)
Contract intangible assets	2,100	2,100	(595)	(490)
Non-compete agreements	1,247	1,247	(782)	(684)
	<u>3,432</u>	<u>3,432</u>	<u>(1,462)</u>	<u>(1,259)</u>
Intangible assets not subject to amortization:				
Licenses and accreditations	7,225	6,969	—	—
Trade names	3,000	3,000	—	—
Certificates of need	4,052	3,846	—	—
	<u>14,277</u>	<u>13,815</u>	<u>—</u>	<u>—</u>
Total	<u>\$ 17,709</u>	<u>\$ 17,247</u>	<u>\$ (1,462)</u>	<u>\$ (1,259)</u>

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In connection with the Delta acquisition, the Company acquired intangible assets with a fair value of \$0.3 million consisting of licenses and accreditations of \$0.2 million and a certificate of need of \$0.1 million.

In connection with the Haven Facilities acquisition, the Company acquired intangible assets with a fair value of \$1.2 million consisting of non-compete agreements of \$0.2 million, licenses and accreditations of \$0.8 million and a certificate of need of \$0.2 million. In connection with the Timberline Knolls acquisition, the Company acquired intangible assets with a fair value of \$3.3 million consisting of non-compete agreements of \$0.2 million, licenses and accreditations of \$0.1 million and a trade name of \$3.0 million. In connection with the Park Royal acquisition, the Company acquired intangible assets with a fair value of \$1.0 million consisting of a certificate of need of \$0.7 million and licenses and accreditations of \$0.3 million. In connection with the AmiCare acquisition, the Company acquired intangible assets with a fair value of \$1.3 million consisting of non-compete agreements of \$0.3 million, licenses and accreditations of \$0.8 million and a certificate of need of \$0.2 million. In connection with the BCA acquisition, the Company acquired intangible assets with a fair value of \$1.2 million consisting of non-compete agreements of \$0.1 million, licenses and accreditations of \$1.0 million and a certificate of need of \$0.1 million. The Company incurred and capitalized \$0.1 million in both the three months ended March 31, 2013 and 2012 related to costs to obtain certificates of need.

The non-compete agreements are being amortized on a straight-line basis over the term of the agreements. The Timberline Knolls and BCA non-compete agreements have a one-year term, and the Haven Facilities and AmiCare non-compete agreements have a three-year term. The contract intangible is amortized on a straight-line basis over the estimated five-year term of the related contract.

Amortization expense related to definite-lived intangible assets was \$0.2 million for both the three months ended March 31, 2013 and 2012. The Company's licenses and accreditations, trade names and certificate of need intangible assets have indefinite lives and are, therefore, not subject to amortization. Estimated amortization expense for the years ending December 31, 2013, 2014, 2015, 2016 and 2017 is \$0.8 million, \$0.6 million, \$0.5 million, \$0.3 million and \$0, respectively.

5. Property and Equipment

Property and equipment consists of the following as of March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013	December 31, 2012
Land	\$ 42,762	\$ 39,130
Building and improvements	198,769	171,769
Equipment	23,552	19,773
Construction in progress	19,887	19,300
	<u>284,970</u>	<u>249,972</u>
Less accumulated depreciation	(16,439)	(13,030)
Property and equipment, net	<u>\$268,531</u>	<u>\$ 236,942</u>

6. Discontinued Operations

GAAP requires that all components of an entity that have been disposed of (by sale, by abandonment or in a distribution to owners) or are held for sale and whose cash flows can be clearly distinguished from the rest of the entity be presented as discontinued operations. In June 2012, the Company disposed of its PsychSolutions facility located in Miami, Florida. The results of operations of this facility have been reported as discontinued operations in the accompanying consolidated financial statements.

A summary of results from discontinued operations is as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Revenue	\$ —	\$ 1,775
(Loss) income from discontinued operations, net of income taxes	\$ (316)	\$ 352

7. Long-Term Debt

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

	<u>March 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Amended and Restated Senior Credit Facility:		
Senior Secured Term Loans	\$298,125	\$ 300,000
Senior Secured Revolving Line of Credit	—	—
12.875% Senior Notes due 2018	96,083	147,757
6.125% Senior Notes due 2021	150,000	—
9.0% and 9.5% Revenue Bonds	25,445	25,561
	<u>569,653</u>	<u>473,318</u>
Less: current portion	<u>(9,555)</u>	<u>(7,680)</u>
Long-term debt	<u>\$560,098</u>	<u>\$ 465,638</u>

Amended and Restated Senior Credit Facility

The Company entered into the senior secured credit facility, administered by Bank of America, N.A., on April 1, 2011 (“Senior Secured Credit Facility”). The Senior Secured Credit Facility initially included \$135.0 million of term loans and a revolving line of credit of \$30.0 million.

On March 1, 2012, the Company amended the Senior Secured Credit Facility to provide an incremental \$25.0 million of term loans and increase the revolving line of credit by \$45.0 million, from \$30.0 million to \$75.0 million. The Company used the incremental term loans of \$25.0 million and a \$5.0 million borrowing under the revolving line of credit to partially fund the acquisition of the Haven Facilities on March 1, 2012.

On December 31, 2012, the Company amended and restated the Senior Secured Credit Facility (“Amended and Restated Senior Credit Facility”), to provide a revolving line of credit of \$100.0 million and term loans of \$300.0 million, which resulted in debt proceeds of \$151.1 million. The Company used \$151.1 million of the term loans partially to fund the acquisition of BCA and AmiCare on December 31, 2012. The Company did not borrow under the revolving line of credit to fund the acquisitions and, as of March 31, 2013, had \$99.6 million of availability under the revolving line of credit. Borrowings under the revolving line of credit are subject to customary conditions precedent to borrowing. The amended term loans require quarterly principal payments of \$1.9 million for March 31, 2013 to December 31, 2013, \$3.8 million for March 31, 2014 to December 31, 2014, \$5.6 million for March 31, 2015 to December 31, 2015, \$7.5 million for March 31, 2016 to December 31, 2016, and \$9.4 million for March 31, 2017 to September 30, 2017, with the remaining principal balance due on the maturity date of December 31, 2017. The Amended and Restated Senior Credit Facility also provides for a \$50.0 million incremental credit facility, subject to customary conditions precedent to borrowing.

Borrowings under the Amended and Restated Senior Credit Facility are guaranteed by each of the Company’s domestic subsidiaries (other than Park Royal) and are secured by a lien on substantially all of the assets of the Company and its domestic subsidiaries (other than Park Royal). Borrowings under the Amended and Restated Senior Credit Facility bear interest at a rate tied to the Company’s consolidated leverage ratio (defined as consolidated funded debt to consolidated EBITDA, in each case as defined in the Amended and Restated Senior Credit Facility). The Applicable Rate (as defined in the Amended and Restated Senior Credit Facility) for borrowings under the Amended and Restated Senior Credit Facility was 3.25% for Eurodollar Rate Loans (as defined in the Amended and Restated Senior Credit Facility) and 2.25% for Base Rate Loans (as defined in the Amended and Restated Senior Credit Facility), for the period from December 31, 2012 through March 31, 2013. Eurodollar Rate Loans bear interest at the Applicable Rate plus the Eurodollar Rate (as defined in the Amended and Restated Senior Credit Facility) (based upon the British Bankers Association LIBOR Rate (as defined in the Amended and Restated Senior Credit Facility) prior to commencement of the interest rate period). Base Rate Loans bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 1/2 of 1.0%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As of March 31, 2013, borrowings under the Senior Secured Credit Facility bore interest at a rate of 3.45%. In addition, the Company is required to pay a commitment fee on undrawn amounts under the revolving line of credit. The Company paid a commitment fee of 0.50% for undrawn amounts for the period from December 31, 2012 through March 31, 2013.

On March 11, 2013, the Company entered into a Consent and First Amendment (the “First Amendment”) to the Amended and Restated Senior Credit Facility. The First Amendment modified the definition of Consolidated EBITDA to permit the add-back for financial covenant purposes of certain fees and expenses related to the redemption of the Company’s 12.875% Senior Notes. In addition, the First Amendment amended the definitions of Consolidated Leverage Ratio and Consolidated Senior Leverage Ratio to permit the Company to test indebtedness on a basis net of cash or cash equivalents on hand for financial covenant purposes.

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The Amended and Restated Senior Credit Facility requires the Company and its subsidiaries to comply with customary affirmative, negative and financial covenants, including a fixed charge coverage ratio, consolidated leverage ratio and senior secured leverage ratio. The Company may be required to pay all of its indebtedness immediately if it defaults on any of the numerous financial or other restrictive covenants contained in any of its material debt agreements. As of March 31, 2013, the Company was in compliance with such covenants.

12.875% Senior Notes due 2018

On November 1, 2011, the Company issued \$150.0 million of 12.875% Senior Notes due 2018 (the "12.875% Senior Notes") at 98.323% of the aggregate principal amount of \$150.0 million, a discount of \$2.5 million. The notes bear interest at a rate of 12.875% per annum. The Company pays interest on the notes semi-annually, in arrears, on November 1 and May 1 of each year.

The indenture governing the 12.875% Senior Notes contains covenants that, among other things, limit the Company's ability to: (i) incur or guarantee additional debt or issue certain preferred stock; (ii) pay dividends on the Company's equity interests or redeem, repurchase or retire the Company's equity interests or subordinated debt; (iii) transfer or sell assets; (iv) make certain investments; (v) incur certain liens; (vi) restrict the Company's subsidiaries' ability to pay dividends or make other payments to the Company; (vii) engage in certain transactions with the Company's affiliates; and (viii) merge or consolidate with other companies or transfer all or substantially all of the Company's assets.

The 12.875% Senior Notes issued by the Company are guaranteed by each of the Company's domestic subsidiaries (other than Park Royal), all of which are wholly-owned subsidiaries. The guarantees are full and unconditional and joint and several and the Company, as the parent issuer of the 12.875% Senior Notes, has no independent assets or operations.

On March 12, 2013, the Company redeemed \$52.5 million of the 12.875% Senior Notes using a portion of the net proceeds of its December 2012 equity offering pursuant to the provision in the indenture permitting an optional redemption with equity proceeds of up to 35% of the principal amount of 12.875% Senior Notes. The 12.875% Senior Notes were redeemed at a redemption price of 112.875% of the principal amount thereof plus accrued and unpaid interest to, but not including, the redemption date in accordance with the provisions of the indenture governing the 12.875% Senior Notes. As part of the redemption of 35% of the 12.875% Senior Notes, the Company recorded a debt extinguishment charge of \$9.4 million, which was recorded in debt extinguishment costs in the condensed consolidated statements of operations.

6.125% Senior Notes due 2021

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

The indenture governing the 6.125% Senior Notes contains covenants that, among other things, limit the Company's ability and the ability of its restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of the Company's assets; and (vii) create liens on assets.

The 6.125% Senior Notes issued by the Company are guaranteed by each of the Company's domestic subsidiaries (other than Park Royal), all of which are wholly-owned subsidiaries. The guarantees are full and unconditional and joint and several and the Company, as the parent issuer of the 6.125% Senior Notes, has no independent assets or operations.

The Company may redeem the 6.125% Senior Notes at its option, in whole or part, at any time prior to March 15, 2016, at a price equal to 100% of the principal amount of the 6.125% Senior Notes redeemed, plus accrued and unpaid interest to the redemption date and plus an applicable premium. The Company may redeem the 6.125% Senior Notes, in whole or in part, on or after March 15, 2016, at the redemption prices set forth in the indenture governing the 6.125% Senior Notes plus accrued and unpaid interest to the redemption date. At any time on or before March 15, 2016, the Company may elect to redeem up to 35% of the aggregate principal amount of the 6.125% Senior Notes at a redemption price equal to 106.125% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net proceeds of one or more equity offerings.

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9.0% and 9.5% Revenue Bonds

On November 11, 2012, in connection with the acquisition of Park Royal, the Company assumed debt of \$23.0 million. The fair market value of the debt assumed was \$25.6 million and resulted in a debt premium balance being recorded as of the acquisition date. The debt consisted of \$7.5 million and \$15.5 million of Lee County (Florida) Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 with stated interest rates of 9.0% and 9.5% (“9.0% and 9.5% Revenue Bonds”), respectively. The 9.0% bonds in the amount of \$7.5 million have a maturity date of December 1, 2030 and require yearly principal payments beginning in 2013. The 9.5% bonds in the amount of \$15.5 million have a maturity date of December 1, 2040 and require yearly principal payments beginning in 2031. The principal payments establish a bond sinking fund to be held with the trustee and shall be sufficient to redeem the principal amounts of the 9.0% and 9.5% Revenue Bonds on their respective maturity dates. As of March 31, 2013 and December 31, 2012, \$2.3 million was recorded within other assets on the balance sheet related to the debt service reserve fund requirements. The yearly principal payments, which establish a bond sinking fund, will increase the debt service reserve fund balance. The bond premium amount of \$2.6 million has been amortized as a reduction of interest expense over the life of the revenue bonds using the effective interest method.

8. Equity

Preferred Stock

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

Common Stock

The Company’s amended and restated certificate of incorporation provides that up to 90,000,000 shares of common stock may be issued. Holders of the Company’s common stock are entitled to one vote for each share held of record on all matters on which stockholders may vote. There are no preemptive, conversion, redemption or sinking fund provisions applicable to shares of the Company’s common stock. In the event of liquidation, dissolution or winding up, holders of the Company’s common stock are entitled to share ratably in the assets available for distribution, subject to any prior rights of any holders of preferred stock then outstanding. Delaware law prohibits the Company from paying any dividends unless it has capital surplus or net profits available for this purpose. In addition, the Amended and Restated Senior Credit Facility imposes restrictions on the Company’s ability to pay dividends.

Equity Offerings

On December 12, 2012, the Company completed the offering of 7,000,000 shares of common stock and on December 24, 2012, the Company completed the offering of 1,050,000 shares of common stock pursuant to the exercise of the over-allotment option that the Company granted to the underwriters as part of the offering at a price of \$22.50 per share. The net proceeds to the Company from the sale of the shares, after deducting the underwriting discount of \$7.3 million and additional offering-related expenses of \$1.0 million, were \$172.8 million. The Company used the net proceeds partially to fund the acquisitions of AmiCare and BCA on December 31, 2012 and to redeem \$52.5 million of the Company’s 12.875% Senior Notes.

On May 21, 2012, the Company completed the offering of 9,487,500 shares of common stock (including shares sold pursuant to the exercise of the over-allotment option that the Company granted to the underwriters as part of the offering) at a price of \$15.50 per share. The net proceeds to the Company from the sale of the shares, after deducting the underwriting discount of \$7.4 million and additional offering-related expenses of \$0.7 million, were \$139.0 million. The Company used the net offering proceeds to fund the acquisition of Timberline Knolls and acquisitions of certain facilities previously leased.

9. Equity-Based Compensation

The Company issues stock-based awards, including stock options, restricted stock and restricted stock units, to certain officers, employees and non-employee directors under the Acadia Healthcare Company, Inc. 2011 Incentive Compensation Plan (the “Equity Incentive Plan”). As of March 31, 2013, a maximum of 2,700,000 shares of the Company’s common stock were authorized for issuance as stock options, restricted stock and restricted stock units or other share-based compensation under the Equity Incentive Plan. Stock options may be granted for terms of up to ten years. The Company recognizes expense on all share-based awards on a straight-line basis over the requisite service period of the entire award. Grants to employees generally vest in annual increments of 25% each year, commencing one year after the date of grant. The exercise prices of stock options are equal to the most recent closing price of the Company’s common stock on the date of grant.

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The Company granted options to purchase 356,400 shares of Company common stock, 205,300 shares of restricted stock and 50,000 restricted stock units to employees and non-employee directors during the three months ended March 31, 2013. The Company granted options to purchase 331,535 shares of Company common stock, 198,424 shares of restricted stock and 68,628 restricted stock units to employees and non-employee directors during the three months ended March 31, 2012. The Company recognized \$0.6 million in equity-based compensation expense for both the three months ended March 31, 2013 and 2012. As of March 31, 2013, there was \$15.5 million of unrecognized compensation expense related to unvested options, restricted stock and restricted stock units, which is expected to be recognized over the remaining weighted average vesting period of 1.75 years. The total intrinsic value of options exercised during the three months ended March 31, 2013 was \$0.4 million. As of March 31, 2013, there were 12,750 warrants outstanding and exercisable with a weighted average exercise price of \$14.00. The weighted average grant date fair value of unvested restricted stock awards as of March 31, 2013 was \$21.48. The Company recognized a deferred income tax benefit of \$0.6 million for the three months ended March 31, 2013 related to the equity-based compensation expense, and the actual tax benefit realized from stock options exercised during the three months ended March 31, 2013 was \$0.2 million. No tax benefits were recognized or realized during the three months ended March 31, 2012.

Stock option activity during 2012 and 2013 was as follows (aggregate intrinsic value in thousands):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2012	346,821	\$ 7.74	4.50	\$ 947
Options granted	429,498	16.36	9.22	2,960
Options exercised	(124,194)	8.01	N/A	N/A
Options cancelled	(97,028)	14.70	N/A	N/A
Options outstanding at December 31, 2012	<u>555,097</u>	<u>13.13</u>	<u>7.53</u>	<u>5,632</u>
Options exercisable at December 31, 2012	164,062	\$ 6.63	3.59	\$ 2,707
Options outstanding at December 31, 2012	<u>555,097</u>	<u>13.13</u>	<u>7.53</u>	<u>5,632</u>
Options granted	356,400	29.22	9.99	61
Options exercised	(21,375)	7.95	N/A	348
Options cancelled	(6,750)	15.60	N/A	N/A
Options outstanding at March 31, 2013	<u>883,372</u>	<u>19.74</u>	<u>8.57</u>	<u>8,528</u>
Options exercisable at March 31, 2013	<u>204,821</u>	<u>\$ 11.90</u>	<u>5.36</u>	<u>\$ 4,065</u>

Restricted stock activity during 2012 and 2013 was as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value
Unvested at January 1, 2012	138,321	\$ 9.40
Granted	318,170	13.04
Cancelled	(42,107)	14.25
Vested	(96,321)	9.40
Unvested at December 31, 2012	<u>318,063</u>	<u>\$ 15.73</u>
Granted	205,300	29.09
Cancelled	(6,000)	16.17
Vested	(40,385)	15.73
Unvested at March 31, 2013	<u>476,978</u>	<u>\$ 21.48</u>

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The grant-date fair value of the Company's stock options is estimated using the Black-Scholes option pricing model. The following table summarizes the grant-date fair value of options and the assumptions used to develop the fair value estimates for options granted during the three months ended March 31, 2013 and year ended December 31, 2012:

	<u>March 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Weighted average grant-date fair value of options	\$ 8.51	\$ 6.93
Risk-free interest rate	1.1%	1.2%
Expected volatility	41%	42%
Expected life (in years)	5.9	6.3

The Company's estimate of expected volatility for stock options is based upon the volatility of guideline companies given the lack of sufficient historical trading experience of the Company's common stock. The risk-free interest rate is the approximate yield on United States Treasury Strips having a life equal to the expected option life on the date of grant. The expected life is an estimate of the number of years an option will be held before it is exercised.

10. Income Taxes

The provision for income taxes for continuing operations for the three months ended March 31, 2013 and 2012 reflects effective tax rates of 39.8% and 33.4%, respectively. The increase in rate in 2013 was primarily attributable to a change in the federal statutory rate recorded during 2012 as well as changes in state tax rates associated with the Company's expansions and acquisitions.

11. Fair Value Measurements

The carrying amounts reported for cash and cash equivalents, accounts receivable, other current assets, accounts payable and other current liabilities approximate fair value because of the short-term maturity of these instruments.

The carrying amounts and fair values of the Company's Amended and Restated Senior Credit Facility, 12.875% Senior Notes, 6.125% Senior Notes, 9.0% and 9.5% Revenue Bonds and contingent consideration liability as of March 31, 2013 and December 31, 2012 were as follows (in thousands):

	<u>Carrying Amount</u>		<u>Fair Value</u>	
	<u>March 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>March 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Amended and Restated Senior Credit Facility	\$298,125	\$ 300,000	\$298,125	\$ 300,000
12.875% Senior Notes due 2018	\$ 96,083	\$ 147,757	\$ 119,438	\$ 181,500
6.125% Senior Notes due 2021	\$150,000	\$ —	\$154,875	\$ —
9.0% and 9.5% Revenue Bonds	\$ 25,445	\$ 25,561	\$ 25,445	\$ 25,561
Contingent consideration liability	\$ 6,120	\$ 6,120	\$ 6,120	\$ 6,120

The Company's Amended and Restated Senior Credit Facility, 12.875% Senior Notes, 6.125% Senior Notes and 9.0% and 9.5% Revenue Bonds were categorized as Level 2 in the GAAP fair value hierarchy. Fair values were based on trading activity among the Company's lenders and the average bid and ask price as determined using published rates.

The fair value of the contingent consideration liability at March 31, 2013 was categorized as Level 3 in the GAAP fair value hierarchy. The contingent consideration liability was valued using a probability-weighted discounted cash flow method. This analysis reflected the contractual terms of the purchase agreements and utilized assumptions with regard to future earnings, probabilities of achieving such future earnings and a discount rate. Significant increases with respect to assumptions as to future earnings and probabilities of achieving such future earnings would result in higher fair value measurement while an increase in the discount rate would result in a lower fair value measurement. During the three months ended March 31, 2013, there were no changes to the assumptions used to value the contingent consideration liability.

12. Commitments and Contingencies

The Company is, from time to time, subject to various claims and legal actions that arise in the ordinary course of the Company's business, including claims for damages for personal injuries, medical malpractice, breach of contract, tort and employment related claims. In these actions, plaintiffs request a variety of damages, including, in some instances, punitive and other types of damages that may not be covered by insurance. In the opinion of management, the Company is not currently a party to any proceeding that would individually or in the aggregate have a material adverse effect on the Company's business, financial condition or results of operations.

13. Subsequent Events

On May 1, 2013, the Company completed the purchase of the stock of Ten Broeck Tampa, Inc. ("TBT") and Capestrano Investment Company, Inc. ("CIC") for \$91.8 million in cash plus construction costs for a facility under construction in Tampa, Florida. CIC, and its subsidiaries, own and operate Capestrano Hospital in San Juan, Puerto Rico, which is licensed for 108 beds and has a certificate of need for 100 additional beds. TBT is developing a 75-bed inpatient behavioral healthcare hospital in Tampa, Florida, which is scheduled to open in the third quarter of 2013.

14. Financial Information for the Company and Its Subsidiaries

The Company conducts substantially all of its business through its subsidiaries. Presented below is consolidating financial information for the Company and its subsidiaries as of March 31, 2013 and December 31, 2012, and for the three months ended March 31, 2013 and 2012. The information segregates the parent company (Acadia Healthcare Company, Inc.), the combined wholly-owned subsidiary guarantors, the non-guarantor subsidiary and eliminations. All of the subsidiary guarantees are full and unconditional and joint and several.

Acadia Healthcare Company, Inc.
Condensed Consolidating Balance Sheets
March 31, 2013
(In thousands)

	<u>Parent</u>	<u>Combined Subsidiary Guarantors</u>	<u>Non- Guarantor</u>	<u>Consolidating Adjustments</u>	<u>Total Consolidated Amounts</u>
Current assets:					
Cash and cash equivalents	\$ —	\$ 99,775	\$ —	\$ —	\$ 99,775
Accounts receivable, net	—	76,119	2,661	—	78,780
Deferred tax assets	—	12,495	78	—	12,573
Other current assets	—	20,982	182	—	21,164
Total current assets	—	209,371	2,921	—	212,292
Property and equipment, net	—	250,489	18,042	—	268,531
Goodwill	—	546,266	19,320	—	565,586
Intangible assets, net	—	15,212	1,035	—	16,247
Investment in subsidiaries	970,606	—	—	(970,606)	—
Other assets	15,294	4,906	2,321	—	22,521
Total assets	<u>\$985,900</u>	<u>\$1,026,244</u>	<u>\$ 43,639</u>	<u>\$ (970,606)</u>	<u>\$1,085,177</u>
Current liabilities:					
Current portion of long-term debt	\$ 9,375	\$ —	\$ 180	\$ —	\$ 9,555
Accounts payable	—	19,411	705	—	20,116
Accrued salaries and benefits	—	23,190	457	—	23,647
Other accrued liabilities	6,529	10,116	807	—	17,452
Total current liabilities	15,904	52,717	2,149	—	70,770
Long-term debt	534,833	—	25,265	—	560,098
Deferred tax liabilities – noncurrent	(1,696)	7,128	(1,610)	—	3,822
Other liabilities	—	13,628	—	—	13,628
Total liabilities	<u>549,041</u>	<u>73,473</u>	<u>25,804</u>	<u>—</u>	<u>648,318</u>
Total equity	<u>436,859</u>	<u>952,771</u>	<u>17,835</u>	<u>(970,606)</u>	<u>436,859</u>
Total liabilities and equity	<u>\$985,900</u>	<u>\$1,026,244</u>	<u>\$ 43,639</u>	<u>\$ (970,606)</u>	<u>\$1,085,177</u>

Acadia Healthcare Company, Inc.
Condensed Consolidating Balance Sheets
December 31, 2012
(In thousands)

	<u>Parent</u>	<u>Combined Subsidiary Guarantors</u>	<u>Non- Guarantor</u>	<u>Consolidating Adjustments</u>	<u>Total Consolidated Amounts</u>
Current assets:					
Cash and cash equivalents	\$ —	\$ 49,307	\$ 92	\$ —	\$ 49,399
Accounts receivable, net	—	61,359	2,511	—	63,870
Deferred tax assets	—	11,323	57	—	11,380
Other current assets	—	16,074	258	—	16,332
Total current assets	—	138,063	2,918	—	140,981
Property and equipment, net	—	218,716	18,226	—	236,942
Goodwill	—	537,296	20,106	—	557,402
Intangible assets, net	—	14,953	1,035	—	15,988
Investment in subsidiaries	868,165	—	—	(868,165)	—
Other assets	13,562	16,217	2,321	—	32,100
Total assets	<u>\$881,727</u>	<u>\$925,245</u>	<u>\$ 44,606</u>	<u>\$ (868,165)</u>	<u>\$ 983,413</u>
Current liabilities:					
Current portion of long-term debt	\$ 7,500	\$ —	\$ 180	\$ —	\$ 7,680
Accounts payable	—	18,048	1,033	—	19,081
Accrued salaries and benefits	—	28,285	464	—	28,749
Other accrued liabilities	3,259	12,853	229	—	16,341
Total current liabilities	10,759	59,186	1,906	—	71,851
Long-term debt	440,257	—	25,381	—	465,638
Deferred tax liabilities – noncurrent	(1,839)	3,793	(956)	—	998
Other liabilities	—	12,376	—	—	12,376
Total liabilities	<u>449,177</u>	<u>75,355</u>	<u>26,331</u>	<u>—</u>	<u>550,863</u>
Total equity	<u>432,550</u>	<u>849,890</u>	<u>18,275</u>	<u>(868,165)</u>	<u>432,550</u>
Total liabilities and equity	<u>\$881,727</u>	<u>\$925,245</u>	<u>\$ 44,606</u>	<u>\$ (868,165)</u>	<u>\$ 983,413</u>

Acadia Healthcare Company, Inc.
Condensed Consolidating Statement of Operations
Three Months Ended March 31, 2013
(In thousands)

	<u>Parent</u>	<u>Combined Subsidiary Guarantors</u>	<u>Non- Guarantor</u>	<u>Consolidating Adjustments</u>	<u>Total Consolidated Amounts</u>
Revenue before provision for doubtful accounts	\$ —	\$ 162,006	\$ 3,699	\$ —	\$ 165,705
Provision for doubtful accounts	—	(4,350)	(142)	—	(4,492)
Revenue	—	157,656	3,557	—	161,213
Salaries, wages and benefits	601	91,984	1,766	—	94,351
Professional fees	—	8,707	307	—	9,014
Supplies	—	8,409	189	—	8,598
Rents and leases	—	2,271	56	—	2,327
Other operating expenses	—	15,877	1,106	—	16,983
Depreciation and amortization	—	3,426	196	—	3,622
Interest expense, net	8,340	—	422	—	8,762
Debt extinguishment costs	9,350	—	—	—	9,350
Transaction-related expenses	—	1,474	—	—	1,474
Total expenses	18,291	132,148	4,042	—	154,481
(Loss) income from continuing operations before income taxes	(18,291)	25,508	(485)	—	6,732
Equity in earnings of subsidiaries	14,753	—	—	(14,753)	—
(Benefit from) provision for income taxes	(7,276)	10,147	(193)	—	2,678
Income (loss) from continuing operations	3,738	15,361	(292)	(14,753)	4,054
Loss from discontinued operations, net of income taxes	—	(316)	—	—	(316)
Net income (loss)	<u>\$ 3,738</u>	<u>\$ 15,045</u>	<u>\$ (292)</u>	<u>\$ (14,753)</u>	<u>\$ 3,738</u>

Acadia Healthcare Company, Inc.
Condensed Consolidating Statement of Operations
Three Months Ended March 31, 2012
(In thousands)

	<u>Parent</u>	<u>Combined Subsidiary Guarantors</u>	<u>Non- Guarantor</u>	<u>Consolidating Adjustments</u>	<u>Total Consolidated Amounts</u>
Revenue before provision for doubtful accounts	\$ —	\$ 91,268	\$ —	\$ —	\$ 91,268
Provision for doubtful accounts	—	(1,705)	—	—	(1,705)
Revenue	—	89,563	—	—	89,563
Salaries, wages and benefits	578	54,565	—	—	55,143
Professional fees	—	4,173	—	—	4,173
Supplies	—	4,445	—	—	4,445
Rents and leases	—	2,242	—	—	2,242
Other operating expenses	—	8,981	—	—	8,981
Depreciation and amortization	—	1,610	—	—	1,610
Interest expense, net	7,282	—	—	—	7,282
Transaction-related expenses	—	695	—	—	695
Total expenses	7,860	76,711	—	—	84,571
(Loss) income from continuing operations before income taxes	(7,860)	12,852	—	—	4,992
Equity in earnings of subsidiaries	8,918	—	—	(8,918)	—
(Benefit from) provision for income taxes	(2,621)	4,286	—	—	1,665
Income (loss) from continuing operations	3,679	8,566	—	(8,918)	3,327
Income from discontinued operations, net of income taxes	—	352	—	—	352
Net income (loss)	<u>\$ 3,679</u>	<u>\$ 8,918</u>	<u>\$ —</u>	<u>\$ (8,918)</u>	<u>\$ 3,679</u>

Acadia Healthcare Company, Inc.
Condensed Consolidating Statement of Cash Flows
Three Months Ended March 31, 2013
(In thousands)

	<u>Parent</u>	<u>Combined Subsidiary Guarantors</u>	<u>Non- Guarantor</u>	<u>Consolidating Adjustments</u>	<u>Total Consolidated Amounts</u>
Operating activities:					
Net income (loss)	\$ 3,738	\$ 15,045	\$ (292)	\$ (14,753)	\$ 3,738
Adjustments to reconcile net income (loss) to net cash provided by (used in) continuing operating activities:					
Depreciation and amortization	—	3,426	196	—	3,622
Amortization of debt issuance costs	540	—	—	—	540
Equity-based compensation expense	601	—	—	—	601
Deferred income tax expense	143	2,201	111	—	2,455
Loss from discontinued operations, net of taxes	—	316	—	—	316
Debt extinguishment costs	9,350	—	—	—	9,350
Other	—	15	—	—	15
Change in operating assets and liabilities, net of effect of acquisitions:					
Equity in earnings of subsidiaries	14,753	—	—	(14,753)	—
Accounts receivable	—	(9,373)	(149)	—	(9,522)
Other current assets	—	(1,148)	76	—	(1,072)
Other assets	—	(850)	—	—	(850)
Accounts payable and other accrued liabilities	—	(1,248)	251	—	(997)
Accrued salaries and benefits	—	(7,483)	(8)	—	(7,491)
Other liabilities	—	(271)	—	—	(271)
Net cash provided by (used in) continuing operating activities	29,125	630	185	(29,506)	434
Net cash used in discontinued operating activities	—	(267)	—	—	(267)
Net cash provided by (used in) operating activities	29,125	363	185	(29,506)	167
Investing activities:					
Cash paid for acquisitions, net of cash acquired	—	(22,375)	—	—	(22,375)
Cash paid for capital expenditures	—	(12,776)	12	—	(12,764)
Other	—	(133)	—	—	(133)
Net cash (used in) provided by investing activities	—	(35,284)	12	—	(35,272)
Financing activities:					
Borrowings on long-term debt	150,000	—	—	—	150,000
Principal payments on long-term debt	(1,875)	—	—	—	(1,875)
Repayment of long-term debt	(52,500)	—	—	—	(52,500)
Payment of debt issuance costs	(4,153)	—	—	—	(4,153)
Payment of premium on note redemption	(6,759)	—	—	—	(6,759)
Proceeds from stock option exercises	133	—	—	—	133
Excess tax benefit from equity awards	635	—	—	—	635
Cash (used in) provided by intercompany activity	(114,606)	85,389	(289)	29,506	—
Net cash (used in) provided by financing activities	(29,125)	85,389	(289)	29,506	85,481
Net increase (decrease) in cash and cash equivalents	—	50,468	(92)	—	50,376
Cash and cash equivalents at beginning of the period	—	49,307	92	—	49,399
Cash and cash equivalents at end of the period	<u>\$ —</u>	<u>\$ 99,775</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 99,775</u>

Acadia Healthcare Company, Inc.
Condensed Consolidating Statement of Cash Flows
Three Months Ended March 31, 2012
(In thousands)

	<u>Parent</u>	<u>Combined Subsidiary Guarantors</u>	<u>Non- Guarantor</u>	<u>Consolidating Adjustments</u>	<u>Total Consolidated Amounts</u>
Operating activities:					
Net income (loss)	\$ 3,679	\$ 8,918	\$ —	\$ (8,918)	\$ 3,679
Adjustments to reconcile net income (loss) to net cash provided by (used in) continuing operating activities:					
Depreciation and amortization	—	1,610	—	—	1,610
Amortization of debt issuance costs	587	—	—	—	587
Equity-based compensation expense	578	—	—	—	578
Deferred income tax expense	(130)	1,676	—	—	1,546
Loss from discontinued operations, net of taxes	—	(352)	—	—	(352)
Other	—	19	—	—	19
Change in operating assets and liabilities, net of effect of acquisitions:					
Equity in earnings of subsidiaries	8,918	—	—	(8,918)	—
Accounts receivable	—	(4,686)	—	—	(4,686)
Other current assets	—	(714)	—	—	(714)
Other assets	—	(50)	—	—	(50)
Accounts payable and other accrued liabilities	—	3,484	—	—	3,484
Accrued salaries and benefits	—	(1,244)	—	—	(1,244)
Other liabilities	—	960	—	—	960
Net cash provided by (used in) continuing operating activities	13,632	9,621	—	(17,836)	5,417
Net cash used in discontinued operating activities	—	(482)	—	—	(482)
Net cash provided by (used in) operating activities	13,632	9,139	—	(17,836)	4,935
Investing activities:					
Cash paid for acquisitions, net of cash acquired	—	(90,400)	—	—	(90,400)
Cash paid for capital expenditures	—	(3,911)	—	—	(3,911)
Other	—	88	—	—	88
Net cash used in investing activities	—	(94,223)	—	—	(94,223)
Financing activities:					
Borrowings on long-term debt	25,000	—	—	—	25,000
Net increase in revolving credit facility	7,000	—	—	—	7,000
Principal payments on long-term debt	(2,000)	—	—	—	(2,000)
Payment of debt issuance costs	(1,048)	—	—	—	(1,048)
Proceeds from stock option exercises	58	—	—	—	58
Cash (used in) provided by intercompany activity	(42,642)	24,806	—	17,836	—
Net cash provided by financing activities	(13,632)	24,806	—	17,836	29,010
Net decrease in cash and cash equivalents	—	(60,278)	—	—	(60,278)
Cash and cash equivalents at beginning of the period	—	61,118	—	—	61,118
Cash and cash equivalents at end of the period	\$ —	\$ 840	\$ —	\$ —	\$ 840

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

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statements that address future results or occurrences. In some cases you can identify forward-looking statements by terminology such as “may,” “might,” “will,” “would,” “should,” “could” or the negative thereof. Generally, the words “anticipate,” “believe,” “continue,” “expect,” “intend,” “estimate,” “project,” “plan” and similar expressions identify forward-looking statements. In particular, statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance contained are forward-looking statements.

We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks, uncertainties and other factors, many of which are outside of our control, which could cause our actual results, performance or achievements to differ materially from any results, performance or achievements expressed or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to:

- negative media coverage relating to patient incidents, which could adversely affect the price of our common stock and result in incremental regulatory burdens and governmental investigations;
- the impact of payments received from the government and third-party payors on our revenues and results of operations;
- our significant indebtedness, our ability to meet our debt obligations, and ability to incur substantially more debt;
- our future cash flow and earnings;
- our restrictive covenants, which may restrict our business and financing activities;
- our ability to make payments on our financing arrangements;
- the impact of the economic and employment conditions in the United States on our business and future results of operations;
- compliance with laws and government regulations;
- the impact of claims brought against our facilities;
- the impact of governmental investigations, regulatory actions and whistleblower lawsuits;
- the impact of recent healthcare reform;
- the impact of our highly competitive industry on patient volumes;
- the impact of the trend by insurance companies and managed care organizations entering into sole source contracts;
- the impact of recruitment and retention of quality psychiatrists and other physicians on our performance;
- the impact of competition for staffing on our labor costs and profitability;
- our dependence on key management personnel, key executives and our local facility management personnel;
- our acquisition strategy, which exposes us to a variety of operational and financial risk;
- difficulties in successfully integrating the operations of acquired facilities or realizing the potential benefits and synergies of these acquisitions;
- the impact of state efforts to regulate the construction or expansion of healthcare facilities on our ability to operate and expand our operations;
- our potential inability to extend leases at expiration;
- the impact of controls designed to reduce inpatient services on our revenues;
- the impact of different interpretations of accounting principles on our results of operations or financial condition;
- the impact of environmental, health and safety laws and regulations, especially in states where we have concentrated operations;
- the impact of an increase in uninsured and underinsured patients or the deterioration in the collectability of the accounts of such patients on our results of operations;
- the risk of a cyber-security incident and any resulting violation of HIPAA, breach of privacy or other negative impact;
- the impact of legislative and regulatory initiatives relating to privacy and security of patient health information and standards for electronic transactions;
- failure to maintain effective internal control over financial reporting;
- the impact of fluctuations in our operating results, quarter to quarter earnings and other factors on the price of our common stock;
- the cessation of our status as a “controlled company”;
- the impact of our sponsor’s rights over certain company matters;
- the impact of the trend for insurance companies and managed care organizations to enter into sole source contracts on our ability to obtain patients; and
- those risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. These risks and uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. These forward-looking statements are made only as of the date of this Quarterly Report on Form 10-Q. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any such statements to reflect future events or developments.

Overview

Our business strategy is to acquire and develop inpatient behavioral healthcare facilities and improve our operating results within our inpatient facilities and our other behavioral healthcare operations. We strive to improve the operating results of our facilities by providing high quality services, expanding referral networks and marketing initiatives while meeting the increased demand for behavioral healthcare services through expansion of our current locations as well as developing new services within existing locations. At March 31, 2013, we operated 44 behavioral healthcare facilities with over 3,500 licensed beds in 21 states. During the three months ended March 31, 2013, we acquired two facilities with an aggregate of 293 licensed beds and added 65 beds to our existing facilities. We expect to add approximately 300 total beds during 2013 (exclusive of acquisitions).

We are the leading publicly traded pure-play provider of inpatient behavioral healthcare services based upon number of licensed beds in the United States. Management believes that the Company's recent acquisitions position the Company as a leading platform in a highly fragmented industry under the direction of an experienced management team that has significant industry expertise. Management expects to take advantage of several strategies that are more accessible as a result of our increased size and geographic scale, including continuing a national marketing strategy to attract new patients and referral sources, increasing our volume of out-of-state referrals, providing a broader range of services to new and existing patients and clients and selectively pursuing opportunities to expand our facility and bed count.

Acquisitions

On May 1, 2013, we completed the purchase of the stock of TBT and CIC for \$91.8 million in cash plus construction costs for a facility under construction in Tampa, Florida. CIC, and its subsidiaries, own and operate Capestrano Hospital in San Juan, Puerto Rico, which is licensed for 108 beds and has a certificate of need for 100 additional beds. TBT is developing a 75-bed inpatient behavioral healthcare hospital in Tampa, Florida, which is scheduled to open in the third quarter of 2013.

On January 31, 2013, we completed the acquisition of Delta, a facility with 243 licensed beds located in Memphis, Tennessee with the majority of operating beds dedicated to inpatient psychiatric patients, for cash consideration of \$23.1 million.

On January 1, 2013, we completed the acquisition of the assets of Greenleaf, an inpatient psychiatric facility with 50 licensed beds located in Valdosta, Georgia, for cash consideration of \$6.3 million.

On December 31, 2012, we completed the acquisition of BCA and AmiCare. On November 11, 2012, we purchased 100% of the membership interests of Park Royal. On August 31, 2012, we completed the acquisition of the assets of Timberline Knolls. On March 1, 2012, we completed the acquisition of the Haven Facilities.

Revenue

Our revenue is primarily derived from services rendered to patients for inpatient psychiatric and substance abuse care, outpatient psychiatric care and adolescent residential treatment. We receive payments from the following sources for services rendered in our facilities: (i) state governments under their respective Medicaid and other programs; (ii) commercial insurers, including managed care plans; (iii) the federal government under the Medicare program administered by the Center for Medicare and Medicaid Services; and (iv) individual patients and clients. Revenue is recorded in the period in which services are provided at established billing rates less contractual adjustments based on amounts reimbursable by Medicare or Medicaid under provisions of cost or prospective reimbursement formulas or amounts due from other third-party payors at contractually determined rates.

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The following table presents revenue by payor type and as a percentage of revenue before provision for doubtful accounts for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,			
	2013		2012	
	Amount	%	Amount	%
Self-Pay	\$ 4,381	2.7%	\$ 1,383	1.5%
Commercial	39,640	23.9%	19,286	21.1%
Medicare	34,011	20.5%	8,530	9.4%
Medicaid	84,177	50.8%	59,227	64.9%
Other	3,496	2.1%	2,842	3.1%
Revenue before provision for doubtful accounts	165,705	100.0%	91,268	100.0%
Provision for doubtful accounts	(4,492)		(1,705)	
Revenue	<u>\$161,213</u>		<u>\$89,563</u>	

The following tables present a summary of our aging of accounts receivable as of March 31, 2013 and December 31, 2012:

March 31, 2013

	<u>Current</u>	<u>30-90 Days</u>	<u>90-150 Days</u>	<u>>150 Days</u>	<u>Total</u>
Self-Pay	1.3%	2.7%	1.4%	3.3%	8.7%
Commercial	15.9%	7.1%	1.9%	2.7%	27.6%
Medicare	16.8%	3.6%	0.6%	0.8%	21.8%
Medicaid	27.3%	7.3%	2.0%	5.3%	41.9%
Total	61.3%	20.7%	5.9%	12.1%	100.0%

December 31, 2012

	<u>Current</u>	<u>30-90 Days</u>	<u>90-150 Days</u>	<u>>150 Days</u>	<u>Total</u>
Self-Pay	1.3%	2.2%	2.2%	3.5%	9.2%
Commercial	16.2%	6.5%	2.4%	3.1%	28.2%
Medicare	14.4%	2.0%	0.6%	0.9%	17.9%
Medicaid	26.6%	10.2%	3.8%	4.1%	44.7%
Total	58.5%	20.9%	9.0%	11.6%	100.0%

Results of Operations

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

	Three Months Ended March 31,			
	2013		2012	
	Amount	%	Amount	%
Revenue before provision for doubtful accounts	\$ 165,705		\$ 91,268	
Provision for doubtful accounts	(4,492)		(1,705)	
Revenue	161,213	100.0%	89,563	100.0%
Salaries, wages and benefits	94,351	58.5%	55,143	61.6%
Professional fees	9,014	5.6%	4,173	4.6%
Supplies	8,598	5.3%	4,445	5.0%
Rents and leases	2,327	1.5%	2,242	2.5%
Other operating expenses	16,983	10.5%	8,981	10.0%
Depreciation and amortization	3,622	2.3%	1,610	1.8%
Interest expense	8,762	5.4%	7,282	8.1%
Debt extinguishment costs	9,350	5.8%	—	— %
Transaction-related expenses	1,474	0.9%	695	0.8%
Total expenses	154,481	95.8%	84,571	94.4%
Income from continuing operations before income taxes	6,732	4.2%	4,992	5.6%
Provision for income taxes	2,678	1.7%	1,665	1.9%
Income from continuing operations	\$ 4,054	2.5%	\$ 3,327	3.7%

Three months ended March 31, 2013 compared to the three months ended March 31, 2012

Revenue before provision for doubtful accounts. Revenue before provision for doubtful accounts increased \$74.4 million, or 81.6%, to \$165.7 million for the three months ended March 31, 2013 from \$91.3 million for the three months ended March 31, 2012. The increase related primarily to the revenue generated during the three months ended March 31, 2013 from the Haven Facilities acquired on March 1, 2012, Timberline Knolls acquired on August 31, 2012, Park Royal acquired on November 11, 2012, BCA and AmiCare acquired on December 31, 2012, Greenleaf acquired on January 1, 2013 and Delta acquired on January 31, 2013 (collectively the “2012 and First Quarter 2013 Acquisitions”), which were not included in our results for periods prior to the acquisitions. Same-facility revenue before provision for doubtful accounts increased by \$8.5 million, or 9.4%, for the three months ended March 31, 2013 compared to the three months ended March 31, 2012, resulting from same-facility growth in patient days of 8.8%.

Provision for doubtful accounts. The provision for doubtful accounts was \$4.5 million for the three months ended March 31, 2013, or 2.7% of revenue before provision for doubtful accounts, compared to \$1.7 million for the three months ended March 31, 2012, or 1.9% of revenue before provision for doubtful accounts. The same-facility provision for doubtful accounts was \$2.3 million for the three months ended March 31, 2013, or 2.3% of revenue before provision for doubtful accounts, compared to \$1.7 million for the three months ended March 31, 2012, or 1.9% of revenue before provision for doubtful accounts. The increase related primarily to the changes in our payor mix and the provision for doubtful accounts recorded during the three months ended March 31, 2013 from the 2012 and First Quarter 2013 Acquisitions, which were not included in our results for periods prior to the acquisitions.

Salaries, wages and benefits. Salaries, wages and benefits (“SWB”) expense was \$94.4 million for the three months ended March 31, 2013 compared to \$55.1 million for the three months ended March 31, 2012, an increase of \$39.2 million. SWB expense included \$0.6 million of equity-based compensation expense for both the three months ended March 31, 2013 and 2012. Excluding equity-based compensation expense, SWB expense was \$93.8 million, or 58.2% of revenue, for the three months ended March 31, 2013, compared to \$54.6 million, or 60.9% of revenue, for the three months ended March 31, 2012. The \$39.2 million increase in SWB expense, excluding equity-based compensation expense, was primarily attributable to the hiring of additional employees in connection with the 2012 and First Quarter 2013 Acquisitions. The decrease in SWB expense, excluding equity-based compensation expense, as a percentage of revenue was primarily the result of lower SWB expense incurred by the Haven Facilities acquired on March 1, 2012, Timberline Knolls acquired on August 31, 2012 and BCA acquired on December 31, 2012. Same-facility SWB expense was \$54.3 million for the three months ended March 31, 2013, or 55.7% of revenue, compared to \$51.7 million for the three months ended March 31, 2012, or 57.8% of revenue.

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Professional fees. Professional fees were \$9.0 million for the three months ended March 31, 2013, or 5.6% of revenue, compared to \$4.2 million for the three months ended March 31, 2012, or 4.6% of revenue. The increase in professional fees as a percentage of revenue was primarily attributable to higher professional fees incurred by the facilities acquired in our 2012 and First Quarter 2013 Acquisitions, which had higher professional fees as a percentage of revenue than our existing facilities. Same-facility professional fees were \$3.5 million for the three months ended March 31, 2013, or 3.6% of revenue, compared to \$3.3 million, for the three months ended March 31, 2012, or 3.7% of revenue.

Supplies. Supplies expense was \$8.6 million for the three months ended March 31, 2013, or 5.3% of revenue, compared to \$4.4 million for the three months ended March 31, 2012, or 5.0% of revenue. The \$4.2 million increase in supplies expense was primarily attributable to the 2012 and First Quarter 2013 Acquisitions. Same-facility supplies expense was \$4.7 million for the three months ended March 31, 2013, or 4.8% of revenue, compared to \$4.4 million for the three months ended March 31, 2012, or 4.9% of revenue.

Rents and leases. Rents and leases were \$2.3 million for the three months ended March 31, 2013, or 1.5% of revenue, compared to \$2.2 million for the three months ended March 31, 2012, or 2.5% of revenue. The decrease in rents and leases as a percentage of revenue was primarily attributable to the purchase of six facilities that we previously leased during 2012. Same-facility rents and leases were \$1.4 million for the three months ended March 31, 2013, or 1.5% of revenue, compared to \$2.1 million for the three months ended March 31, 2012, or 2.4% of revenue.

Other operating expenses. Other operating expenses consisted primarily of purchased services, utilities, insurance, travel and repairs and maintenance expenses. Other operating expenses were \$17.0 million for the three months ended March 31, 2013, or 10.5% of revenue, compared to \$9.0 million for the three months ended March 31, 2012, or 10.0% of revenue. The increase in other operating expenses as a percentage of revenue was primarily attributable to higher other operating expenses incurred by the facilities acquired in our 2012 and First Quarter 2013 Acquisitions, which had higher other operating expenses as a percentage of revenue than our existing facilities. Same-facility other operating expenses were \$9.3 million for the three months ended March 31, 2013, or 9.5% of revenue, compared to \$9.0 million for the three months ended March 31, 2012, or 10.1% of revenue.

Depreciation and amortization. Depreciation and amortization expense was \$3.6 million for the three months ended March 31, 2013, or 2.3% of revenue, compared to \$1.6 million for the three months ended March 31, 2012, or 1.8% of revenue. The increase in depreciation and amortization was attributable to depreciation associated with real estate purchases of \$53.2 million during 2012 and the 2012 and First Quarter 2013 Acquisitions.

Interest expense. Interest expense was \$8.8 million for the three months ended March 31, 2013 compared to \$7.3 million for the three months ended March 31, 2012. The increase in interest expense was primarily a result of borrowings under the Amended and Restated Senior Credit Facility.

Debt extinguishment costs. Debt extinguishment costs for the three months ended March 31, 2013 represent \$6.8 million of cash charges and \$2.6 million of noncash charges recorded in connection with the redemption of \$52.5 million of the 12.875% Senior Notes on March 12, 2013.

Transaction-related expenses. Transaction-related expenses were \$1.5 million for the three months ended March 31, 2013 compared to \$0.7 million for the three months ended March 31, 2012. Transaction-related expenses represent costs incurred in the respective periods primarily related to the 2012 and First Quarter 2013 Acquisitions as summarized below (in thousands):

	Three Months Ended March 31,	
	2013	2012
Legal, accounting and other fees	\$ 1,005	\$ 689
Severance and contract termination costs	469	6
	<u>\$ 1,474</u>	<u>\$ 695</u>

Provision for income taxes. For the three months ended March 31, 2013, income tax expense from continuing operations was \$2.7 million, reflecting an effective tax rate of 39.8%, compared to \$1.7 million, reflecting an effective tax rate of 33.4%, for the same period of 2012. The increase in rate was primarily attributable to a change in the federal statutory rate recorded during 2012 as well as a change in state tax rates associated with our expansions and acquisitions.

Liquidity and Capital Resources

Cash provided by continuing operating activities for the three months ended March 31, 2013 was \$0.4 million compared to \$5.4 million for the three months ended March 31, 2012. The decrease in cash provided by continuing operating activities was

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primarily attributable to increases in accounts receivable and bonus payouts, along with \$2.5 million of interest payments that were accelerated as a result of the redemption of \$52.5 million of the 12.875% Senior Notes on March 12, 2013. The increase in accounts receivable for the three months ended March 31, 2013 was attributable to our revenue growth, the effect of billing transition for certain acquired facilities and the timing of payments for certain services in our Mississippi and Arkansas markets. Days sales outstanding as of March 31, 2013 was 44 compared to 39 as of December 31, 2012. As of March 31, 2013 and December 31, 2012, we had working capital of \$141.5 million and \$69.1 million, respectively, which included remaining unused cash proceeds from the financing transactions completed in December 2012 and March 2013.

Cash used in investing activities for the three months ended March 31, 2013 was \$35.3 million compared to \$94.2 million for the three months ended March 31, 2012. Cash used in investing activities for the three months ended March 31, 2013 primarily consisted of \$22.4 million of cash paid for acquisitions. Cash paid for capital expenditures for the three months ended March 31, 2013 was \$12.8 million, consisting of \$2.3 million of routine capital expenditures and \$10.5 million of expansion capital expenditures. We define expansion capital expenditures as those that increase the capacity of our facilities or otherwise enhance revenue. Routine or maintenance capital expenditures were 1.4% of revenue for the three months ended March 31, 2013. Cash used in investing activities for the three months ended March 31, 2012 consisted primarily of cash paid for acquisitions of \$90.4 million and cash paid for capital expenditures of \$3.9 million.

Cash provided by financing activities for the three months ended March 31, 2013 was \$85.5 million compared to \$29.0 million for the three months ended March 31, 2012. Cash provided by financing activities for the three months ended March 31, 2013 primarily consisted of long-term debt borrowings of \$150.0 million in connection with the issuance of the 6.125% Senior Notes, excess tax benefit from equity awards of \$0.6 million and proceeds from stock option exercises of \$0.1 million, partially offset by repayment of long-term debt of \$52.5 million, payment of premium on note redemption of \$6.8 million, payment of debt issuance costs of \$4.2 million and principal payments on long-term debt of \$1.9 million. Cash provided by financing activities for the three months ended March 31, 2012 primarily consisted of borrowings on long-term debt of \$25.0 million, an increase in borrowings under our revolving credit facility of \$7.0 million, and proceeds from stock option exercises of \$0.1 million, partially offset by principal payments on long-term debt of \$2.0 million and payment of debt issuance costs of \$1.0 million.

Amended and Restated Senior Credit Facility

The Company entered into the Senior Secured Credit Facility, administered by Bank of America, N.A., on April 1, 2011. The Senior Secured Credit Facility initially included \$135.0 million of term loans and a revolving line of credit of \$30.0 million.

On March 1, 2012, the Company amended the Senior Secured Credit Facility to provide an incremental \$25.0 million of term loans and increase the revolving line of credit by \$45.0 million, from \$30.0 million to \$75.0 million. The Company used the incremental term loans of \$25.0 million and a \$5.0 million borrowing under the revolving line of credit to partially fund the acquisition of the Haven Facilities on March 1, 2012.

On December 31, 2012, the Company amended and restated the Senior Secured Credit Facility to provide a revolving line of credit of \$100.0 million and term loans of \$300.0 million, which resulted in debt proceeds of \$151.1 million. The Company used \$151.1 million of the term loans partially to fund the acquisition of BCA and AmiCare on December 31, 2012. The Company did not borrow under the revolving line of credit to fund the acquisitions and, as of March 31, 2013, had \$99.6 million of availability under the revolving line of credit. Borrowings under the revolving line of credit are subject to customary conditions precedent to borrowing. The amended term loans require quarterly principal payments of \$1.9 million for March 31, 2013 to December 31, 2013, \$3.8 million for March 31, 2014 to December 31, 2014, \$5.6 million for March 31, 2015 to December 31, 2015, \$7.5 million for March 31, 2016 to December 31, 2016, and \$9.4 million for March 31, 2017 to September 30, 2017, with the remaining principal balance due on the maturity date of December 31, 2017. The Amended and Restated Senior Credit Facility also provides for a \$50.0 million incremental credit facility, subject to customary conditions precedent to borrowing.

Borrowings under the Amended and Restated Senior Credit Facility are guaranteed by each of the Company's domestic subsidiaries (other than Park Royal) and are secured by a lien on substantially all of the assets of the Company and its domestic subsidiaries (other than Park Royal). Borrowings under the Amended and Restated Senior Credit Facility bear interest at a rate tied to the Company's consolidated leverage ratio (defined as consolidated funded debt to consolidated EBITDA, in each case as defined in the Amended and Restated Senior Credit Facility). The Applicable Rate (as defined in the Amended and Restated Senior Credit Facility) for borrowings under the Amended and Restated Senior Credit Facility was 3.25% for Eurodollar Rate Loans (as defined in the Amended and Restated Senior Credit Facility) and 2.25% for Base Rate Loans (as defined in the Amended and Restated Senior Credit Facility), for the period from December 31, 2012 through March 31, 2013. Eurodollar Rate Loans bear interest at the Applicable Rate plus the Eurodollar Rate (as defined in the Amended and Restated Senior Credit Facility) (based upon the British Bankers Association LIBOR Rate (as defined in the Amended and Restated Senior Credit Facility) prior to commencement of the interest rate period). Base Rate Loans bear interest at the Applicable Rate plus the highest of (i) the federal funds rate plus 1/2 of 1.0%, (ii) the prime rate and (iii) the Eurodollar Rate plus 1.0%. As of March 31, 2013, borrowings under the Senior Secured Credit

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Facility bore interest at a rate of 3.45%. In addition, the Company is required to pay a commitment fee on undrawn amounts under the revolving line of credit. The Company paid a commitment fee of 0.50% for undrawn amounts for the period from December 31, 2012 through March 31, 2013.

On March 11, 2013, the Company entered into a Consent and First Amendment to the Amended and Restated Senior Credit Facility. The First Amendment modified the definition of Consolidated EBITDA to permit the add-back for financial covenant purposes of certain fees and expenses related to the redemption of the Company's 12.875% Senior Notes. In addition, the First Amendment amended the definitions of Consolidated Leverage Ratio and Consolidated Senior Leverage Ratio to permit the Company to test indebtedness on a basis net of cash or cash equivalents on hand for financial covenant purposes.

The interest rates and the commitment fee on unused commitments related to the Amended and Restated Senior Credit Facility are based upon the following pricing tiers:

Pricing Tier	Consolidated Leverage Ratio	Eurodollar Rate Loans	Base Rate Loans	Commitment Fee
1	<3.5:1.0	2.75%	1.75%	0.40%
2	³ 3.5:1.0 but <4.0:1.0	3.00%	2.00%	0.45%
3	³ 4.0:1.0 but <4.5:1.0	3.25%	2.25%	0.50%
4	³ 4.50:1.0	3.50%	2.50%	0.50%

The Amended and Restated Senior Credit Facility requires the Company and its subsidiaries to comply with customary affirmative, negative and financial covenants. A breach of any of the restrictions or covenants in our debt agreements could cause a cross-default under other debt agreements. We may be required to pay all of our indebtedness immediately if we default on any of the numerous financial or other restrictive covenants contained in any of our material debt agreements. Set forth below is a brief description of such covenants, all of which are subject to customary exceptions, materiality thresholds and qualifications:

- a) the affirmative covenants include the following: (i) delivery of financial statements and other customary financial information; (ii) notices of events of default and other material events; (iii) maintenance of existence, ability to conduct business, properties, insurance and books and records; (iv) payment of taxes; (v) lender inspection rights; (vi) compliance with laws; (vii) use of proceeds; (viii) further assurances; and (ix) additional collateral and guarantor requirements.
- b) the negative covenants include limitations on the following: (i) liens; (ii) debt (including guaranties); (iii) investments; (iv) fundamental changes (including mergers, consolidations and liquidations); (v) dispositions; (vi) sale leasebacks; (vii) affiliate transactions and the payment of management fees; (viii) burdensome agreements; (ix) restricted payments; (x) use of proceeds; (xi) ownership of subsidiaries; (xii) changes to line of business; (xiii) changes to organizational documents, legal name, state of formation, form of entity and fiscal year; (xiv) capital expenditures (not to exceed 10.0% of total revenues of the Company and its subsidiaries); (xv) prepayment or redemption of certain senior unsecured debt; and (xvi) amendments to certain material agreements. The Company is generally not permitted to issue dividends or distributions other than with respect to the following: (w) certain tax distributions; (x) the repurchase of equity held by employees, officers or directors upon the occurrence of death, disability or termination subject to cap of \$500,000 in any fiscal year and compliance with certain other conditions; (y) in the form of capital stock; and (z) scheduled payments of deferred purchase price, working capital adjustments and similar payments pursuant to the merger agreement or any permitted acquisition.
- c) The financial covenants include maintenance of the following:
 - the fixed charge coverage ratio may not be less than 1.25:1.00 as of the end of any fiscal quarter, commencing with the fiscal quarter ending March 31, 2013;
 - the consolidated leverage ratio may not be greater than the amount set forth below as of the date opposite such ratio:

<u>Fiscal Quarter Ending</u>	<u>Maximum Consolidated Leverage Ratio</u>
March 31, 2013	5.25:1.0
June 30, 2013	5.25:1.0
September 30, 2013	5.25:1.0
December 31, 2013	5.00:1.0
March 31, 2014	4.75:1.0
June 30, 2014	4.75:1.0

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<u>Fiscal Quarter Ending</u>	<u>Maximum Consolidated Leverage Ratio</u>
September 30, 2014	4.75:1.0
December 31, 2014	4.50:1.0
March 31, 2015	4.50:1.0
June 30, 2015	4.50:1.0
September 30, 2015	4.50:1.0
December 31, 2015 and each fiscal quarter ending thereafter	4.00:1.0

- The consolidated senior secured leverage ratio may not be greater than the amount set forth below as of the date opposite such ratio:

<u>Fiscal Quarter Ending</u>	<u>Maximum Consolidated Senior Secured Leverage Ratio</u>
March 31, 2013—September 30, 2013	3.50:1.0
December 31, 2013—September 30, 2014	3.25:1.0
December 31, 2014 and each fiscal quarter ending thereafter	3.00:1.0

As of March 31, 2013, the Company was in compliance with all of the above covenants.

12.875% Senior Notes due 2018

On November 1, 2011, we issued \$150.0 million of 12.875% Senior Notes due 2018 at 98.323% of the aggregate principal amount of \$150.0 million, a discount of \$2.5 million. The notes bear interest at a rate of 12.875% per annum. We pay interest on the notes semi-annually, in arrears, on November 1 and May 1 of each year.

The indenture governing the 12.875% Senior Notes contains covenants that, among other things, limit our ability to: (i) incur or guarantee additional debt or issue certain preferred stock; (ii) pay dividends on our equity interests or redeem, repurchase or retire our equity interests or subordinated debt; (iii) transfer or sell assets; (iv) make certain investments; (v) incur certain liens; (vi) restrict our subsidiaries' ability to pay dividends or make other payments to the Company; (vii) engage in certain transactions with our affiliates; and (viii) merge or consolidate with other companies or transfer all or substantially all of the Company's assets.

The 12.875% Senior Notes issued by the Company are guaranteed by each of our domestic subsidiaries (other than Park Royal), all of which are wholly-owned subsidiaries. The guarantees are full and unconditional and joint and several and the Company, as the parent issuer of the 12.875% Senior Notes, has no independent assets or operations.

On March 12, 2013, we redeemed \$52.5 million of the 12.875% Senior Notes using a portion of the net proceeds of our December 2012 equity offering pursuant to the provision in the indenture permitting an optional redemption with equity proceeds of up to 35% of the principal amount of 12.875% Senior Notes. The 12.875% Senior Notes were redeemed at a redemption price of 112.875% of the principal amount thereof plus accrued and unpaid interest to, but not including, the redemption date in accordance with the provisions of the indenture governing the 12.875% Senior Notes. As part of the redemption of 35% of the 12.875% Senior Notes, the Company recorded a debt extinguishment charge of \$9.4 million, which was recorded in debt extinguishment costs in the condensed consolidated statements of operations.

6.125% Senior Notes Due 2021

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

The indenture governing the 6.125% Senior Notes contains covenants that, among other things, limit the Company's ability and the ability of its restricted subsidiaries to: (i) pay dividends, redeem stock or make other distributions or investments; (ii) incur additional debt or issue certain preferred stock; (iii) transfer or sell assets; (iv) engage in certain transactions with affiliates; (v) create restrictions on dividends or other payments by the restricted subsidiaries; (vi) merge, consolidate or sell substantially all of the Company's assets; and (vii) create liens on assets.

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The 6.125% Senior Notes issued by the Company are guaranteed by each of our domestic subsidiaries (other than Park Royal), all of which are wholly-owned subsidiaries. The guarantees are full and unconditional and joint and several and the Company, as the parent issuer of the 6.125% Senior Notes, has no independent assets or operations.

We may redeem the 6.125% Senior Notes at our option, in whole or part, at any time prior to March 15, 2016, at a price equal to 100% of the principal amount of the 6.125% Senior Notes redeemed, plus accrued and unpaid interest to the redemption date and plus an applicable premium. We may redeem the 6.125% Senior Notes, in whole or in part, on or after March 15, 2016, at the redemption prices set forth in the indenture governing the 6.125% Senior Notes plus accrued and unpaid interest to the redemption date. At any time on or before March 15, 2016, we may elect to redeem up to 35% of the aggregate principal amount of the 6.125% Senior Notes at a redemption price equal to 106.125% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net proceeds of one or more equity offerings.

9.0% and 9.5% Revenue Bonds

On November 11, 2012, in connection with the acquisition of Park Royal, we assumed debt of \$23.0 million. The fair market value of the debt assumed was \$25.6 million and resulted in a debt premium balance being recorded as of the acquisition date. The debt consisted of \$7.5 million and \$15.5 million of Lee County (Florida) Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 with stated interest rates of 9.0% and 9.5%, respectively. The 9.0% bonds in the amount of \$7.5 million have a maturity date of December 1, 2030 and require yearly principal payments beginning in 2013. The 9.5% bonds in the amount of \$15.5 million have a maturity date of December 1, 2040 and require yearly principal payments beginning in 2031. The principal payments establish a bond-sinking fund to be held with the trustee and shall be sufficient to redeem the principal amounts of the 9.0% and 9.5% Revenue Bonds on their respective maturity dates. The bond premium amount of \$2.6 million has been amortized as a reduction of interest expense over the life of the 9.0% and 9.5% Revenue Bonds using the effective interest method.

Contractual Obligations

The following table presents a summary of contractual obligations as of March 31, 2012 (dollars in thousands):

	Payments Due by Period				Total
	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	
Long-term debt (a)	\$ 32,943	\$ 105,415	\$ 319,372	\$ 345,240	\$ 802,970
Operating leases	6,290	8,648	5,885	21,527	42,350
Purchase and other obligations (b)	1,500	3,500	2,000	—	7,000
Total obligations and commitments	<u>\$ 40,733</u>	<u>\$ 117,563</u>	<u>\$ 327,257</u>	<u>\$ 366,767</u>	<u>\$ 852,320</u>

- (a) Amounts include required principal payments and related interest payments. Amounts reflect an interest rate of 3.5% per annum to estimate future interest payments related to our variable-rate debt based on the rate in place as of March 31, 2013.
- (b) Amounts relate to purchase obligations, including contingent payments of up to \$7.0 million related to the acquisition of Park Royal in November 2012 that we may make depending upon achievements of certain financial targets over the four-year period ending December 31, 2016.

Off-Balance Sheet Arrangements

As of March 31, 2013, we had standby letters of credit outstanding of \$0.4 million related to security for the payment of claims as required by our workers' compensation insurance program.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our interest expense is sensitive to changes in market interest rates. With respect to our interest-bearing liabilities, our long-term debt outstanding at March 31, 2013 was composed of \$271.6 million of fixed-rate debt and \$298.1 million of variable-rate debt with interest based on LIBOR plus an applicable margin. A hypothetical 10% increase in interest rates would decrease our net income and cash flows by \$0.6 million on an annual basis based upon our borrowing level at March 31, 2013.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management conducted an evaluation, with the participation of our chief executive officer and chief financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the three months ended March 31, 2013 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II – OTHER INFORMATION**Item 1. Legal Proceedings**

We are, from time to time, subject to various claims and legal actions that arise in the ordinary course of our business, including claims for damages for personal injuries, medical malpractice, breach of contract, tort and employment related claims. In these actions, plaintiffs request a variety of damages, including, in some instances, punitive and other types of damages that may not be covered by insurance. In the opinion of management, we are not currently a party to any proceeding that would have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors

In addition to the other information set forth in this report, an investor should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012. The risks, as described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012, are not the only risks facing the Company. Additional risks and uncertainties not currently known to management or that management currently deems immaterial also may materially, adversely affect the Company’s business, financial condition, operating results or cash flows.

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

During the three months ended March 31, 2013, the Company withheld shares of Company common stock to satisfy employee tax withholding obligations payable upon the vesting of restricted stock, as follows:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</u>
January 1 - January 31	—	\$ —	—	—
February 1 - February 28	—	—	—	—
March 1 - March 31	11,199	28.25	—	—
Total	<u>11,199</u>			

Item 5. Other Information.

On May 1, 2013, the Company completed the purchase of the stock of Ten Broeck Tampa, Inc. (“TBT”) and Capestrano Investment Company, Inc. (“CIC”) for \$91.8 million in cash plus construction costs for a facility under construction in Tampa, Florida. The parties consummated the acquisition pursuant to a Stock Purchase Agreement, dated as of March 29, 2013, by and among Acadia Merger Sub, LLC, a Delaware limited liability company and wholly-owned subsidiary of the Company, and First Ten Broeck Tampa, Inc., a Florida corporation, UMC Ten Broeck, Inc., a Florida corporation, Capestrano Holding 12, Inc., a Florida corporation, Donald R. Dizney and David A. Dizney. The purchase price for the acquisition was funded using cash on hand.

CIC, and its subsidiaries, own and operate Capestrano Hospital in San Juan, Puerto Rico, which is licensed for 108 beds and has a certificate of need for 100 additional beds. TBT is developing a 75-bed inpatient behavioral healthcare hospital in Tampa, Florida, which is scheduled to open in the third quarter of 2013.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Exhibit Description</u>
2	Stock Purchase Agreement, dated as of March 29, 2013, by and among First Ten Broeck Tampa, Inc., UMC Ten Broeck, Inc., Capestrano Holding 12, Inc., Donald R. Dizney, David A. Dizney and Acadia Merger Sub, LLC (1).
3.1	Amended and Restated Certificate of Incorporation, as filed on October 28, 2011 with the Secretary of State of the State of Delaware (2).
3.2	Amended and Restated Bylaws of Acadia Healthcare Company, Inc. (2).
4.1	Indenture, dated March 12, 2013, by and among Acadia Healthcare Company, Inc., the guarantors party thereto and U.S. Bank National Association, as Trustee (3).
4.2	Form of 6.125% Senior Note due 2021 (Included in Exhibit 4.1).
4.3	Registration Rights Agreement, dated March 12, 2013, by and among Acadia Healthcare Company, Inc., the guarantors party thereto and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Representative of the Initial Purchasers (3).
10.1	Purchase Agreement, dated March 7, 2013, by and among Acadia Healthcare Company, Inc., the Guarantors and Merrill Lynch, Pierce, Fenner & Smith Incorporated as representative of the initial purchasers named therein (3).

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10.2	First Amendment, dated March 11, 2013, to the Amended and Restated Credit Facility, dated December 31, 2012, by and among Bank of America, N.A. (Administrative Agent, Swing Line Lender and L/C Issuer) and Acadia Healthcare Company, Inc., the guarantors listed on the signature pages thereto, and the lenders listed on the signature pages thereto (3).
10.3*	Acadia Healthcare Company, Inc. Deferred Compensation Plan
10.4*	Nonmanagement Director Compensation Program
31.1*	Certification of the Chief Executive Officer of Acadia Healthcare Company, Inc. pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer of Acadia Healthcare Company, Inc. pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of Chief Executive Officer and Chief Financial Officer of Acadia Healthcare Company, Inc. pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Calculation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	XBRL Taxonomy Labels Linkbase Document.
101.PRE**	XBRL Taxonomy Presentation Linkbase Document.

-
- (1) Incorporated by reference to exhibits filed with Acadia Healthcare Company, Inc.'s Current Report on Form 8-K filed April 4, 2013 (File No. 001-35331).
 - (2) Incorporated by reference to exhibits filed with Acadia Healthcare Company, Inc.'s Current Report on Form 8-K filed November 1, 2011 (File No. 001-35331).
 - (3) Incorporated by reference to exhibits filed with Acadia Healthcare Company, Inc.'s Current Report on Form 8-K filed March 12, 2013 (File No. 001-35331).

* Filed herewith.

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

SIGNATURES

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

Acadia Healthcare Company, Inc.

By: /s/ David M. Duckworth
David M. Duckworth
Chief Financial Officer

Dated: May 2, 2013

EXHIBIT INDEX

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**DIVERSIFIED RETIREMENT CORPORATION
NONQUALIFIED DEFERRED COMPENSATION
PLAN DOCUMENT**

**This Plan is to be used in conjunction with the
Diversified Retirement Corporation
Nonqualified Deferred Compensation Adoption Agreement**

This Plan is an important legal document. You should consult with your attorney on whether or not it accommodates your particular situation, and on its tax and legal implications. Diversified Retirement Corporation does not and cannot provide legal or tax advice. The Plan Document and Adoption Agreement are intended purely as specimen documents for use by you and your attorney. Diversified can give no assurance that any Employer's Nonqualified Deferred Compensation arrangements will meet all applicable Internal Revenue Service ("IRS") and Department of Labor ("DOL") requirements.

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ARTICLE 1. – INTRODUCTION

Whereas, the Employer wishes to establish a nonqualified employee retirement plan (the “Plan”) solely to provide deferred compensation for a select group of management or highly compensated employees within the meaning of sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, effective January 1, 2005, and

Whereas, the Plan is intended to comply with section 409A of the Internal Revenue Code, as amended (the “Code”) and regulations thereunder, and

[If this is an amendment, restatement, and continuation of an existing plan, the following shall apply:

Whereas, the following provisions constitute an amendment, restatement, and continuation of the Prior Plan, and

Whereas, amounts that were Earned and Vested under the Prior Plan as of December 31, 2004, including earnings thereon, shall be considered Grandfathered Amounts, and thereby, exempt from the requirements under Code section 409A, and amounts that are earned or vested under this Plan after December 31, 2004, including earnings thereon, shall be subject to the requirements under Code section 409A.]

Whereas, the Employer has determined that pursuant to the laws of the Employer’s state, it may establish such a Plan, and

Whereas, the Employer wishes to provide that the Plan to be established under this Agreement shall have the name specified in Section 3 of the Adoption Agreement, and

Whereas, the Employer wishes to provide under the Plan that the Employer shall pay the entire cost of vested accrued benefits from its general assets and/or assets set aside in a grantor trust by the Employer to meet its obligations under the Plan, and

Whereas, the Employer intends that the assets of the Plan and, if applicable, the Trust shall at all times be subject to the claims of the general creditors of the Employer,

Now therefore, the Employer does hereby establish the Plan as follows, and does hereby agree that the Plan shall be structured, held and disposed of as follows:

ARTICLE 2. – DEFINITIONS

- 2.1 “401(k) Deferrals” means for purposes of the Adoption Agreement, an election to defer Compensation under the 401(k) Plan.
- 2.2 “401(k) Plan” means the qualified cash or deferred arrangement of the Employer.
- 2.3 “Adoption Agreement” means the Adoption Agreement executed by the Employer and submitted to Diversified Retirement Corporation The Adoption Agreement shall be considered to be a part of this Plan.
- 2.4 “Age” means age at the most recent birthday.
- 2.5 “Annual Sub-Account” means a bookkeeping account under a Calendar Year Plan established and maintained by the Employer to which (1) Salary Reduction Contributions, (2) Matching Contributions, (3) Nonelective Employer Contributions, and (4) Performance-Based Compensation for a Plan Year shall be credited to each respective Annual Sub-Account.
- 2.6 “Beneficiary” shall have the meaning set forth in Section 7.1.
- 2.7 “Board” means the Employer’s Board of Directors or Board of Trustees, as applicable.
- 2.8 “Calendar Year Plan” means a Plan under which the Employer establishes and maintains a Participant’s Account on behalf of each Eligible Employee’s Annual Sub-Accounts which include, if applicable, but are not limited to a (1) Salary Reduction Contribution Account, (2) Performance-Based Compensation Contribution Account, (3) Matching Contribution Account, and (4) Nonelective Employer Contribution Account to which (1) Salary Reduction Contributions, (2) Performance-Based Compensation Contributions, (3) Matching Contributions, and (4) Nonelective Employer Contributions shall be credited to each respective Annual Sub-Account.
- 2.9 “Claimant” means a Participant (or in the case of the Participant’s death, the Participant’s Beneficiary or Beneficiaries) who makes a written application to the Plan Administrator for benefits that he or she believes are due under the Plan.
- 2.10 “Code” means the Internal Revenue Code of 1986, as amended.
- 2.11 “Compensation” means amounts so elected by the Employer (or if applicable, Company) in the Adoption Agreement that are payable to an Eligible Employee (of if applicable, Eligible Director or Independent Contractor) for services rendered to the Employer (or if applicable, Company), including but not limited to wages, salary, bonuses, overtime, commissions, and other remuneration that is reportable to the Federal government, or

which would be reportable if it were not deferred under this Plan. Compensation shall be based on amounts paid during that portion of the Plan Year in which the Eligible Employee (or if applicable, Eligible Director or Independent Contractor) is a Participant in the Plan. Compensation must be earned in the Plan Year in which any amount of such Compensation is credited to a Participant's Account.

- 2.12 "Company" means the entity designated as the Employer in Section 1 of the Adoption Agreement. For purposes of this Plan, references to Employer shall mean Company, unless the context clearly indicates otherwise.
- 2.13 "Deferral Agreement" means an election by an Eligible Employee to (1) make a Salary Reduction Contribution and/or (2) specify a time of distribution for Salary Reduction Contributions or Employer Contributions made on his or her behalf, as so elected by the Employer in the Adoption Agreement. A Deferral Agreement to make a Salary Reduction Contribution must be made prior to the end of the Election Period preceding the close of the Taxable Year preceding the Taxable Year in which Compensation subject to the Salary Reduction Contribution is earned. A Deferral Agreement must specify the time and the form of distribution as permitted by the election of the Employer in the Adoption Agreement. Changes to a Deferral Agreement may be made, but only before the Deferral Agreement becomes irrevocable, which is generally the last day of a Participant's Taxable Year. The Participant must also list his or her designated Beneficiary or Beneficiaries as described in Article 7.
- 2.14 "Deferred Compensation" means the amount of Compensation that the Participant elects to defer under the Deferral Agreement and that the Participant and the Employer mutually agree shall be deferred in accordance with the Plan, if any, and the amount of any Employer Contributions, if any, made on behalf of the Participant.
- 2.15 "Disability" or "Disabled" means:
- (a) A Participant (1) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or
 - (2) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Participant's Employer.

(b) As specified in the Adoption Agreement, a Participant shall be deemed Disabled:

(1) If determined to be totally disabled by the Social Security Administration;

(2) In accordance with a disability insurance program sponsored by the Employer, provided the definition of Disability set forth in such insurance program satisfies the requirements of Section 2.15(a); or

(3) In the Plan Administrator's sole discretion, provided that the Participant is disabled under Section 2.15(a).

(c) In the event the determination of Disability is made under Section 2.15(b)(2) or Section 2.15(b)(3), the Plan Administrator shall have the exclusive right of determining, with the assistance of a competent physician, whether a Participant is Disabled. A certificate to that effect executed by the Plan Administrator and supported by the affidavit of an examining physician, shall be sufficient evidence of such fact and may be so accepted by the Plan Administrator without further inquiry, provided that all Participants under similar circumstances shall be treated alike.

- 2.16 "Earned and Vested" means amounts deferred under the Prior Plan, if any, to which a Participant had a nonforfeitable right to receive as of December 31, 2004. Such amounts are considered Grandfathered Amounts. The term Earned and Vested is only applicable to a plan that is an amendment, restatement, and continuation of a Prior Plan, as indicated in Section 4 of the Adoption Agreement.
- 2.17 "Effective Date" means the effective date specified in Section 5(a) of the Adoption Agreement for new plans, or Section 5(b) of the Adoption Agreement for a plan that is an amendment, restatement, and continuation of a Prior Plan.
- 2.18 "Election Period" means the enrollment window(s) designated by the Employer in which a Participant may be permitted to enter into a Deferral Agreement, make a distribution election(s) upon Separation from Service and/or a Specified Time, and make any changes to such election(s).
- 2.19 "Eligible Director" means the director of the Company who has been chosen by the Board each year, in its sole discretion, to be eligible to participate in the Plan. For purposes of this Plan, references to Eligible Employee shall mean Eligible Director, unless the context clearly indicates otherwise.
- 2.20 "Eligible Employee" means an individual who is part of a select group of management or highly compensated individuals who performs services for the Employer as an employee and who has been chosen by the Employer each year, in its sole discretion, to be eligible to participate in the Plan. If Eligible Directors and/or Eligible Independent Contractors participate in this Plan in accordance with the Employer's election in the Adoption

Agreement, the term “Eligible Employee” shall also mean such Eligible Directors and/or Eligible Independent Contractors and the term “employment” shall include service as a director or independent contractor unless the context clearly indicates otherwise.

- 2.21 “Eligible Independent Contractor” means the Independent Contractor of the Company who has been chosen by the Company each year, in its sole discretion, to be eligible to participate in the Plan. For purposes of this Plan, references to Eligible Employee shall mean Eligible Independent Contractor, unless the context clearly indicates otherwise.
- 2.22 “Employer” means the employer named in Section 1 of the Adoption Agreement and any succeeding or continuing corporation. For purposes of Article 10.2, Employer shall also include all persons with whom the Employer would be considered a single employer under Code sections 414(b) or (c). If Eligible Directors and/or Eligible Independent Contractors participate in this Plan in accordance with the Employer’s election in the Adoption Agreement, the term “Employer” shall also mean Company unless the context clearly indicates otherwise.
- 2.23 “Employer Contributions” means Matching Contributions and/or Nonelective Employer Contributions made by the Employer on behalf of a Participant, as so elected by the Employer in the Adoption Agreement.
- 2.24 “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.
- 2.25 “Evergreen Plan” means a Plan under which the Employer establishes and maintains a Participant’s Account, which may have sub-accounts depending on the Employer’s election, on behalf of each Eligible Employee including, if applicable, but are not limited to a (1) Salary Reduction Contribution Account, (2) Performance-Based Compensation Contribution Account (3) Matching Contribution Account, and (4) Nonelective Employer Contribution Account to which (1) Salary Reduction Contributions, (2) Performance-Based Compensation Contributions, (3) Matching Contributions, and (4) Nonelective Employer Contributions shall be credited.
- 2.26 “Grandfathered Amounts” means amounts, if any, that were deferred under the Prior Plan and Earned and Vested as of December 31, 2004. Grandfathered Amounts are not subject to the requirements under Code section 409A. The term Grandfathered Amounts is only applicable to a plan that is an amendment, restatement, and continuation of a Prior Plan, as indicated in Section 4 of the Adoption Agreement.
- 2.27 “Key Employee” means an Eligible Employee treated as a “specified employee” as of his Separation from Service under Code section 409A(a)(2)(B)(i), i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof) of the Company or its affiliates if the Company is a Publicly Traded Company. Key Employees shall be determined in accordance with Code section 409A using an identification date set forth in the Adoption Agreement. A listing of Key Employees as of an identification date shall be effective for the 12-month period beginning on the effective date set forth on the Adoption Agreement.

- 2.28 “Legally Binding Right” means a nonforfeitable right that cannot be reduced or eliminated within the meaning of Code section 409A and regulations thereunder.
- 2.29 “Matching Contribution” means an amount contributed by the Employer on behalf of a Participant that elects to make a Salary Reduction Contribution under the Plan.
- 2.30 “Matching Contribution Account” means a bookkeeping account established by the Employer for each Participant to which Matching Contributions shall be credited.
- 2.31 “Nonelective Employer Contribution” means an amount contributed by the Employer on behalf of a Participant.
- 2.32 “Nonelective Employer Contribution Account” means a bookkeeping account established by the Employer for each Participant to which Nonelective Employer Contributions shall be credited.
- 2.33 “Participant” means any Eligible Employee (or if applicable, Eligible Director or Independent Contractor) selected by the Employer who has elected to participate in the Plan by entering into a Deferral Agreement.
- 2.34 “Participant’s Account” means a bookkeeping account established and maintained by the Employer to which (1) Salary Reduction Contributions, (2) Matching Contributions, (3) Nonelective Employer Contributions, and (4) Performance-Based Compensation shall be credited. A Participant’s Account includes the Participant’s Annual Sub-Account, if applicable.
- 2.35 “Performance-Based Compensation” means Compensation a participant will be entitled to upon satisfying organizational or individual performance goals for a performance period that is at least 12 consecutive months. For performance-based compensation elections, a participant is permitted to make deferral elections after the beginning of the taxable year the participant will perform the services, provided that:
- The participant makes the deferral election on or before the date that is six months prior to the end of the related performance period;
 - The participant performs services continuously from the later of: (i) the beginning of the performance period or (ii) the date the Company establishes the performance criteria, through the date the participant makes the deferral election; and
 - The amount of performance-based compensation that will be earned is not readily ascertainable (e.g., the performance goals are not certain to be achieved at the time the participant makes the deferral election).

Whether or not Compensation is considered Performance-Based Compensation shall be determined under procedures established by the Plan Administrator and in accordance with Code section 409A and regulations thereunder.

- 2.36 "Performance-Based Compensation Contribution Account" means a bookkeeping account established by the Employer for each Participant electing to defer all or a portion of his or her Performance-Based Compensation.
- 2.37 "Performance-Based Compensation Deferral Election" means an election to defer all or a portion of Performance-Based Compensation earned during a service period.
- 2.38 "Plan" means this plan, as named in the Adoption Agreement.
- 2.39 "Plan Administrator" means the Employer or other person(s) or entity(ies) appointed by the Employer in accordance with Article 9.
- 2.40 "Plan Year" means a twelve (12) consecutive month period beginning and ending on the dates specified in the Adoption Agreement.
- 2.41 "Prior Plan" means a predecessor nonqualified deferred compensation plan, if any, that was in existence as of October 3, 2004 and is named in the Adoption Agreement. The Prior Plan is or is not intended to be subject to Code section 409A depending on the election made by the Employer in the Adoption Agreement. The term Prior Plan is only applicable to a plan that is an amendment, restatement, and continuation of a plan in existence as of October 3, 2004, as indicated in the Adoption Agreement.
- 2.42 "Publicly Traded Company" means an entity any stock of which is publicly traded on an established securities market or otherwise.
- 2.43 "Retirement Age" means the age specified in the Adoption Agreement.
- 2.44 "Salary Reduction Contribution" means an amount of Compensation a Participant elects to defer under his or her Deferral Agreement which shall be deducted from the Participant's Compensation without reduction for any taxes or withholding (except to the extent required by law or under Code section 409A and regulations thereunder.)
- 2.45 "Salary Reduction Contribution Account" means a bookkeeping account established by the Employer for each Participant electing to make a Salary Reduction Contribution under the Plan.
- 2.46 "Separation from Service" means a "separation from service" within the meaning of Code section 409A and regulations thereunder.

- 2.47 “Specified Time” means the time a Participant’s account may be distributed prior to a Separation from Service. A Participant’s distribution as of a Specified Time shall be null and void upon a Participant’s Separation from Service.
- 2.48 “Taxable Year” means the Participant’s taxable year.
- 2.49 “Trust” means the Trust Agreement between the Employer and the Trustees that meets the requirements of a “grantor” trust under Revenue Procedures 92-64 and 92-65 and otherwise meets the requirements under Code section 409A and regulations thereunder.
- 2.50 “Trustees” means the Trustees named in the Trust and their duly appointed and acting successor Trustee(s) which shall be appointed by the corporation and may consist of one or more persons.
- 2.51 “Unforeseeable Emergency” means a severe financial hardship to a Participant resulting from an illness or accident of the Participant, the Participant’s spouse, or a dependent (as defined in Code section 152(a)) of the Participant, loss of the Participant’s property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. Whether or not a Participant has an Unforeseeable Emergency shall be determined by the Plan Administrator in accordance with Code section 409A and applicable regulations thereunder.

ARTICLE 3. - ELIGIBILITY AND PARTICIPATION

3.1 Eligibility to Participate in the Plan.

- (a) (1) If this Plan is an amendment, restatement, and continuation of the Prior Plan, as indicated in the Adoption Agreement, every Eligible Employee who was a Participant in the Prior Plan immediately prior to the Effective Date shall continue to be an Eligible Employee eligible to participate in this Plan. Each other Eligible Employee shall be eligible to participate in the Plan on the Effective Date. Thereafter, each employee, independent contractor or director shall be eligible to participate in the Plan on the date the Employer, in its sole discretion, determines that such person is an Eligible Employee.
- (2) If this Plan is a new plan, as indicated in the Adoption Agreement, each Eligible Employee shall be eligible to participate in the Plan on the Effective Date. Thereafter, each employee, independent contractor or director shall be eligible to participate in the Plan on the date the Employer, in its sole discretion, determines that such person is an Eligible Employee.
- (b) An Eligible Employee shall become a Participant in the Plan by executing a Deferral Agreement in accordance with procedures established by the Plan Administrator.

3.2. Re-Employment. A Participant whose employment or service with the Employer is terminated and is subsequently re-employed or re-enters service may become a Participant only if he or she (1) is designated an Eligible Employee by the Employer and (2) elects to participate in the Plan by executing a Deferral Agreement in accordance with procedures established by the Plan Administrator.

3.3 Re-Employment of Previously Eligible Employee. A previously Eligible Employee whose employment or service with the Employer is terminated is subsequently re-employed or re-enters service, may become a Participant only if he or she (1) is designated an Eligible Employee by the Employer, (2) elects to participate in the Plan by executing a Deferral Agreement in accordance with procedures established by the Plan Administrator, and (3) has already taken a complete distribution or has *not* taken a full distribution but has not accrued any benefit under the plan, except earnings, for a period of 24 months.

3.4 Change in Employment Status. During any period in which a Participant remains in the employ or service of the Employer, but ceases to be an Eligible Employee, he or she shall cease to be a Participant in the Plan.

ARTICLE 4. – ELECTIONS AND CONTRIBUTIONS

4.1 Election to Make Salary Reduction Contributions.

(a) Deferral Agreement.

(1) An Eligible Employee may make an irrevocable Deferral Agreement to make a Salary Reduction Contribution in one (1) percent increments, not to exceed the percentage of Compensation specified in the Adoption Agreement, by the end of the Election Period preceding the Taxable Year in which such Compensation subject to the Salary Reduction Contribution is earned.

(2) Unless otherwise specified in the Adoption Agreement, the Deferral Agreement must specify:

- (i) The time of distribution; and
- (ii) The form of distribution.

(3) A Deferral Agreement shall be made in accordance with procedures established by the Plan Administrator and in accordance with Code section 409A and regulations thereunder.

(b) Timing of Initial Deferral Agreement. If this Plan is a new Plan, and the Eligible Employee is not a participant in another account balance plan of the Employer within the meaning of Code section 409A and regulations thereunder, the Eligible Employee who is eligible to participate in this Plan as of the Plan's Effective Date may make an initial Deferral Agreement to make a Salary Reduction Contribution within thirty (30) days after the Plan's Effective Date. Each other Eligible Employee, Re-Employed Employee or Re-Employed Previously Eligible Employee who is not a participant in another account balance elective plan of the Employer within the meaning of Code section 409A and regulations thereunder may make an initial Deferral Agreement to make a Salary Reduction Contribution within thirty (30) days after the date the Eligible Employee first becomes eligible to participate in the Plan. Any such Deferral Agreement must apply only to compensation paid for services performed after the election. In all other cases, the initial Deferral Agreement to make a Salary Reduction Contribution must be made no later than the last day of the Election Period preceding the Taxable Year in which Compensation subject to the Salary Reduction Contribution is earned.

- (c) Frequency of Making a Deferral Agreement after Initial Election.
- (1) If the Employer so elects in the Adoption Agreement, a Participant may elect to make a Salary Reduction Contribution on his or her Deferral Agreement each Plan Year (annual deferral election).
 - (2) If the Employer so elects in the Adoption Agreement, a Participant's Deferral Agreement shall remain in effect such that the Participant will automatically be deemed to have made a Deferral Agreement each Plan Year so long as the Deferral Agreement becomes irrevocable no later than the last day of the Election Period preceding the Taxable Year in which Compensation subject to the Salary Reduction Contribution is earned (carry-forward deferral election).
 - (i) The Participant may modify or terminate his or her automatic Deferral Agreement by notifying the Plan Administrator at any time, but any such modification or termination must be made no later than the last day of the Election Period preceding the Taxable Year in which Compensation subject to the Deferral Agreement would have otherwise been earned.
 - (ii) The modification or termination of a Participant's automatic Deferral Agreement shall be made in accordance with procedures established by the Plan Administrator and in accordance with Code section 409A and regulations thereunder.
- (d) Failure to Make Timely Election. If an Eligible Employee fails to enter into a timely Deferral Agreement, the Eligible Employee shall be deemed to have elected to make no Salary Reduction Contributions for the applicable Plan Year.
- (e) Crediting of Salary Reduction Contributions. Salary Reduction Contributions made by a Participant under this Section 4.1 shall be credited to the Participant's Account as soon as practicable after the Compensation subject to the Salary Reduction Contribution would have otherwise been paid to the Participant. All Salary Reduction Contributions shall be held as an asset of the Employer.
- (f) Any Deferral Agreement to make Salary Reduction Contributions under this Section 4.1 shall be at all times subject to the rules set forth under Section 4.4.

4.2 Employer Contributions.

(a) Matching Contributions. If the Employer so elects in the Adoption Agreement, the Employer may make a Matching Contribution as specified in the Adoption Agreement.

(b) Nonelective Employer Contributions. If the Employer so elects in the Adoption Agreement, the Employer may make Nonelective Employer Contributions under this Plan. The amount of such Nonelective Employer Contributions shall be equal to the amount specified in the Adoption Agreement.

(c) Election of Time and Form of Distribution for Employer Contributions.

(1) If the Employer so elects in the Adoption Agreement, a Participant may elect on his or her Deferral Agreement to defer Employer Contributions by specifying:

- (i) The time of distribution; and
- (ii) The form of distribution.

(2) The time and form of distribution must be specified no later than the time the Participant obtains a Legally Binding Right to such Employer Contributions. After such time, modification to the time or form of distribution may only be made in accordance with Section 4.4.

(3) A Deferral Agreement shall be made in accordance with procedures established by the Plan Administrator and in accordance with Code section 409A and regulations thereunder.

(4) The Participant may modify or terminate the time and/or form of distribution specified under this Section 4.2(c) by notifying the Plan Administrator prior to the Participant obtaining a Legally Binding Right to the Employer Contributions subject to the modification and/or termination. After such time, modification to the time or form of distribution may only be made in accordance with Section 4.4.

(5) The modification or termination of the time and/or form of distribution specified under this Section 4.2(c) shall be made in accordance with procedures established by the Plan Administrator and in accordance with Code section 409A and regulations thereunder.

(d) Failure to Make Timely Election. If an Eligible Employee fails to set the time and form of distribution prior to the time the Participant obtains a Legally Binding Right to Employer Contributions made on his or her behalf, any election to defer such Employer Contributions after such time shall be subject to the rules

set forth under Section 4.4. Such election to defer Employer Contributions after the date the Participant obtains a Legally Binding Right to such Employer Contributions shall be made in accordance with procedures established by the Plan Administrator and in accordance with Code section 409A and regulations thereunder.

(e) Crediting of Employer Contributions. Employer Contributions made on behalf of a Participant and deferred under this Section 4.2 shall be credited to the Participant's Account as soon as practicable. All Employer Contributions deferred under this Section 4.2 shall be held as an asset of the Employer.

(f) A Deferral Agreement under this Section 4.2 shall be at all times subject to the rules set forth under Section 4.4.

4.3 Performance-Based Compensation.

(a) If the Employer so elects in the Adoption Agreement, a Participant may make a Performance-Based Compensation Deferral Election, subject to the requirements of Section 4.3(b).

(b) If the Plan Administrator, in its sole discretion, determines that Compensation constitutes Performance-Based Compensation that is based on services performed over a period of at least twelve (12) months, the Plan Administrator will establish procedures under which an Eligible Employee may elect to defer such Performance-Based Compensation, but such election must be made no later than six (6) months before the end of the performance period. Such procedures established by the Plan Administrator shall be made in accordance with Code section 409A and regulations thereunder.

(c) A Performance-Based Compensation Deferral Election must specify:

(1) The time of distribution; and

(2) The form of distribution.

(d) Crediting of Performance-Based Compensation. Performance-Based Compensation deferred under this Section 4.3 shall be credited to the Participant's Account as soon as practicable after such Performance-Based Compensation would have otherwise been paid to the Participant.

(e) A Performance-Based Compensation Deferral Election made under this Section 4.3 shall apply to Performance-Based Compensation only. The rules set forth under Section 4.1 or Section 4.2 shall not apply and shall not supplant the rules set forth under this Section 4.3.

(f) A Performance-Based Compensation Deferral Election to defer made under this Section 4.3 shall be at all times subject to the rules set forth under Section 4.4.

4.4 Changes in Time or Form of Distribution.

- (a) A Participant may make a subsequent election to change the time and/or form of a distribution he or she specified in his or her Deferral Agreement under Section 4.1, Section 4.2, and/or a Performance-Based Compensation Deferral Election under Section 4.3, but only if the following conditions are satisfied:
 - (1) The election may not take effect until at least twelve (12) months after the date on which the election is made;
 - (2) In the case of an election to change the time and/or form of a distribution under Sections 5.2 and 5.3, a distribution may not be made earlier than at least five (5) years from the date the distribution would have otherwise been made;
 - (3) In the case of an election to change the time and/or form of a distribution under Sections 5.2 and 5.3, the election must be made at least twelve (12) months before the date of the first scheduled distribution; and
 - (4) The election may not result in an impermissible acceleration of payment prohibited under Code section 409A and applicable guidance thereunder. If the Plan Administrator, in its sole discretion, determines that a change in the time and/or form of a distribution will result in an impermissible acceleration, the Plan Administrator reserves the right to refuse to honor the change.
- (b) A Participant may change the form of distribution he or she specified in his or her Deferral Agreement under Section 4.1, Section 4.2, and/or a Performance-Based Compensation Deferral Election under Section 4.3 to any one of the distribution form(s) elected by the Employer in the Adoption Agreement, so long as the change meets the requirements set forth under Section 4.4(a).
- (c) For purposes of making a subsequent election under Section 4.4(a)(2), any form of distribution elected by the Participant and any amounts payable in the form(s) set forth under Sections 5.1A(a)(3) and 5.1A(a)(4) or Sections 5.1B(a)(3) and 5.1B(a)(4) shall be treated as a single payment.
 - (d) The rules set forth in this Section 4.4 may apply separately to each time and/or form of distribution specified in a Participant's Deferral Agreement under Section 4.1, Employer Contributions under Section 4.2, and/or a Performance-Based Compensation Deferral Election under Section 4.3.
 - (e) A change in the time and/or form of distribution shall be made in accordance with procedures established by the Plan Administrator and in accordance with Code section 409A and regulations thereunder.

- (f) *Change in the time and/or form of distribution elections or conditions on or before December 31, 2008.* If the Employer so elects in the Adoption Agreement by December 31, 2008, a Participant may make a subsequent election to change the time and/or form of a distribution he or she specified in his or her Deferral Agreement under Section 4.1, Section 4.2, and/or a Performance-Based Compensation Deferral Election under Section 4.3 and such subsequent distribution election shall not be treated as a change in the time or form of distribution or an acceleration of a payment under Section 4.4(a) provided that the following conditions are met:
- (1) Such subsequent election by the Participant is made on or before December 31, 2008.
 - (2) With respect to a subsequent election to change a time and/or form of distribution made on or after January 1, 2006 and on or before December 31, 2006, the election may apply only to amounts that would not otherwise be payable in 2006 and may not cause an amount to be paid in 2006 that would not otherwise be payable in 2006.
 - (3) With respect to a subsequent election to change a time and/or form of distribution made on or after January 1, 2007 and on or before December 31, 2007, the election may apply only to amounts that would not otherwise be payable in 2007 and may not cause an amount to be paid in 2007 that would not otherwise be payable in 2007.
 - (4) With respect to a subsequent election to change a time and/or form of distribution made on or after January 1, 2008 and on or before December 31, 2008, the election may apply only to amounts that would not otherwise be payable in 2008 and may not cause an amount to be paid in 2008 that would not otherwise be payable in 2008.

4.5 Right to Terminate Participation or Cancel a Deferral Election During Calendar Year 2005.

- (a) So long as the Employer so adopted by December 31, 2005 as indicated in the Adoption Agreement, a Participant and/or the Plan Administrator may elect to:
 - (1) Terminate a Participant's participation in this Plan at any time during all or part of calendar year 2005; or
 - (2) Cancel a Participant's deferral election made under Section 4.1, Section 4.2, and/or Section 4.3 during all or part of calendar year 2005.
- (b) In order to effectuate any termination of participation under Section 4.5(a)(1) or cancellation of a deferral election under Section 4.5(a)(2), amounts subject to such termination or cancellation must be includible in income in the taxable year in which the Participant obtains a nonforfeitable right to receive such amounts. Any termination of participation or cancellation of a deferral election may result in a lower amount of deferrals under this Plan, without a complete elimination of the deferrals.
- (c) In the event of a termination of participation under Section 4.5(a)(1) or the cancellation of a deferral election under Section 4.5(a)(2), and a distribution of deferred amounts subject to the cancellation or payable upon termination is made, such distribution will not cause this Plan to violate Code section 409A, provided that the full amount of the distribution is included in the Participant's income in calendar year 2005, or if later, the taxable year in which the Participant obtains a nonforfeitable right to receive such amount.

4.6 Elections to Defer Compensation Earned on or Before December 31, 2005. If this Plan is an amendment, restatement, and continuation of the Prior Plan, as indicated in the Adoption Agreement, a Participant electing to defer Compensation earned on or before December 31, 2005 will not be subject to this Article 4 with respect to such election, provided that the:

- (a) Election to defer is made on or before March 15, 2005;
- (b) Amounts to which the deferral election relate have not been paid or become payable at the time of election; and
- (b) Election to defer such Compensation or Employer Contributions is made in accordance with the terms of this Plan.

5.1A Distribution Forms for Evergreen Plans.

(a) If this Plan is an Evergreen Plan as specified in the Adoption Agreement, then a Participant may, to the extent permitted by the elections of the Employer specified in the Adoption Agreement, elect in his or her Deferral Agreement under Section 4.1, Section 4.2, and/or a Performance-Based Compensation Deferral Election under Section 4.3 to have his or her Participant's Account balance distributed in:

(1) A lump sum payment;

(2) Installment payments over the life expectancy of the Participant (as determined under IRS tables for purposes of Section 72 of the Code). In accordance with the Employer's election(s), a Participant electing installment payments over his or her life expectancy must designate in his or her Deferral Agreement under Section 4.1, Section 4.2, and/or a Performance-Based Compensation Deferral Election under Section 4.3 that such payments will be made monthly, quarterly, semi-annually or annually;

(3) Installment payments over a period of time, not to exceed twenty (20) years. In accordance with the Employer's election(s), a Participant electing installment payments over a period of years must designate in his or her Deferral Agreement under Section 4.1, Section 4.2, and/or a Performance-Based Compensation Deferral Election under Section 4.3 that such payments will be made monthly, quarterly, semi-annually or annually over three (3), five (5), ten (10), fifteen (15), or twenty (20) years, or on some other payment schedule; or

(4) A partial single, lump sum payment and installment payments. A Participant electing such partial payment must specify in his or her Deferral Agreement under Section 4.1, Section 4.2, and/or a Performance-Based Compensation Deferral Election under Section 4.3 the percentage of the payment required to be paid as a single, lump sum and the percentage of the payment required to be paid as installment payments. In accordance with the Employer's election(s) under the Adoption Agreement, a Participant must designate in his or her Deferral Agreement under Section 4.1, Section 4.2, and/or a Performance-Based Compensation Deferral Election under Section 4.3 whether such payments will be made over the life expectancy of the Participant or over a period of years (specifying the number of years) and whether such distributions shall be made monthly, quarterly, semi-annually or annually.

(b) As specified in the Adoption Agreement, the distribution form(s) elected under this Section 5.1A shall be made upon the occurrence of a distributable event, and in accordance with the Employer's distribution procedure as specified in the Adoption Agreement.

(c) Notwithstanding the distribution form(s) elected, if a Participant's Account balance and/or Age is less than the minimum specified in the Adoption Agreement at the time a distributable event occurs, the full Participant's Account balance shall be distributed in a lump sum payment in accordance with Section 5.1A(b).

5.1B Distribution Forms for Calendar Year Plans.

(a) If this Plan is a Calendar Year Plan as specified in the Adoption Agreement, then a Participant may, to the extent permitted by the elections of the Employer specified in the Adoption Agreement, elect in his or her Deferral Agreement under Section 4.1, Section 4.2, and/or a Performance-Based Compensation Deferral Election under Section 4.3 to have his or her Calendar Year balance(s) distributed with respect to such Plan Year in:

(1) A lump sum payment;

(2) Installment payments over the life expectancy of the Participant (as determined under IRS tables for purposes of Section 72 of the Code). In accordance with the Employer's election(s), a Participant electing installment payments over his or her life expectancy must designate in his or her Deferral Agreement under Section 4.1, Section 4.2, and/or a Performance-Based Compensation Deferral Election under Section 4.3 that such payments will be made monthly, quarterly, semi-annually or annually;

(3) Installment payments over a period of time, not to exceed twenty (20) years. In accordance with the Employer's election(s), a Participant electing installment payments over a period of years must designate in his or her Deferral Agreement under Section 4.1, Section 4.2, and/or a Performance-Based Compensation Deferral Election under Section 4.3 that such payments will be made monthly, quarterly, semi-annually or annually over three (3), five (5), ten (10), fifteen (15), or twenty (20) years, or on some other payment schedule; or

(4) A partial single, lump sum payment and installment payments. A Participant electing such partial payment must specify in his or her Deferral Agreement under Section 4.1, Section 4.2, and/or a

Performance-Based Compensation Deferral Election under Section 4.3 the percentage of the payment required to be paid as a single, lump sum and the percentage of the payment required to be paid as installment payments. In accordance with the Employer's election(s) under the Adoption Agreement, a Participant must designate in his or her Deferral Agreement under Section 4.1, Section 4.2, and/or a Performance-Based Compensation Deferral Election under Section 4.3 whether such payments will be made over the life expectancy of the Participant or over a period of years (specifying the number of years) and whether such distributions shall be made monthly, quarterly, semi-annually or annually.

(b) As specified in the Adoption Agreement, the distribution forms elected under this Section 5.1B shall be made upon the occurrence of a distributable event and in accordance with the Employer's distribution procedure as specified in the Adoption Agreement.

(c) Notwithstanding the distribution form(s) elected, if a Participant's Account balance(s) and/or Age is less than the minimum specified in the Adoption Agreement at the time a distributable event occurs, the full Account balance(s) shall be distributed in a lump sum payment in accordance with Section 5.1B(b).

(d) Different forms of distribution may be elected for different years.

5.2 Distribution as of a Specified Time.

(a) A Participant may designate at the time he or she completes his or her Deferral Agreement to receive a Specified Time distribution in the form(s) so elected by the Employer in the Adoption Agreement and as of a Specified Time designated by the Employer in the Adoption Agreement.

(b) Distributions made under this Section 5.2 shall be made in accordance with Section 5.1A(b) or Section 5.1B(b) as applicable.

(c) Notwithstanding Section 5.2(b), if the Employer so elects, distributions under this Section 5.2 may not commence until the date or Age specified in the Adoption Agreement.

(d) Different dates of distribution may be elected for different years.

- 5.3 Distribution upon Separation from Service.
- (a) Upon a Participant's Separation from Service, the unpaid portion of his or her Participant's Account balance, if any, shall be distributed in the form(s) so elected by the Employer in the Adoption Agreement.
 - (b) Distributions made under this Section 5.3 shall be made in accordance with Section 5.1A(b) or Section 5.1B(b), as applicable.
 - (c) In the case of a Separation from Service of a Key Employee, distributions under this Section 5.3 may not be made before the date which is six (6) months after the date of the Key Employee's Separation from Service (or, if earlier, the date of death of the Key Employee).
- 5.4 Distribution upon Disability. If a Participant becomes Disabled while employed with the Employer, the unpaid portion of his or her Participant's Account balance, if any, shall be distributed in a single sum.
- 5.5 Distribution upon Death. If a Participant dies while employed with the Employer, the unpaid portion of his or her Participant's Account balance, if any, shall be distributed in a single sum.
- 5.6 Withdrawals for Unforeseeable Emergency.
- (a) A Participant may withdraw all or any portion of his or her Participant's Account balance for an Unforeseeable Emergency. The amounts distributed with respect to an Unforeseeable Emergency may not exceed the amounts necessary to satisfy such Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship) or by cessation of deferrals under the Plan. The Plan Administrator, in its sole discretion, shall determine whether an Unforeseeable Emergency has occurred and shall distribute all or any portion of a Participant's Account balance as soon as practicable after such a determination.
 - (b) If a Participant receives a distribution on account of an Unforeseeable Emergency under this Plan, such Participant's Deferral Agreement shall terminate:
 - (1) As soon as practicable following a withdrawal for an Unforeseeable Emergency; or
 - (2) If a Participant's Deferral Agreement is required to be terminated in order for the Participant to receive a hardship distribution under the 401(k) Plan, or other plan of the Employer, as soon as practicable following a withdrawal for an Unforeseeable Emergency.

- 5.7 Distribution upon a Change in Control Event. Upon a Change in Control Event, the unpaid portion of a Participant's Account balance, if any, shall be distributed at the time so elected by the Employer in the Adoption Agreement.
- (a) A "Change in Control Event" means an event described under Code section 409A(a)(2)(A)(v) and regulations thereunder.
 - (b) Generally, to constitute a Change in Control Event as to a Participant, the Change in Control Event must relate to (1) the corporation for whom the Participant is performing services at the time of the Change in Control Event, (2) the corporation that is liable for the payment of Plan benefits to the Participant (or all corporations liable for the payment if more than one corporation is liable), or (3) a corporation that is a majority shareholder of a corporation identified in (1) or (2), or any corporation in a chain of corporations in which each corporation is a majority shareholder of another corporation in the chain, ending in a corporation identified in (1) or (2). The ultimate parent corporation in such a chain shall be referred to as the "Parent."
 - (c) Generally, the types of Change in Control Events are:
 - (1) *Change in ownership*, if a person, or a group of persons acting together, acquires more than 50% of the stock of the corporation;
 - (2) *Change in effective control* if, over a 12-month period, a person or group acquires stock representing 30% of the voting power of the corporation or a majority of the members of the board of directors of the parent corporation is replaced by directors not endorsed by the persons who were members of the board before the new directors' appointment;
 - (3) *Change in ownership of a substantial portion of corporate assets* if a person or group acquires 40% or more of the gross fair market value of the assets of a corporation over a 12-month period; or
 - (4) A narrower definition in a separate written agreement increasing the percentages listed in this section above. The entering into of any such separate written agreement must satisfy the requirements of Code section 409A and the regulations thereunder.
- 5.8 Intervening Distributable Events. If a Participant has incurred a Separation from Service (whether or not such Participant is currently receiving a distribution in the form(s) set

forth under Sections 5.1A(a)(2), 5.1A(a)(3), and 5.1A(a)(4) or Sections 5.1B(a)(2), 5.1B(a)(3), and 5.1B(a)(4) on account of a distributable event under Sections 5.2 or 5.3), then in lieu of the foregoing distribution form(s), the remainder of the Participant's Account balance may be distributed in a lump sum in accordance with Section 5.1A(b) or Section 5.1B(b) upon the occurrence of an intervening distributable event under Sections 5.4 through 5.7. The Employer shall specify in the Adoption Agreement whether such lump sum payment is to be made under any or all of the distributable events set forth under Sections 5.4 through 5.7.

- 5.9 Impermissible Acceleration. If the Plan Administrator, in its sole discretion, determines that a distribution under this Article will result in an impermissible acceleration prohibited under Code section 409A and applicable guidance thereunder, the Plan Administrator reserves the right to refuse to make any such distribution unless and until the Plan Administrator determines that the distribution will be made in accordance with Code section 409A.
- 5.10 Delay in Payment. If the Plan Administrator cannot make a distribution by the dates specified under Section 5.1A(b) or Section 5.1B(b) for reasons beyond the Employer's control, or if a distribution would jeopardize the Employer's solvency or if the Plan Administrator, in its sole discretion, determines that (1) the deduction associated with a distribution under this Plan would be limited by Code section 162(m), or (2) a distribution would violate federal securities laws, the Plan Administrator may delay such distributions.
- 5.11 Default time and form of distribution. If the Participant does not select a time and form of distribution in accordance with this Article 5, the time and form of distribution shall be a lump sum distribution paid as soon as administratively feasible following Separation from Service in accordance with the Plan's distribution procedures.
- 5.12 Accelerated Payment Exceptions. Unless otherwise elected in the Adoption Agreement, the plan will provide for an accelerated payment under the following circumstances:
- (a) Domestic Relations Order - Accelerated distributions for an alternate payee to comply with a Qualified Domestic Relations Order. For this purpose, a Qualified Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which is:
 - (1) issued pursuant to a State's domestic relations law;
 - (2) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of the Participant;

- (3) creates or recognizes the right of a spouse, former spouse, child or other dependent of the Participant to receive all or a portion of the Participant's benefits under the Plan;
- (4) requires payment to such person of their interest in the Participant's benefits in an immediate lump payment; and
- (5) meets such other requirements established by the Company.

The Company shall determine whether any document received by it is a Qualified Domestic Relations Order. In making this determination, the Company may consider the rules applicable to "domestic relations orders" under Code section 414(p) and ERISA section 206(d), and such other rules and procedures as it deems relevant.

- (b) Conflicts of interest– To the extent necessary for any Federal officer or employee in the executive branch to comply with an ethics agreement with the Federal government, or, to the extent reasonably necessary to avoid the violation of an applicable Federal, state, local or foreign ethics law or conflicts of interest law.;
- (c) Limited cashouts (de minimis distributions) - Discretion to cash out a Participant's interest at any time, or automatic cashouts under specified circumstances, such as Separation from Service, if the annual amount does not exceed the section 402(g) limit and all plans in the same category are cashed out at the same time. Installment distributions will also be cashed out if the amount is less than a plan-established threshold as set forth in the Adoption Agreement, which may be any pre-determined amount;
- (d) Taxes - Accelerated distributions may be paid to cover any employment tax, where applicable, on amounts deferred under the Plan, to pay federal income tax withholding amounts (or the corresponding state, local or foreign tax withholding amounts as a result of the payment of any employment taxes), and any additional income withholding attributable to the pyramiding of wages and taxes. The total payment under this acceleration provision must not exceed the aggregate employment taxes and withholding related to such employment taxes;
- (e) Plan termination and liquidation - Distributions due to a termination and liquidation of the plan in accordance with Treasury Reg. §1.409-3(j)(4) (ix);
- (f) Cancellation of a deferral election due to a Participant meeting the requirements of Disability, Unforeseeable Emergency under the Plan;
- (g) Payment upon income inclusion under Code section 409A - Accelerated payments income inclusion that is due to a violation of Code section 409A; and
- (h) Certain offsets - Accelerated payment to a participant to cover a debt owed to the company if the participant incurred the debt in the ordinary course of business, the offset does not exceed \$5,000 per calendar year, and payment occurs on the due date of the debt.

5.13 Distributions under this Plan shall only be made in cash unless otherwise provided in the Adoption Agreement.

ARTICLE 6. - PLAN INVESTMENTS

6.1 Unless otherwise stated in the Adoption Agreement, all contributions will be invested under the Diversified Investors Funds Group, Diversified Investors Strategic Allocation Funds (the "Mutual Funds"), or other investments that may be selected by the Plan Administrator from time to time under which Participant's Accounts will be established for each Participant. The Employer invests Plan assets in its discretion, taking into account (to the extent it deems advisable) instructions received from Participants. A Participant's investment choices are limited to the types of investments as so elected by the Employer.

Unless otherwise so elected, the Employer hereby designates that Participants will be permitted to request the investment of the deferred amounts from a menu of investment alternatives made available by the Employer under the Plan and under a policy established by the Employer. The Employer and the provider of investments under the Plan may impose such restrictions on the investment of deferred compensation, as they may deem appropriate in their sole discretion. The Mutual Funds are not a party to this Plan.

6.2 All amounts under this Plan, including all investments purchased with such amounts and all income attributable thereto, shall remain (until made available to the Participant or Beneficiary) solely the property of the Employer (without being restricted to the provision of benefits under the Plan) subject to the claims of the Employer's general creditors. A Participant has no greater right to Trust assets than the general creditors of the Employer in the event that the Employer shall become insolvent. Any vested accrued benefits under the Plan represent an unfunded, unsecured promise by the Employer to pay these benefits to the Participants when due. Trust assets can be used to pay only vested accrued benefits under the Plan or the claims of the Employer's general creditors.

ARTICLE 7. – BENEFICIARY

- 7.1 A Participant shall designate on his or her Deferral Agreement or other form provided by the Employer, the Beneficiary or Beneficiaries who are to receive distributions in the event of the Participant's death. If the Participant has not properly designated a Beneficiary, or if for any reason such designation shall not be legally effective, or if said designated Beneficiary or Beneficiaries shall predecease the Participant, then the Participant's estate shall be treated as the Beneficiary. A Participant may change his or her Beneficiary designation at any time by amending his or her Deferral Agreement or other form provided by the Employer.

ARTICLE 8. - VESTING AND FORFEITURES

- 8.1 Vesting. The value of a Participant's Account with respect to his or her Salary Reduction Contributions, Matching Contributions, and Nonelective Employer Contributions shall vest in accordance with the vesting schedules elected by the Employer under the Adoption Agreement.
- 8.2 When employment or service with the Employer is terminating and payment is not deferred, the amount of the payment shall be based on the value of the Participant's Account plus any contributions subsequently credited to such Account and less any distributions subsequently made from the Account.
- 8.3 Forfeitures. If applicable, any remainder of a terminating Participant's Account, which is not vested, shall be forfeited on the date of his or her Separation from Service. Any such forfeiture shall be applied to offset future Employer Contributions under the Plan, or, if none, revert to the Employer.

ARTICLE 9. – ADMINISTRATION

- 9.1 Plan Administrator. The Plan Administrator shall be the Employer adopting this Plan, as listed in Section 1 of the Adoption Agreement, or, if applicable, the person(s) or entity appointed by the Employer to administer the Plan, as listed in Section 2 of the Adoption Agreement. The Plan Administrator shall serve at the pleasure of the Employer and the Employer shall have the right to appoint, in its sole and absolute discretion, any successor Plan Administrator.
- 9.2 Claims for Benefits.
- (a) Filing a Claim. A Participant or his or her authorized representative may file a claim for benefits under the Plan. Any claim must be in writing and submitted to the Plan Administrator. Claimants will be notified in writing of approved claims, which will be processed as claimed. A claim is considered approved only if its approval is communicated in writing to a Claimant.
 - (b) Denial of Claim. In the case of the denial of a claim respecting benefits paid or payable with respect to a Participant, a written notice will be furnished to the Claimant within ninety (90) days of the date on which the claim is received by the Plan Administrator. If special circumstances (such as for a hearing) require a longer period, the Claimant will be notified in writing, prior to the expiration of the ninety (90) day period, of the reasons for an extension of time; provided, however, that no extensions will be permitted beyond ninety (90) days after the expiration of the initial ninety (90) day period.
 - (c) Reasons for Denial. A denial or partial denial of a claim will be dated and signed by the Plan Administrator and will clearly set forth:
 - (1) The specific reason or reasons for the denial;
 - (2) Specific reference to pertinent Plan provisions on which the denial is based;
 - (3) A description of any additional material or information necessary for the Claimant to perfect the claim and an explanation of why such material or information is necessary; and
 - (4) An explanation of the procedure for review of the denied or partially denied claim set forth below, including the Claimant's right to bring a civil action under ERISA section 502(a) following an adverse benefit determination on review.

- (d) Review of Denial. Upon denial of a claim, in whole or in part, a Claimant or his or her duly authorized representative will have the right to submit a written request to the Plan Administrator for a full and fair review of the denied claim by filing a written notice of appeal with the Plan Administrator within sixty (60) days of the receipt by the Claimant of written notice of the denial of the claim. A Claimant or the Claimant's authorized representative will have, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim for benefits and may submit issues and comments in writing. The review will take into account all comments, documents, records, and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

If the Claimant fails to file a request for review within sixty (60) days of the denial notification, the claim will be deemed abandoned and the Claimant precluded from reasserting it. If the Claimant does file a request for review, his or her request must include a description of the issues and evidence he or she deems relevant. Failure to raise issues or present evidence on review will preclude those issues or evidence from being presented in any subsequent proceeding or judicial review of the claim.

- (e) Decision upon Review. The Plan Administrator will provide a prompt written decision on review. If the claim is denied on review, the decision shall set forth:

- (1) The specific reason or reasons for the adverse determination;
- (2) Specific reference to pertinent Plan provisions on which the adverse determination is based;
- (3) A statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim for benefits; and
- (4) A statement describing any voluntary appeal procedures offered by the Plan and the Claimant's right to obtain the information about such procedures, as well as a statement of the Claimant's right to bring an action under ERISA section 502(a).

A decision will be rendered no more than sixty (60) days after the Plan Administrator's receipt of the request for review, except that such period may be extended for an additional sixty (60) days if the Plan Administrator determines that special circumstances (such as for a hearing) require such extension. If an extension of time is required, written notice of the extension will be furnished to the Claimant before the end of the initial sixty (60) day period.

- (f) Finality of Determinations; Exhaustion of Remedies. To the extent permitted by law, decisions reached under the claims procedures set forth in this Section shall be final and binding on all parties. No legal action for benefits under the Plan shall be brought unless and until the Claimant has exhausted his or her remedies under this Section. In any such legal action, the Claimant may only present evidence and theories which the Claimant presented during the claims procedure. Any claims which the Claimant does not in good faith pursue through the review stage of the procedure shall be treated as having been irrevocably waived. Judicial review of a Claimant's denied claim shall be limited to a determination of whether the denial was an abuse of discretion based on the evidence and theories the Claimant presented during the claims procedure. Any suit or legal action initiated by a Claimant under the Plan must be brought by the Claimant no later than one year following a final decision on the claim for benefits by the Plan Administrator. The one-year limitation on suits for benefits will apply in any forum where a Claimant initiates such suit or legal action. Any claim under this Plan relating to an alleged failure to make a contribution to this Plan, and any suit or legal action for benefits under this Plan must be made within two years of the date on which the claimed contribution is alleged should have been made or, if later, the date on which the Claimant is or should have been aware that such contributions have not been made.
- (g) Disability Claims. Claims for disability benefits shall be determined under the DOL Regulation section 2560.503-1 which is hereby incorporated by reference.
- 9.3 Indemnification. To the extent not covered by insurance, the Employer shall indemnify the Plan Administrator, each employee, officer, director, and agent of the Employer, and all persons formerly serving in such capacities, against any and all liabilities or expenses, including all legal fees relating thereto, arising in connection with the exercise of their duties and responsibilities with respect to the Plan, provided however that the Employer shall not indemnify any person for liabilities or expenses due to that person's own gross negligence or willful misconduct.
- 9.4 Power and Authority. The Plan Administrator shall have full power and authority to adopt rules and regulations (including without limitation a reasonable claims procedure) for the administration of the Plan, and to interpret, alter, amend, or revoke any rules and regulations so adopted. The Plan Administrator shall have full power and authority to interpret the terms and provisions of this Plan and any instrument filed hereunder.
- 9.5 Finality of Decisions. The Plan Administrator's decisions or interpretations made under the Plan shall be binding and final on all interested parties.
- 9.6 Presumption of Fairness. Every action taken by the Plan Administrator shall be presumed to be a fair and reasonable exercise of the authority vested in, or the duties

imposed upon, the Plan Administrator. The Plan Administrator shall be deemed to have acted impartially as to all persons interested, unless the contrary be proven by affirmative evidence. The Plan Administrator shall not be liable for amounts of Deferred Compensation by a Participant or for other amounts payable under this Plan.

- 9.7 Other Parties. Any person or entity which issues policies, contracts, or investment media to the Employer or in respect of a Participant is not a party to this Plan and such person or entity shall have no responsibility, accountability or liability to the Employer, the Plan Administrator, any Participant, or any Beneficiary with regard to the operation or adequacy of this Plan, including any future amendments made thereto.
- 9.8 Information Requests. Any party entitled to payment under this Plan shall comply with all written requests of the Plan Administrator or its designee to furnish the Employer with any information known or available to such party and necessary to the administration of the Plan.
- 9.9 Expenses. If not paid by the Employer, all reasonable expenses incurred in the administration of the Plan, including without limitation those of any Trustee and the Plan Administrator, shall be paid from Participants' Accounts to which such expenses are allocable.
- 9.10 No Fiduciary Relationship. Neither the Plan, nor any action taken by the Plan Administrator or the Employer, shall create or be deemed to create a trust or fiduciary relationship of any kind between the Employer and the Participant, his or her Beneficiary, or any other person.

ARTICLE 10. – MISCELLANEOUS

10.1 Amendment of Plan. The Employer or its delegate reserves the right to amend any provisions of the Plan at any time to the extent that it may deem advisable without the consent of Participants or any Beneficiaries provided that no such amendment shall reduce the amount of Compensation deferred before such amendment without the consent of affected Participants or Beneficiaries.

If this Plan is an amendment, restatement, and continuation of a Prior Plan, as indicated in Section 4 of the Adoption Agreement, and if the Plan Administrator, in its sole discretion, determines that an amendment to this Plan will result in a material modification of the Prior Plan, as defined under Code section 409A and Internal Revenue Service guidance issued thereunder, the amendment shall not become effective unless and until the Plan Administrator determines that the amendment will not result in such a material modification.

10.2 Termination of Plan.

(a) The Employer may terminate the Plan at any time, provided the following requirements are satisfied:

- (1) If this is an account balance elective plan, there are no other account balance elective plans maintained by the Employer with respect to any Participants in this Plan or all account balance elective plans maintained by the Employer have been terminated with respect to all Participants in this Plan;
- (2) If this is an account balance non-elective plan, there are no other account balance non-elective plans maintained by the Employer with respect to any Participants in this Plan or all account balance non-elective plans maintained by the Employer have been terminated with respect to all Participants in this Plan;
- (3) No payments to Participants other than payments that would have been paid absent the termination are made within twelve (12) months of the Plan termination;
- (4) All payments are made within twenty-four (24) months of the Plan termination; and
- (5) The Employer does not adopt a plan of the same type as the Plan for a period of three (3) years following the date of Plan termination.

(b) Section 10.2(a) shall not apply if the Plan is terminated:

(1) Within twelve (12) months of a corporate dissolution taxed under Code section 331 or with the approval of a bankruptcy court pursuant to 11 U.S.C. §503(b)(1)(A), provided that amounts deferred under the Plan are included in the Participants' income in the latest of:

- (i) The calendar year in which the Plan termination occurs;
- (ii) The calendar year in which the amount is no longer subject to a substantial risk of forfeiture; or
- (iii) The first calendar year in which the payment is administratively practicable.

(2) Within thirty (30) days preceding or twelve (12) months following a Change in Control Event as defined under Section 5.7, provided that all substantially similar arrangements sponsored by the Employer are terminated, so that the Participant in the arrangement and all Participants under substantially similar arrangements are required to receive all amounts of Compensation deferred under the terminated arrangements within twelve (12) months of the date of termination of the arrangements.

(c) Upon Plan termination in accordance with Section 10.2(a) and Section 10.2(b), a Participant's Account balance shall be payable in a lump sum cash payment to Participants. Any Participant who is already in pay status and has been receiving payments in a form or forms under Section 5.1A(a)(2), 5.1A(a)(3), and 5.1A(a)(4) or Section 5.1B(a)(2), Section 5.1B(a)(3), and 5.1B(a)(4) shall receive the balance(s) of his or her Participant's Account balance(s) in a lump sum cash payment.

(d) Notwithstanding the foregoing, if the Plan Administrator, in its sole discretion, determines that any accelerated payments made on account of Plan termination are prohibited under Code section 409A and applicable guidance thereunder, the Plan Administrator reserves the right to refuse to make any such payments unless and until the Plan Administrator determines that the payments may be made in accordance with Code section 409A.

10.3 The Employer may, from time to time, hire outside consultants, accountants, actuaries, legal counsel, or recordkeepers to perform such tasks as the Employer may from time to time determine.

- 10.4 No benefits under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge or encumbrance. The provisions of this Plan shall be binding upon and inure to the benefit of the Employer and Participants and their respective successors, heirs, personal representatives, executors, administrators, and legatees.
- 10.5 Employment. Participation in this Plan shall not be deemed to be a contract of employment between the Employer and any Eligible Employee. Nor shall anything contained herein be deemed to give any Eligible Employee the right to be retained in the employ of the Employer or to interfere with the right of the Employer to discharge any Eligible Employee at any time, nor shall it be deemed to give the Employer the right to require any employee to remain in its employ, nor shall it interfere with such Eligible Employee's right to terminate his or her employment at any time (as may be provided in any contract or agreement affecting such employment).
- 10.6 This Plan and the Deferral Agreement, and any subsequently adopted amendment thereof, shall constitute the total agreement or contract between the Employer and the Participant regarding the Plan. No oral statement or other written document regarding the Plan may be relied upon by the Participant.
- 10.7 This Plan shall be construed under the laws of the State specified in the Adoption Agreement.

DIVERSIFIED RETIREMENT CORPORATION
NONQUALIFIED DEFERRED COMPENSATION
ADOPTION AGREEMENT FOR

Acadia Healthcare Company, Inc.

This Adoption Agreement is to be used in conjunction with the
Diversified Retirement Corporation
Nonqualified Deferred Compensation Plan Document

This Adoption Agreement is an important legal document. You should consult with your attorney on whether or not it accommodates your particular situation, and on its tax and legal implications. Diversified Retirement Corporation does not and cannot provide legal or tax advice. The Plan Document and Adoption Agreement are intended purely as specimen documents for use by you and your attorney. Diversified can give no assurances that any Employer's Nonqualified Deferred Compensation arrangements will meet all applicable Internal Revenue Service ("IRS") and Department of Labor ("DOL") requirements.

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Introduction

In completing this Adoption Agreement, as in connection with other matters related to this Plan, it is strongly recommended that you consult with your attorney or other tax advisor. This is especially true because if the Plan is not operated in accordance with the terms of the Plan and the options elected in this Adoption Agreement, additional taxes, penalties, and interest under section 409A of the Internal Revenue Code (the "Code") may result.

Diversified Retirement Corporation does not and cannot provide legal or tax advice. The Adoption Agreement and the related Plan document (the "Plan") are not prototypes and have not been reviewed or approved by the IRS. They are intended purely as sample documents for use by your attorney in preparing your nonqualified deferred compensation plan.

The Plan is a broad document which allows a participating Employer a number of choices and options. Any capitalized terms used in this document have the meaning as set forth in the Plan Document, unless otherwise indicated. These choices and options are illustrated in this Adoption Agreement; provisions of the Plan which allow no options are not included in the Adoption Agreement. This does not necessarily mean that other alternatives are not legally permissible, but Diversified may not be able to administer such other alternatives. This Adoption Agreement states the provisions specific to your particular Plan.

Part I – General Information

1. Sponsoring Employer (Article 2.22 of the Plan).

- (a) Name of Employer: Acadia Healthcare Company, Inc.
- (b) Address of Employer: 830 Crescent Centre Drive, Suite 610
Franklin, TN 37067
- (c) Federal Tax ID Number of Employer: 45-2492228
- (d) Contact Phone Number: (615) 861-6000
- (e) Publicly Traded Company (*check one*):
 - (i) No.
 - (ii) Yes. (*Note: For Key Employees, distributions may not be made before the date which is six months after Separation from Service (or if earlier, after the date of death).*)
- (f) If a Publicly Traded Company, enter Key Employee identification date (*complete, if applicable*):
 - (i) December 31.
 - (ii) Other _____.
- (g) If a Publicly Traded Company, enter Key Employee effective date (*complete, if applicable*):
 - (i) April 1 following the identification date.
 - (ii) Other

Note: If the Employer is a tax-exempt organization, additional requirements may apply under Code section 457. This Plan is not intended to comply with the requirements of Code section 457. Please consult with your legal or tax advisor.

2. Plan Administrator (*if not Employer*) (Article 9.1 of the Plan).

- (a) Name of Plan Administrator: _____
- (b) Address of Plan Administrator: _____

(c) Contact Phone Number: _____

Part II – Plan Data

3. Name of Plan(s). (Articles 2.2, 2.38, and 2.41 of the Plan).

(a) The name of this Plan is *(provide name)*:

Acadia Healthcare Company, Inc. Deferred Compensation Plan

(b) The name of the predecessor nonqualified deferred compensation plan of the Employer that was in existence as of October 3, 2004 *(provide name, if there was a predecessor nonqualified deferred compensation plan and this is a new Code section 409A plan)*:

(“Prior Plan”)

4. New Plan or Amendment, Restatement, and Continuation of a Prior Plan. This Plan is *(check one)*:

(a) A new plan.

(b) An amendment, restatement, and continuation of a plan in existence as of October 3, 2004 and applies only to deferred compensation earned or vested after 2004. (There are no material modifications of pre-2005 deferred compensation.)*

(c) An amendment, restatement, and continuation of a plan in existence as of October 3, 2004, and applies to all contributions regardless of when made, earned or vested. (There are material modifications of pre-2005 deferred compensation.)

**Caution: If this is an amendment, restatement, and continuation of an existing plan, the Employer is responsible for ensuring that the amendment and restatement does not result in a “material modification” (within the meaning of Code section 409A and regulations thereunder) of any Grandfathered Amount and that any amendment does not cause a revocation of elections, acceleration of distributions or other event not permissible under Code section 409A and the regulations thereunder.*

5. Effective Date (Article 2.17 of the Plan).

(check one and provide information required by section (a) or (b), as applicable):

- (a) For new plans:

The Effective Date of the Plan is (provide date) February 1, 2013.

- (b) For the amendment, restatement, and continuation of a Prior Plan:

The initial effective date of the Plan was (provide date) _____.

The Effective Date of this amendment and restatement of the Plan is _____ (provide date).

6. Plan Year (Article 2.40 of the Plan).

The Plan Year is (a twelve month period – e.g., January 1– December 31) January 1 – December 31. If Plan has a short initial Plan Year, the short initial Plan Year is February 1 – December 31.

7. Plan Covers:

This Plan shall cover the following (check one):

- (a) Employees.
 (b) Directors.*
 (c) Other* _____.

* Note: when checked, references to the terms “Employer” and “Eligible Employee” are substituted for the terms “Company” and “Eligible Director Other _____”, in the Adoption Agreement and Plan, respectively.

8. Type of Plan.

This Plan shall be (check one):

- (a) An Evergreen Plan under which the Employer establishes and maintains a Participant’s Account, which may have sub-accounts depending on the Employer’s election, on behalf of each Eligible Employee which include, if applicable, but are not limited to a (1) Salary Reduction Contribution Account, (2) Performance-Based Compensation Account, (3) Matching Contribution Account, and (4) Nonelective Employer Contribution Account to which (1) Salary Reduction Contributions, (2) Performance-Based Compensation, (3) Matching Contributions and (4) Nonelective Employer Contributions shall be credited.

- (b) A Calendar Year Plan under which the Employer establishes and maintains a Participant's Account on behalf of each Eligible Employee's Annual Sub-Account(s) which include, if applicable, but are not limited to a (1) Salary Reduction Contribution Account, (2) Performance-Based Compensation Account, (3) Matching Contribution Account, and (4) Nonelective Employer Contribution Account to which (1) Salary Reduction Contributions, (2) Performance-Based Compensation, (3) Matching Contributions and (4) Nonelective Employer Contributions shall be credited to each respective Annual Sub-Account.

Distribution Election Method (check one if 8(b) above is selected):

- (i) Annual Election - A Participant must make a new Distribution Election each Taxable Year for future contributions to the Annual Sub-Account for the next year.
- (ii) Carry Forward Election - A Participant's Distribution Election will remain in place from year to year for future contributions to the Annual Sub-Account until such time as the Participant modifies or cancels the Distribution Election in accordance with the terms of the Plan.

Part III – Compensation

9. Compensation (Articles 2.11 and 2.35 of the Plan).

(a) Compensation shall exclude the item(s) listed below for purposes of determining (complete, if applicable):

(i) Salary Reduction Contributions:

- (1) No exclusions.
- (2) Bonus (e.g., Non-Performance Based Compensation).
- (3) Compensation in excess of at or below Code section 401(a)(17) Compensation.
- (4) Commissions.
- (5) Overtime Pay.
- (6) Performance-Based Compensation (see Section 10.(d) for separate election).
- (7) Severance Pay.
- (8) Other _____.

- (ii) Nonelective Contributions:
- (1) No exclusions.
 - (2) Bonus.
 - (3) Compensation in excess of at or below Code section 401(a)(17) Compensation.
 - (4) Commissions.
 - (5) Overtime Pay.
 - (6) Performance-Based Compensation.
 - (7) Severance Pay.
 - (8) Other _____.

Part IV – Elections to Defer Compensation

10. Salary Reduction Contributions (Article 4.1 of the Plan).

- (a) Compensation below includes Performance-Based Compensation unless excluded in Compensation or a separate deferral election is permitted in (d) below. A Participant may enter into a Deferral Agreement to make the following (*complete, if applicable*):
- (i) A Salary Reduction Contribution in one (1) percent increments from a minimum of 0% up to a maximum of 50% of Compensation.
 - (ii) An additional Salary Reduction Contribution from 0% to 100% equal to the amount of refunds paid due to a failed Actual Deferral Percentage non-discrimination test in the Employer's 401(k) Plan.
 - (iii) Once a Participant reaches the deferral limit under the 401(k) Plan, a Salary Reduction Contribution in one (1) percent increments from a minimum of % up to a maximum of % Compensation.
 - (iv) A Salary Reduction Contribution up to a maximum deferral of (*check one, if applicable*):
 - (1) the Calendar Year Code section 402(g) limit.

(2) an amount that, when combined with the 401(k) deferrals made to the 401(k) Plan, does not exceed the section 402(g) limit.

(3) \$_____.

(b) A Participant may enter into a separate Deferral Agreement to make a bonus election (*complete, if applicable*):

(i) Not applicable.

(ii) The bonuses paid by the Employer are included in the definition of Compensation and the Employer permits a Participant to enter into a separate Deferral Agreement to make a Salary Reduction Contribution in one (1) percent increments from a minimum of ___% up to a maximum of ___% of bonuses.

(c) An Employer may allow a Participant's Deferral Agreement to remain in place from year to year, so long as the Deferral Agreement becomes irrevocable by the end of the Election Period preceding the Taxable Year in which Compensation subject to the Deferral Agreement is earned. The Employer will define each year the designated Election Period. As specified below, a Deferral Agreement will be made (*check one, if 10(a) above is applicable*):

(i) Each Taxable Year (annual deferral election).

(ii) As of the last day of the Election Period preceding the Plan Year in which Compensation subject to the Deferral Agreement is earned, until such time as the Participant modifies or terminates the automatic Deferral Agreement for future Plan Years by notifying the Plan Administrator (carry forward deferral election).

(d) Performance-Based Compensation Contributions (Article 4.3 of the Plan).

(i) Performance-Based Compensation may be deferred under the Plan in a separate Performance-Based Compensation Deferral Election (*complete, if applicable*):

(1) Not applicable.

(2) In one (1) percent increments from a minimum of 0% up to a maximum of 100%.

(ii) A Participant must enter into a Deferral Agreement with respect to Performance-Based Compensation Contributions (*check one, if 10(d)(i)(2) above is applicable*):

(1) During the same Election Period that is applicable for Salary Reduction Contributions.

(2) By the date that is at least six months before the end of the performance period described in Plan Article 4.3(b).

(iii) An Employer may allow a Participant's Deferral Agreement with respect to Performance-Based Compensation Contributions to remain in place from year to year, so long as such Deferral Agreement becomes irrevocable by the end of the Election Period preceding the Taxable Year in which Compensation subject to the Deferral Agreement is earned. The Employer will define each year the designated Election Period. As specified below, a Deferral Agreement will be made (*check one, if 10(d)(i) above is applicable*):

(1) Each Taxable Year (annual deferral election).

(2) As of the last day of the Election Period preceding the Taxable Year in which Compensation subject to the Deferral Agreement is earned, until such time as the Participant modifies or terminates the automatic Deferral Agreement for future Plan Years by notifying the Plan Administrator (carry forward deferral election).

11. Employer Contributions (Article 4.2 of the Plan).

An Employer may elect to make the following types of Employer Contributions (*complete, if applicable*):

(a) Matching Contributions

(i) No Matching Contributions.

(ii) Matching Contributions will be made on:

(1) Salary Reduction Contributions.

(2) Bonuses (if separate election).

(3) Performance-Based Compensation Contribution.

(4) Any or all of the above as determined by Board Resolution each Plan Year.

(iii) Matching Contributions may be made in the following percentage (*complete if 11(a)(ii) above, is applicable*):

(1) Discretionary Match as determined by Board Resolution each Plan Year.

(2) Percentage Match: ___% of first ___% of a Participant's Deferral Compensation (as selected in 11(a)(ii)) for the Plan Year.

(3) The same percentage as the Employer makes as a matching contribution under the 401(k) Plan.

(4) Other: _____.

(b) Nonelective Employer Contributions

(i) No Nonelective Employer Contributions.

(ii) Nonelective Employer Contributions may be in an amount equal to a *(complete, if applicable)*:

(1) Fixed Percentage: ___% of a Participant's Compensation.

(2) Flat Dollar Amount: \$_____.

(3) Discretionary Amount as determined by Board Resolution each Plan Year.

(4) Other: An amount equal to refunds of Employer Matching Contributions due to a failed Actual Contribution Percentage non-discrimination test.

12. Transition Relief under Section 409A

(a) Right to Terminate Participation or Cancel a Deferral Election During Calendar Year 2005 (Articles 4.5 and 4.6 of the Plan).

During calendar year 2005, (complete, if applicable):

(i) Participants are allowed to make a new calendar year 2005 deferral election by March 15, 2005.

(ii) Participants are allowed to cancel or revoke a calendar year 2005 deferral election.

(iii) Participants are allowed to terminate participation and distribute the calendar year 2005 amounts by December 31, 2005.

- (b) Right to Change the Time and/or Form of Distribution Elections During Calendar Years 2006, 2007 and 2008 (Articles 4.1, 4.2, 4.3 and 4.4 of the Plan).

For the calendar years selected below, Distribution Elections affecting the Participant's then existing account balance shall not be treated under Section 4.4(a) as a change in the time and/or form of distribution or an acceleration of a payment with respect to such account balance (complete, if applicable):

- (i) *Calendar year 2006*. Participants are allowed to make a new distribution election during calendar year 2006.
- (ii) *Calendar year 2007*. Participants are allowed to make a new distribution election during calendar year 2007.
- (iii) *Calendar year 2008*. Participants are allowed to make a new distribution election during calendar year 2008.

Part V – Forms and Timing of Distributions – Upon Separation from Service

13. Retirement Age (Article 2.43 of the Plan).

The Retirement Age under the Plan shall be (*check one*):

- (a) Age 65.
- (b) Age ____.

14. Required Distribution Age (*complete if applicable*):

_____.

15. Distribution Elections upon Separation from Service (Article 5.3 of the Plan) (*check one*):

- (a) Not permitted. Single sum only at Separation from Service.
- (b) Single distribution election per Participant Account (no separate distribution elections for sub-accounts, e.g., contribution sources):
- (c) Multiple distribution elections per Participant (separate distribution elections permitted for sub-accounts, e.g., contribution sources). Check boxes for which there is a separate distribution election permitted:
- (i) Salary Reduction Contributions.*
- (ii) Performance-Based Compensation.

* Includes all Nonelective Employer Contributions

16. Forms of Distribution upon Separation from Service

(a) A Participant may elect to have his or her Participant's Account balance distributed in the following form(s). If no election is made, a single sum payment is the default election (*check options to be available if 15(b) or (c) above is selected*):

- (i) A single sum payment.
- (ii) Installment payments over (*check all that apply*):
 - (1) 3 years.
 - (2) 5 years.
 - (3) 7 years.
 - (4) 10 years.
 - (5) A maximum of 10 years.
 - (6) Other: _____.
- (iii) A partial single sum payment and installment payments not to exceed the installment payment options listed above. (*Must complete (ii)*).
- (iv) Installment payments over the life expectancy of the Participant.

(b) If a Participant elects any installment payment option above, the Participant must designate that such payments will be made in accordance with the options selected below (*select option(s) to be available. Annual is default option if no option selected.*):

- (i) Monthly.
- (ii) Quarterly.
- (iii) Semi-annually.
- (iv) Annually.

17. Timing of Distributions (check one):

- (a) At Separation from Service.
- (b) Six months following Separation from Service.
- (c) ____ year(s) following Separation from Service.
- (d) Variable year(s) following Separation from Service (enter years below):
 - ____ year(s).
 - ____ year.
 - ____ year.
 - ____ year.

18. Processing Schedule for Distributions upon Separation from Service (Articles 5.1A(b) and 5.1B(b) of the Plan).

Distributions shall be made after a distributable event set forth under Articles 5.3 through 5.7 of the Plan occurs, as follows (*check one*):

- (a) Immediately upon the occurrence of such distributable event; provided that such distribution may not be made more than 90 days following the distributable event.
- (b) The 1st business day following January 1st immediately following such distributable event.
- (c) The 1st business day of the 1st month of the calendar quarter immediately following such distributable event.
- (d) As of the 1st business day of the month listed below immediately following such distributable event (can be up to four months):

- (e) 1st or 7th month of the calendar year immediately following such distributable event.

19. Single Sum Distributions upon Separation from Service (Articles 5.1A(c) and 5.1B(c) of the Plan).

At the time a distributable event set forth under Article 5.3 of the Plan occurs, if a Participant's Account balance is less than an amount specified below and a Participant has not already attained the minimum Age specified below, such Account balance shall be distributed to the Participant in a single sum in accordance with the Timing of Distributions and Processing Schedule stated above (*complete if applicable*):

- (a) Minimum Age (*check one*):
 - (i) No minimum Age.
 - (ii) Minimum Age _____.

- (b) Minimum Account Balance (*check one*):
- (i) No minimum account balance.
 - (ii) \$10,000.
 - (iii) \$25,000 (must be greater than \$10,000 but not to exceed \$100,000).

20. Change in the Form, Timing or Processing Schedule of Distribution upon Separation from Service (Article 4.4(b) of the Plan) (*check one*):

- (a) Not permitted.
- (b) Permitted.

(i) A Participant may elect to change his or her form, timing or processing schedule under the Plan (*check one*):

- (1) Permitted only during an Election Period.
- (2) Permitted at any time consistent with Code section 409A.

(ii) Maximum number of times a Participant may elect to change either the form or timing of distribution (*check one, if applicable*):

- (1) No limit.
- (2) Number of changes: _____

Part VI – Forms and Timing of Distributions as of a Specified Time

21. Form of Distribution as of a Specified Time (Article 5.2 of the Plan). Applies to all contribution sources (*select options to be available*):

- (a) Not permitted.
- (b) Lump sum distribution.
- (c) Partial distribution up to 100% (must be in whole percentages).
- (d) Partial distribution in dollar amounts.
- (e) Equal installment payments of entire account. Installment provisions are the same as the Forms of Distribution upon Separation from Service.

22. Processing Schedule for Distributions as of a Specified Time (Article 5.2(a) of the Plan).

A Participant may designate to receive a distribution as of (*select options to be available*):

- (a) The 1st business day immediately following January 1st of the year of payout.

- (b) The 1st business day of any month during the calendar year.
- (c) The 1st business day of any quarter during the calendar year.
- (d) The 1st or 7th month of the calendar year.

23. Distribution as of Specified Time Waiting Period. (Article 5.2(c) of the Plan) *(complete, if applicable):*

No sooner than the January 1st that is one year(s) following the year of deferral.

24. Change in Form, Timing or Processing Schedule of Distributions as of a Specified Time (Article 4.4(b) of the Plan) *(check one, if applicable):*

(a) Not permitted.

(b) Permitted.

(i) A Participant may elect to change his or her Form of Distribution to another Form of Distribution under the Plan *(check one):*

(1) Permitted only during an Election Period.

(2) Permitted at any time consistent with Code section 409A.

(ii) Maximum number of times a Participant may elect to change either the Form or Timing of distribution *(check one, if applicable):*

(1) No limit.

(2) Number of changes: _____.

Part VII – Forms and Timing of Distributions Upon Other Events

25. Accelerated Payment Exceptions (Article 5.12 of the Plan)

In accordance with the terms of the Plan, an accelerated payment on behalf of an active or terminated participant may be paid under certain circumstances set forth in Article 5.12 of the Plan. Such circumstances are to comply with a domestic relations order, conflicts of interest, cashouts if the annual amount does not exceed certain limits, tax withholding, plan termination and liquidation, cancellation of deferral elections due to disability, unforeseeable emergency or hardship, 409A violation or certain offsets to cover a debt owed to the company not to exceed \$5,000 per calendar year. *(check one; if not checked, the first box below is the default election):*

- (a) The plan will provide for the accelerated payment exception.
- (b) The plan will not provide for the accelerated payment exception.

26. Determination and Distribution upon Disability (Articles 2.15 and 5.4 of the Plan).

If a Participant becomes Disabled while employed with the Employer, the unpaid portion of his or her Participant's Account balance, if any, shall be distributed in a single sum.

A Participant shall be deemed Disabled (*check one; if not checked, the first box below is the default definition*):

- (a) In accordance with a disability insurance program sponsored by the Employer, provided the definition set forth in the program satisfies the requirements of Article 2.15(a) of the Plan.
- (b) By the Social Security Administration.
- (c) In the Plan Administrator's sole discretion, subject to the requirements of Article 2.15(a) of the Plan.

27. Distributions upon Death (Article 5.5 of the Plan).

If a Participant dies while employed with the Employer, the unpaid portion of his or her Participant's Account balance, if any, shall be distributed in a single sum.

28. Withdrawals for an Unforeseeable Emergency (Articles 2.51 and 5.6 of the Plan) (*check one*):

- (a) Not permitted.
- (b) Permitted.

29. Termination of Deferral Agreement upon Withdrawals for an Unforeseeable Emergency (Article 5.6(b) of the Plan)

A Participant's Deferral Agreement shall terminate as soon as practicable following a withdrawal for an Unforeseeable Emergency or if applicable below, a hardship withdrawal from the 401(k) Plan or other plan of the Employer. A Participant will again be able to elect to defer into the Plan as of the first Election Period immediately following the end of the suspension period.

Check (a) below if 401(k) Plan or other plan of the Employer has a suspension provision for hardship withdrawals:

- (a) If a Participant's Deferral Agreement is required to be terminated in order for the Participant to receive a hardship distribution under the 401(k)

Plan or other plan of the Employer, a Participant's Deferral Agreement will terminate as soon as practicable following a withdrawal for a hardship distribution under the 401(k) Plan or other plan of the Employer.

- (b) No suspension provision for hardship withdrawals.

30. Distribution upon a Change in Control Event (Article 5.7 of the Plan).

Upon a Change in Control Event, the unpaid portion of a Participant's Account balance, if any, shall be distributed as follows (*check one; if not checked, the first box is the default option*):

- (a) A single sum upon the occurrence of a Change in Control Event.
 (b) No distribution upon a Change in Control Event.

31. Intervening Distributable Events (Article 5.8 of the Plan).

If a Participant has incurred a Separation from Service (whether or not such Participant is currently receiving a distribution form), then in lieu of the foregoing distribution form(s), the remainder of the Participant's Account balance will be distributed in a single sum upon the occurrence of (*select options to be available, if applicable*):

- (a) Disability.
 (b) Death.
 (c) Unforeseeable Emergency. (An amount may not exceed the amount necessary to satisfy such Emergency and the balance of installments will be recalculated.)
 (d) A Change in Control Event.

32. Transfer to 401(k) Plan ("Tandem Plan") (*check one; if not checked, the first box is the default option*):

- (a) Not applicable. No transfer to 401(k) plan.
 (b) Transfer to 401(k) Plan - As of the end of each calendar year (and not later than January 31 of the next following calendar year), the Employer shall determine the maximum amount that may be contributed to the 401(k) Plan on behalf of each Participant as a salary deferral contribution with respect to the corresponding plan year of the 401(k) Plan. The Employer's determination of the maximum amount that may be contributed to the 401(k) Plan on behalf of each Participant shall be conclusive. Unless the Participant has elected to have such amount contributed to the 401(k) Plan as a salary deferral contribution, the amount (exclusive of any earnings credited under this Plan) so determined with respect to the Participant (but not in excess of the Participant's Deferred Compensation for that calendar year) shall

be paid in a single sum to the Participant as soon as is practicable after such computation is made. If such payment is paid to a Participant after December 31 of the year in which the Deferred Compensation is earned, it shall nonetheless be treated by the Employer and reported on the Participant's Form W-2 as wages paid in the year the Deferred Compensation was earned.

Each Participant may elect to have the amount otherwise payable to the Participant contributed to the 401(k) Plan as a salary deferral contribution. Such election must be made not later than December 31 of the calendar year preceding the calendar year for which the Deferred Compensation election is made, and such election may not be revoked after that date. If such election is made, the Employer shall contribute such amount (exclusive of any earnings credited under this Plan) to the 401(k) Plan as soon as is practicable after the end of the plan year that corresponds with the calendar year for which the election was made. The Employer shall also contribute to the 401(k) Plan any matching contributions that are due from the Employee for such plan year. The Participant's Account shall be debited by the amount of such contributions. Notwithstanding any otherwise conflicting provision in this Plan, a Participant's election with respect to a calendar year shall not be given effect, and the Employer shall not make a contribution to the 401(k) Plan on behalf of such Participant for such calendar year, unless such Participant is in the employ of the Employer on the last day of such calendar year.

Part VIII – Vesting

33. Salary Reduction Contributions (Article 8.1 of the Plan).

Salary Reduction Contributions and Performance-Based Compensation shall be 100 percent vested immediately.

34. Matching Contributions (Article 8.1 of the Plan).

A Participant shall be 100% vested upon Death, Disability, Retirement Age or Plan Termination. Matching Contributions shall vest in accordance with the following schedule:

- (a) Not applicable. No Matching Contributions.
- (b) 100 percent vesting immediately.
- (c) 3 year cliff:

<u>Percentage</u>	<u>Years of Service</u>
0 percent	0-2
100 percent	3

- (d) 5 year cliff:

<u>Percentage</u>	<u>Years of Service</u>
0 percent	0-4
100 percent	5

(e) 6 year graded:

<u>Percentage</u>	<u>Years of Service</u>
0 percent	0-1
20 percent	2
40 percent	3
60 percent	4
80 percent	5
100 percent	6

(f) 7 year graded:

<u>Percentage</u>	<u>Years of Service</u>
0 percent	0-2
20 percent	3
40 percent	4
60 percent	5
80 percent	6
100 percent	7

(g) Other _____.

35. Nonelective Employer Contributions (Article 8.1 of the Plan).

A Participant shall be 100% vested upon Death, Disability, Retirement Age or Plan Termination. Nonelective Employer Contributions shall vest in accordance with the following schedule (*default to Matching Contribution Vesting Schedule if nothing checked*):

(a) Not applicable. No Nonelective Employer Contributions.

(b) 100 percent vesting immediately.

(c) 3 year cliff:

<u>Percentage</u>	<u>Years of Service</u>
0 percent	0-2
100 percent	3

(d) 5 year cliff:

<u>Percentage</u>	<u>Years of Service</u>
0 percent	0-4
100 percent	5

- (e) 6 year graded:

<u>Percentage</u>	<u>Years of Service</u>
0 percent	0-1
20 percent	2
40 percent	3
60 percent	4
80 percent	5
100 percent	6

- (f) 7 year graded:

<u>Percentage</u>	<u>Years of Service</u>
0 percent	0-2
20 percent	3
40 percent	4
60 percent	5
80 percent	6
100 percent	7

- (g) Other _____.

Part IX – Miscellaneous

36. Year of Service is defined as follows:

- (a) Not applicable. All contributions are 100% vested.
- (b) Not applicable. No Employer contributions.
- (c) Year of Service as defined in 401(k) Plan of the Employer.
- (d) Other _____.

37. Plan Investments (Article 6 of the Plan) (check one; if not checked, the first box is the default option):

- (a) Participants will be permitted to request the investment of the deferred amounts from a menu of investment alternatives made available by the Employer.
- (b) Participants will not be permitted to request the investment of the deferred amounts from a menu of investment alternatives made available by the Employer.
- (c) Participants will be permitted to make a phantom investment election of the deferred amounts from a menu of investment alternatives made available by the Employer.
- (d) The Plan will provide a notional investment rate and Plan assets are not specifically set aside from Employer's general assets.

38. Addendum Items:

39. State Law (Article 10.7 of the Plan).

Except to the extent superseded by federal law, the internal laws of the state of Tennessee shall be controlling in all matters relating to the Plan.

Execution

By executing this Adoption Agreement, the undersigned sponsoring Employer hereby adopts the Plan. The selections and specifications contained in this Adoption Agreement and the terms, provisions and conditions provided in the Diversified Retirement Corporation Specimen Nonqualified Deferred Compensation Plan Document constitute the Plan. No other plan document may be used with this Adoption Agreement.

The sponsoring Employer further understands and acknowledges that:

- Diversified Retirement Corporation is not a Party to the Plan and shall not be responsible for any tax or legal aspects of their Plan. The sponsoring Employer assumes responsibility for these matters.
- The sponsoring Employer has counseled, to the extent necessary, with its own selected legal and tax advisors.
- The obligations of Diversified Retirement Corporation shall be governed solely by the provisions of Diversified's contracts and policies; there is no requirement that Diversified Retirement Corporation look into any action taken by the Plan Administrator or the Employer, and Diversified Retirement Corporation and its affiliates shall be fully protected in taking, permitting or omitting any action on the basis of the actions of the Plan Administrator or Employer.
- Diversified Retirement Corporation shall incur no liability for carrying out actions as directed by the Employer or Plan Administrator.
- Diversified Retirement Corporation shall be under no obligation to update this Adoption Agreement or the Diversified Retirement Corporation Nonqualified Deferred Compensation Plan Document for any subsequent changes in applicable law.

IN WITNESS WHEREOF, the Sponsoring Employer has caused this Adoption Agreement to be executed by a duly authorized representative this 30th day of January, 2013.

Attest: Acadia Healthcare Company, Inc.
Name of Sponsoring Employer

By: /s/ Kim Brady

Title: Director of Human Resources

NONMANAGEMENT DIRECTOR COMPENSATION

Purpose: The purpose of the compensation program for nonmanagement directors of Acadia Healthcare Company, Inc. (“Acadia”) is to align the interests of nonmanagement directors with the long-term interests of stockholders and to adequately compensate nonmanagement directors to ensure that Acadia retains highly qualified directors.

Annual Cash Retainer for Directors: Nonmanagement directors shall be paid an annual cash retainer of \$60,000.

Annual Cash Retainer for Audit Committee Members: The chair of the Audit Committee shall be paid an annual cash retainer of \$30,000. Other members of the Audit Committee shall be paid an annual cash retainer of \$15,000.

Annual Cash Retainer for Compensation Committee Members: The chair of the Compensation Committee shall be paid an annual cash retainer of \$27,500. Other members of the Compensation Committee shall be paid an annual cash retainer of \$12,500.

Annual Cash Retainer for Nominating and Corporate Governance Committee Members: If the Board of Directors of Acadia determines to form a Nominating and Corporate Governance Committee, the chair of the Nominating and Corporate Governance Committee shall be paid an annual cash retainer of \$22,000. Other members of the Nominating and Corporate Governance Committee shall be paid an annual cash retainer of \$10,000.

Annual Cash Retainer for Lead Director: The lead director shall receive an annual cash retainer of \$15,000 in addition to any other retainers or fees received by such director.

Payment of Annual Cash Retainers: All annual retainers shall be paid on the day of the Company’s Annual Meeting of Stockholders (the “Annual Meeting Date”). In the event a nonmanagement director is initially appointed to the Board and/or a committee of the Board on a date other than an Annual Meeting Date, such newly appointed director or committee member shall be paid a pro rata portion of the applicable annual cash retainer at the quarterly Board meeting next following such appointment.

Initial Grant of Restricted Shares: On the date of the quarterly Board meeting next following a nonmanagement director’s initial appointment to the Board of Directors, such newly appointed nonmanagement director shall receive an initial grant of restricted shares having a value equal to \$100,000. The value of the restricted shares shall be based on the closing trading price of the Company’s common stock on the trading day immediately preceding the quarterly board meeting.

Annual Grant of Restricted Shares: On each Annual Meeting Date, each nonmanagement director shall receive an annual grant of restricted shares having a value equal to \$100,000. The value of the restricted shares shall be based on the closing trading price of the Company’s common stock on the trading day immediately preceding the Annual Meeting Date.

Vesting of Restricted Shares: All restricted shares issued to nonmanagement directors shall vest over three years with such shares to vest 33 1/3% per year on the three successive anniversary dates of the grant of restricted stock beginning on the first anniversary of the grant date.

Effective Date of Compensation Program: January 1, 2013

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

I, Joey A. Jacobs, certify that:

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

Date: May 2, 2013

/s/ Joey A. Jacobs

Joey A. Jacobs
Chairman of the Board and Chief Executive
Officer

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

I, David M. Duckworth, certify that:

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

Date: May 2, 2013

/s/ David M. Duckworth

David M. Duckworth
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Acadia Healthcare Company, Inc. (the "Company") for the quarterly period ended March 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joey A. Jacobs, Chief Executive Officer of the Company, and I, David M. Duckworth, Chief Financial Officer of the Company, each certify, for the purpose of complying with 18 U.S.C. Section 1350 and Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: May 2, 2013

/s/ Joey A. Jacobs

Joey A. Jacobs

Chairman of the Board and Chief Executive Officer

/s/ David M. Duckworth

David M. Duckworth

Chief Financial Officer