

Acadia Healthcare Company, Inc.  
Form DEF 14A  
April 30, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**SCHEDULE 14A**

**(Rule 14a-101)**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-11(c) and Rule 14a-12

**ACADIA HEALTHCARE COMPANY, INC.**

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(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- .. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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**830 CRESCENT CENTRE DRIVE, SUITE 610**

**FRANKLIN, TENNESSEE 37067**

April 30, 2013

TO OUR STOCKHOLDERS:

You are cordially invited to attend the 2013 Annual Meeting of Stockholders (the Annual Meeting ) of Acadia Healthcare Company, Inc., to be held on Thursday, May 23, 2013, at 10:30 a.m. (Central Time), at our executive offices located at 830 Crescent Centre Drive, Suite 610, Franklin, Tennessee 37067. The matters to be acted upon at the Annual Meeting are more fully described in the accompanying Proxy Statement and related materials.

It is important that your shares be represented at the Annual Meeting. Whether or not you plan to attend the Annual Meeting, please vote by proxy as soon as possible by following the instructions located in the enclosed proxy card. If you attend the Annual Meeting, you may withdraw your proxy and vote your shares personally.

We look forward to seeing you at the Annual Meeting.

Sincerely,

/s/ Joey A. Jacobs

Joey A. Jacobs

*Chairman, Director and Chief Executive Officer*

**YOUR VOTE IS IMPORTANT.**

**PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY CARD**

**AS PROMPTLY AS POSSIBLE.**

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**830 CRESCENT CENTRE DRIVE, SUITE 610**

**FRANKLIN, TENNESSEE 37067**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held May 23, 2013**

TO OUR STOCKHOLDERS:

The 2013 Annual Meeting of Stockholders (the Annual Meeting ) of Acadia Healthcare Company, Inc. will be held on Thursday, May 23, 2013, at 10:30 a.m. (Central Time), at our executive offices located at 830 Crescent Centre Drive, Suite 610, Franklin, Tennessee 37067, for the following purposes:

- (1) To elect four nominees as Class II directors;
- (2) To approve the Amended and Restated Incentive Compensation Plan;
- (3) To approve, on a non-binding advisory basis, the compensation of our named executive officers;
- (4) To approve, on a non-binding advisory basis, the frequency of a non-binding advisory vote on the compensation of our named executive officers;
- (5) To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013; and

(6) To transact any other business that properly comes before the Annual Meeting or any adjournments or postponements thereof. The matters to be acted upon at the Annual Meeting are more fully described in the Proxy Statement and related materials. Please read the materials carefully.

The Board of Directors has fixed the close of business on March 27, 2013 as the record date for determining stockholders entitled to notice of and to vote at the Annual Meeting or any adjournments or postponements thereof.

By order of the Board of Directors,

/s/ Joey A. Jacobs

Joey A. Jacobs  
*Chairman, Director and Chief Executive Officer*

Dated: April 30, 2013

**IMPORTANT**

**WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING IN PERSON, TO ASSURE THE PRESENCE OF A QUORUM, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE. IF YOU ATTEND THE MEETING AND WISH TO VOTE YOUR SHARES PERSONALLY, YOU MAY DO SO AT ANY TIME BEFORE THE PROXY IS EXERCISED.**

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**830 CRESCENT CENTRE DRIVE, SUITE 610**

**FRANKLIN, TENNESSEE 37067**

**PROXY STATEMENT**

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the **Board** or **Board of Directors**) of Acadia Healthcare Company, Inc. (the **Company**) of proxies to be voted at the 2013 Annual Meeting of Stockholders (the **Annual Meeting**), to be held at our executive offices located at 830 Crescent Centre Drive, Suite 610, Franklin, Tennessee 37067, on Thursday, May 23, 2013, at 10:30 a.m. (Central Time), for the purposes set forth in the accompanying notice, and at any adjournments or postponements thereof. This Proxy Statement and the accompanying proxy are first being mailed to stockholders on or about April 30, 2013.

**INFORMATION CONCERNING SOLICITATION AND VOTING**

**Record Date**

The close of business on March 27, 2013 has been fixed as the record date for the determination of stockholders entitled to vote at the Annual Meeting. As of such date, we had 90,000,000 authorized shares of common stock, \$0.01 par value per share ( **Common Stock** ), of which 50,240,486 shares were outstanding and entitled to vote, and 10,000,000 authorized shares of preferred stock, \$0.01 par value per share, of which no shares were outstanding. Common Stock is our only outstanding class of voting stock. Each share of Common Stock will have one vote on each matter to be voted upon at the Annual Meeting.

**Quorum Requirements**

A majority of the shares of Common Stock entitled to vote, represented in person or by proxy, is required to constitute a quorum. Abstentions and broker non-votes will be counted for purposes of determining the presence of a quorum at the Annual Meeting. If a quorum is not present at the time of the Annual Meeting, the stockholders entitled to vote, present in person or represented by proxy, shall have the power to adjourn the Annual Meeting until a quorum shall be present or represented by proxy. The Annual Meeting may be adjourned from time to time, whether or not a quorum is present, by the affirmative vote of a majority of the votes present and entitled to be cast at the Annual Meeting.

**Voting Procedures**

Whether you hold shares directly as the stockholder of record or through a broker, trustee or other nominee, as the beneficial owner, you may direct how your shares are voted without attending the Annual Meeting. If you hold shares in street name, you must vote by giving instructions to your broker or nominee. You should follow the voting instructions on any form that you receive from your broker or nominee. The availability of telephone and Internet voting for shares held in street name will depend on your broker's or nominee's voting process. Please refer to the instructions in the materials provided to you for information on the available voting methods.

If a proxy is properly given prior to or at the Annual Meeting and not properly revoked, it will be voted in accordance with the instructions, if any, given by the stockholder. Subject to the requirements described below, if no instructions are given, each proxy will be voted:

**FOR** the election as directors of the nominees described in this Proxy Statement;



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**FOR** the approval of the Acadia Healthcare Company, Inc. Incentive Compensation Plan (the Amended and Restated Incentive Compensation Plan ), including approval of the business criteria available for performance-based awards;

**FOR** the approval of the compensation of our executive officers named in the section below entitled EXECUTIVE COMPENSATION Summary Compensation Table (the Named Executive Officers );

For a frequency of every **THREE YEARS** for future non-binding advisory votes on the compensation of our Named Executive Officers;

**FOR** ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013; and

In accordance with the recommendation of the Board on any other proposal that may properly come before the Annual Meeting or any adjournment thereof.

The persons named as proxies were selected by our Board of Directors.

Without your instructions, your broker or nominee is permitted to use its own discretion and vote your shares on certain routine matters (such as Proposal 5), but is not permitted to use its discretion and vote your shares on non-routine matters (such as Proposals 1, 2, 3 and 4). We urge you to give voting instructions to your broker or nominee on all proposals. Shares that are not permitted to be voted by your broker or nominee are called broker non-votes. Broker non-votes are not considered votes for or against a proposal and, therefore, will have no direct impact on any proposal.

Stockholders who give proxies have the right to revoke them at any time before they are voted by delivering a written request to Christopher L. Howard, Esq., Executive Vice President, General Counsel and Secretary, at 830 Crescent Centre Drive, Suite 610, Franklin, Tennessee 37067, prior to the Annual Meeting or by submitting another proxy at a later date. The giving of the proxy will not affect the right of a stockholder to attend the Annual Meeting and vote in person.

**Miscellaneous**

We will bear the cost of printing, mailing and other expenses in connection with this solicitation of proxies and will also reimburse brokers and other persons holding shares of Common Stock in their names or in the names of nominees for their expenses in forwarding the proxy materials to the beneficial owners of such shares. Certain of our directors, officers and employees may, without any additional compensation, solicit proxies in person or by telephone.

Our management is not aware of any matters other than those described in this Proxy Statement that may be presented for action at the Annual Meeting. If any other matters properly come before the Annual Meeting, it is intended that the proxies will be voted with respect thereto in accordance with the judgment of the person or persons voting such proxies subject to the direction of our Board of Directors.

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**PROPOSAL 1: ELECTION OF DIRECTORS**

**Introduction**

Our Amended and Restated Certificate of Incorporation provides that our Board of Directors shall be divided into three classes. Approximately one-third of our directors are elected each year. All classes of directors have three-year terms. The terms of our Class II directors expire at the Annual Meeting.

In connection with the consummation of our acquisition of PHC, Inc. ( PHC ) on November 1, 2011, we entered into a stockholders agreement with certain members of our current and former management (the Management Investors ) and Waud Capital Partners, L.L.C. ( WCP ) and certain of WCP s affiliates (the Stockholders Agreement ). Pursuant to the Stockholders Agreement, so long as certain affiliates of WCP (the WCP Investors ) own at least 17.5% of the Company s outstanding voting securities, the WCP Investors are entitled to designate the pro rata number of our directors that is proportional (but rounded up to the nearest whole number) to their collective percentage ownership of our outstanding Common Stock, subject to the applicable rules of The NASDAQ Stock Market regarding director independence. Further, provided that the WCP Investors hold at least 17.5% of the Company s outstanding voting securities, each Management Investor will vote all of his or her shares of Common Stock and any other voting securities over which such Management Investor has voting control as directed by the WCP Investors holding a majority of our outstanding shares of Common Stock held by all WCP Investors as of such date (the Majority WCP Investor ). In addition, in accordance with the Stockholders Agreement, our Board appointed Joey A. Jacobs and Bruce A. Shear as Class III directors. Pursuant to the Stockholders Agreement, Mr. Jacob s appointment shall last as long as he continues to serve as our Chief Executive Officer or the Chief Executive Officer of any of our subsidiaries, and Mr. Shear s appointment will terminate after the expiration of the three-year term following his initial term. Pursuant to the Stockholders Agreement, Mr. Shear also has the right to designate a director who meets the applicable director independence requirements of The NASDAQ Stock Market. See CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS Stockholders Agreement for additional information.

On May 21, 2012, we no longer qualified as a controlled company within the meaning of the rules of The NASDAQ Stock Market. In accordance with such rules, we have a transition period that expires on May 21, 2013 to comply with the requirement to have a Board comprised of a majority of independent directors as set forth in the rules of The NASDAQ Stock Market. In connection with the Board s effort to comply with such independence requirements, Bradley M. Eckmann, Christopher J. Graber, Matthew A. London, Matthew W. Clary, Eric S. Gordon and David O. Neighbours, who are WCP affiliates and were designated to serve on the Board by the WCP Investors, resigned from the Board on April 30, 2013. None of the resignations resulted from a disagreement with the Company. Also effective April 30, 2013, the Board of Directors of the Company decreased the number of directors constituting the Board from twelve to ten and elected the following individuals to fill vacancies created by the resignation of the directors appointed by the WCP Investors: (i) Kyle D. Lattner to serve as a Class II director of the Company whose term expires at the Annual Meeting and (ii) E. Perot Bissell, Allan B. Hubbard and Hartley R. Rogers to serve as Class I directors of the Company whose term expires at the Company s 2015 annual meeting of stockholders. Reeve B. Waud, previously a Class I director, and Joey A. Jacobs, previously a Class III director, were reclassified as Class II directors and were nominated for election at the Annual Meeting. Messrs. Bissell, Lattner and Waud were designated to serve on the Company s Board by the WCP Investors. Biographies of the directors are set forth below. See the section below entitled CORPORATE GOVERNANCE Loss of Controlled Company Status for additional information.

Our Board of Directors has nominated the four individuals named below under the caption Class II Nominees for election as directors to serve until the annual meeting of stockholders in 2016 and their successors have been elected and take office or until their earlier death, resignation or removal. Each nominee has consented to be a candidate and to serve if elected. Proxies cannot be voted for a greater number of persons than the nominees named.

**Table of Contents****Qualification of Directors**

As described below, our Board of Directors is composed of individuals from differing backgrounds and experiences. We believe that each of our directors possesses unique qualifications, skills and attributes that complement the performance of the full Board. The experience that each has obtained from his professional background, as set forth below, has qualified him to serve on our Board of Directors.

**Class II Nominees**

The following table shows the names, ages and principal occupations of each of the nominees designated by our Board of Directors to become directors and the year in which each nominee was first appointed or elected to the Board of Directors:

<b>Name</b>	<b>Age</b>	<b>Principal Occupation/Other Directorships</b>	<b>Director Since</b>
William F. Grieco	59	Since 2008, Mr. Grieco has served as the Managing Director of Arcadia Strategies, LLC, a legal and business consulting organization servicing healthcare, science and technology companies. From 2003 to 2008, he served as Senior Vice President and General Counsel of American Science and Engineering, Inc., an x-ray inspection technology company. From 2001 to 2002, he served as Senior Vice President and General Counsel of IDX Systems Corporation, a healthcare information technology company. Previously, from 1995 to 1999, he was Senior Vice President and General Counsel for Fresenius Medical Care North America, a dialysis service and products company. Prior to that, Mr. Grieco was a partner at Choate, Hall & Stewart, a general service law firm. Our Board believes that Mr. Grieco is qualified to serve as a director because of, among other things, his extensive knowledge of and experience in the healthcare industry and his general business and financial acumen. Since February 2011, Mr. Grieco has been a member of the board of directors of Echo Therapeutics Inc. (NASDAQ:ECTE), a medical device and specialty pharmaceutical company. From February 1997 until November 2011, Mr. Grieco served as a member of the board of directors of PHC. Mr. Grieco was designated as a director by Bruce A. Shear.	2011
Joey A. Jacobs	59	Mr. Jacobs serves as the Chairman of our Board and as our Chief Executive Officer. Mr. Jacobs has extensive experience in the behavioral health industry. He co-founded Psychiatric Solutions, Inc. ( PSI ) and served as Chairman, President and Chief Executive Officer of PSI from April 1997 to November 2010. Prior to founding PSI, Mr. Jacobs served for 21 years in various capacities with Hospital Corporation of America ( HCA, also formerly known as Columbia and Columbia/HCA), most recently as President of the Tennessee Division. Mr. Jacobs' background at HCA also included serving as president of HCA's Central Group, vice president of the Western Group, assistant vice president of the Central Group and assistant vice president of the Salt Lake City Division. Mr. Jacobs serves on the boards of directors of Cumberland Pharmaceuticals, Inc. (NASDAQ:CPIX) and Mental Health Management, Inc. Our Board believes that Mr. Jacobs is qualified to serve as a director because of, among other things, his 36 years of experience in the healthcare industry and his general business and financial acumen.	2011

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<b>Name</b>	<b>Age</b>	<b>Principal Occupation/Other Directorships</b>	<b>Director Since</b>
Kyle D. Lattner	28	Mr. Lattner is a Vice President of WCP and joined the firm in 2013. Prior to joining WCP, Mr. Lattner worked as an investment professional with American Securities LLC in New York from 2009 to 2011. Previously, Mr. Lattner was an investment banking analyst with each of Oppenheimer & Co. and CIBC World Markets in New York. Our Board believes that Mr. Lattner is qualified to serve as a director due to, among other things, his investment banking experience and financial acumen. Mr. Lattner was designated as a director by the WCP Investors.	2013
Reeve B. Waud	49	Mr. Waud formed WCP in 1993 and has served as the Managing Partner of WCP since that time. Prior to founding WCP, Mr. Waud was an investment professional at Golder, Thoma, Cressey, Rauner, Inc. ( GTCR ), a private equity investment group based in Chicago, Illinois. Before joining GTCR, Mr. Waud was in the Corporate Finance Group of Salomon Brothers, Inc. and was a founding member of its Venture Capital Group. The Board of Directors believes that Mr. Waud is qualified to serve as a director because of, among other things, his extensive knowledge of and experience in the healthcare industry and his general business and financial acumen. Mr. Waud also serves as the controlling stockholder and/or chairman of the board of directors of Adreima, CarePoint Partners, Maxum Petroleum, Inc., Optimum Outcomes, LLC, ProNerve, Sterling Healthcare Holdings, The Center for Vein Restoration, True Partners Consulting and Whitehall Products, all private companies. He also serves on the board of directors of Northwestern Memorial Foundation, the philanthropic arm that supports the fundraising, grant-making and stewardship activities of Northwestern Memorial HealthCare ( NMHC ), and is a member of the NMHC Finance Committee. Mr. Waud serves as an advisor to Green Courte Partners, a private equity, real estate investment firm. In addition, Mr. Waud is a member of the Commonwealth Club of Chicago and is a member of The Economic Club of Chicago. He is a trustee of St. Paul's School in Concord, New Hampshire and the John G. Shedd Aquarium. In addition, he serves on the Visiting Committee of the University of Chicago Harris School of Public Policy. Mr. Waud was designated as a director by the WCP Investors.	2005

**Required Vote**

Directors are elected by a plurality of the votes cast by the shares of Common Stock entitled to vote in the election at a meeting at which a quorum is present. Our Amended and Restated Certificate of Incorporation does not provide for cumulative voting, and, accordingly, the stockholders do not have cumulative voting rights with respect to the election of directors. Consequently, each stockholder may cast one vote per share of Common Stock held of record for each nominee. An abstention may not be specified with respect to the election of Class II nominees. Broker non-votes will have no effect on the outcome of the election. Unless a proxy specifies otherwise, or results in a broker non-vote because of the failure to execute or return the proxy to a broker with instructions, the persons named in the proxy will vote the shares covered thereby FOR the nominees designated by our Board of Directors. If a nominee becomes unavailable for election, shares covered by a proxy will be voted for a substitute nominee selected by our Board of Directors.

**The Board of Directors recommends that the stockholders vote FOR each of the Class II nominees.**

**Table of Contents****Continuing Directors**

Each of the persons named below will continue to serve as a director until the annual meeting of stockholders in the year indicated and a successor is elected and takes office or until his earlier death, resignation or removal. Stockholders are not voting on the election of the Class III or Class I directors. The following table shows the names, ages, principal occupations and other directorships of each continuing director and the year in which each was first appointed or elected to our Board or that of our predecessor, Acadia Healthcare Company, LLC:

Name Class III	Age	Principal Occupation/Other Directorships	Director Since
<b>Term Expiring in 2014</b>			
Wade D. Miquelon	48	Since July 2009, Mr. Miquelon has been Executive Vice President and Chief Financial Officer of Walgreen Co. ( Walgreens ). Mr. Miquelon joined Walgreens in June 2008 as Senior Vice President and Chief Financial Officer. Prior to Walgreens, he was Executive Vice President and Chief Financial Officer at Tyson Foods, Inc. from 2006 to 2008. From 1989 to 2006, Mr. Miquelon served Procter & Gamble Co. ( P&G ) in a number of positions of increasing responsibility, most recently for three years as Vice President Finance, Western Europe, the senior most financial officer responsible for the 17-country Western Europe operation. Among other positions during his tenure at P&G, Mr. Miquelon was the head of Finance and Accounting for the ASEAN, Australasia, and India region, served as Director and Investment Partner of I Ventures, a P&G venture capital fund, and co-founded and served as Chief Financial Officer and Senior Vice President of Business Development/Human Resources of Emmporative, Inc., an enterprise marketing management software joint venture between P&G and other entities. Our Board believes that Mr. Miquelon is qualified to serve as a director because of, among other things, his extensive knowledge of public accounting and his finance background.	2012
William M. Petrie, M.D.	66	Dr. Petrie is Professor of Clinical Psychiatry in the Department of Psychiatry at the Vanderbilt University School of Medicine, where he has served for more than 20 years. He is also Director, Vanderbilt Senior Assessment Clinic in the Department of Psychiatry at the Vanderbilt University School of Medicine. Previously, Dr. Petrie served as President and Co-Director of Research at Psychiatric Consultants, P.C., a leading psychiatry practice in Nashville, Tennessee, and Chairman, Department of Psychiatry, Parthenon Pavilion at Centennial Medical Center. Dr. Petrie served as a director for PSI from September 2004 until November 2010. Our Board believes that Dr. Petrie is qualified to serve as a director because of, among other things, his extensive healthcare experience, particularly in the psychiatric and behavioral healthcare fields.	2012
Bruce A. Shear	58	Mr. Shear serves as the Executive Vice Chairman of the Company. Prior to joining the Company in 2011, Mr. Shear served as President, Chief Executive Officer and a director of PHC beginning in 1980 and Treasurer of PHC from September 1993 until February 1996. From 1976 to 1980, he served as Vice President, Financial Affairs, of PHC. Our Board believes that Mr. Shear is qualified to serve as a director because of, among other things, his extensive knowledge of and experience in the healthcare industry and his knowledge of PHC. Mr. Shear has served on the Board of Governors of the Federation of American Health Systems for over 16 years and is currently a member	2011

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Name	Age	Principal Occupation/Other Directorships	Director Since
of the Board of Directors of the National Association of Psychiatric Health Systems. Since November 2003, Mr. Shear has been a member of the Board of Directors of Vaso Active Pharmaceuticals, Inc., a private company marketing and selling over-the-counter pharmaceutical products that incorporate Vaso's transdermal drug delivery technology.			
<b>Class I</b>			
<b>Term Expiring in 2015</b>			
E. Perot Bissell	53	Since 2012, Mr. Bissell has been the Vice Chairman of Maxum Enterprises, LLC. From 2006 to 2012, he served as Chief Executive Officer for Maxum Petroleum, Inc., an independent energy logistics company. Prior to that, Mr. Bissell was a Partner of Northwest Capital Appreciation, Inc., a merchant banking and private equity firm, and before that, the Co-Managing Partner and Chief Financial Officer of SLP Capital, a specialty finance company. Our Board believes that Mr. Bissell is qualified to serve as a director because of, among other things, his extensive corporate finance background and his general business and financial acumen. Mr. Bissell currently serves on the board of directors of Maxum Enterprises, LLC and previously served on the board of ASG Security, LLC, Maxum Petroleum, Inc., SLP Capital and SPI Petroleum, LLC, all private companies. Mr. Bissell also serves on a number of charitable boards. Mr. Bissell was designated as a director by the WCP Investors.	2013
Allan B. Hubbard	65	Mr. Hubbard is the Co-Founder and Chief Executive Officer of E&A Industries, Inc., a privately-held holding company which acquires and operates established manufacturing companies. Mr. Hubbard served as Assistant to the President for Economic Policy and Director of the National Economic Council during the George W. Bush administration. Prior to that he served as Deputy Chief of Staff to Vice President Dan Quayle and Executive Director of the President's Council on Competitiveness during the George H.W. Bush administration. Our Board believes that Mr. Hubbard is qualified to serve as a director because of, among other things, his extensive government and economic policy experience and his knowledge of and experience in the healthcare industry. Mr. Hubbard serves on the board of directors of Simon Property Group, Inc. (NYSE:SPG), a real estate investment trust, and PIMCO Equity Series and PIMCO Equity Series VIT, investment management companies. He previously served as a director of WellPoint, Inc. (NYSE:WLP), a managed healthcare company.	2013
Hartley R. Rogers	53	Mr. Rogers is the Chairman of Hamilton Lane Advisors, a global private equity investment firm. Prior to joining Hamilton Lane in 2004, Mr. Rogers was a Managing Director in the Private Equity Division at Credit Suisse First Boston. In that capacity, he served as a senior partner and member of the Investment Committee of DLJ Merchant Banking Partners III, a private equity fund, and as a co-head of CSFB Equity Partners, a private equity fund. Prior to joining Credit Suisse in 1997, Mr. Rogers was a Managing Director at Morgan Stanley & Co., where he was the President of the General Partners of the Princes Gate Investors family of private equity funds and Head of the Morgan Stanley Bridge Fund. A graduate of Harvard College and Harvard Business School, Mr. Rogers worked at Morgan Stanley at various times and in various capacities from 1981 to 1997. Our Board	2013

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Name	Age	Principal Occupation/Other Directorships	Director Since
		believes that Mr. Rogers is qualified to serve as a director because of, among other things, his extensive finance background and his general business and financial acumen. Mr. Rogers has served on the board of directors of various private companies including Hamilton Lane Advisors and currently serves on the board of the Metropolitan Opera.	

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**PROPOSAL 2: APPROVAL OF THE AMENDED AND RESTATED  
INCENTIVE COMPENSATION PLAN**

**Background**

The Acadia Healthcare Company, Inc. 2011 Incentive Compensation Plan (the "2011 Plan") currently in effect provides for grants of stock options, stock appreciation rights, restricted stock and other stock-based and cash-based awards. Directors, officers and other employees of the Company and its subsidiaries, as well as other persons performing consulting or advisory services for the Company, are eligible for grants under the 2011 Plan. The purpose of the 2011 Plan is to provide incentives that will attract, retain and motivate high performing officers, directors, employees and consultants by providing them with a proprietary interest in our long-term success or compensation based on their performance in fulfilling their responsibilities to the Company.

In April 2013, the Compensation Committee and the Board of Directors approved and adopted an amended and restated version of the 2011 Plan, subject to stockholder approval. The Amended and Restated Incentive Compensation Plan increases the aggregate number of shares of our Common Stock which may be issued or used for reference purposes for awards granted under the plan by 2,000,000 shares and includes certain other changes with respect to the administration of the plan. The Amended and Restated Incentive Compensation Plan contains the same business criteria that our Compensation Committee must use for setting performance goals with respect to awards granted under the 2011 Plan.

As of March 31, 2013, there were outstanding under the 2011 Plan: (i) options to purchase 753,060 shares of Common Stock with a weighted-average exercise price of \$22.03 and a weighted-average remaining term of 9.48 years; (ii) 476,977 shares of unvested restricted stock and (iii) 95,751 unvested restricted stock units. As of March 31, 2013, there were 1,217,336 shares of our Common Stock available for issuance under the 2011 Plan. The closing price of a share of our Common Stock on The NASDAQ Global Market on March 28, 2013 (the last trading day prior to March 31, 2013) was \$29.39.

Awards under the Amended and Restated Incentive Compensation Plan are intended to qualify as performance-based compensation, and be fully deductible, under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). Such payments are intended to be fully deductible under Section 162(m). Section 162(m) generally limits federal income tax deductions for compensation paid to a covered employee in any taxable year to \$1 million. Covered employees generally include our Named Executive Officers other than our Chief Financial Officer. We are permitted to fully deduct compensation that is performance-based, without regard to the \$1 million limit. To be performance-based, the payment or vesting of compensation must be conditioned on achievement of performance goals and must meet certain other conditions of Section 162(m). Under the Amended and Restated Incentive Compensation Plan, the performance goals are set by the Compensation Committee. The business criteria used for setting the performance goals must be specified in the plan. Awards earned upon achievement of performance goals can qualify as performance-based compensation under Section 162(m) so long as the business criteria used for setting performance goals are re-approved by stockholders every five years. Effective March 29, 2013, we granted performance vesting restricted stock units to our Named Executive Officers (as defined below) that are subject to stockholder approval of the Amended and Restated Incentive Compensation Plan. See COMPENSATION DISCUSSION AND ANALYSIS Components of Executive Compensation Equity-Based Compensation for additional information about the grants.

**Proposal**

Stockholders are being asked to approve the Amended and Restated Incentive Compensation Plan. Such approval includes approval of the business criteria that the Compensation Committee must use for setting performance goals with respect to awards granted under the plan.

One of the purposes of this proposal is to provide for full deductibility of performance-based compensation that otherwise satisfies the requirements of Section 162(m). If stockholders do not approve the Amended and Restated Incentive Compensation Plan, which means that the business criteria will not have been approved for purposes of Section 162(m), payments earned under performance-based awards would no longer qualify as



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performance-based compensation within the meaning of Section 162(m). Consequently, such payments would not be tax deductible to the extent that compensation paid to any of the covered employees exceeds \$1 million in a taxable year. This could result in additional tax liability to the Company.

### **Description of the Amended and Restated Incentive Compensation Plan**

Set forth below is a summary of the material terms of the Amended and Restated Incentive Compensation Plan. The summary is qualified in its entirety by reference to the full text of the plan, which is included in *Appendix A* to this Proxy Statement.

*Administration.* The Amended and Restated Incentive Compensation Plan is administered by the Compensation Committee. Under the plan, the Compensation Committee has the power to:

Determine the form, amount and other terms and conditions of awards;

Clarify, construe or resolve any ambiguity in any provision of the Amended and Restated Incentive Compensation Plan or any award agreement;

Amend the terms of outstanding awards; and

Adopt such rules, forms, instruments and guidelines for administering the Amended and Restated Incentive Compensation Plan as it deems necessary or proper.

Further, the Compensation Committee has full authority to:

Administer and interpret the Amended and Restated Incentive Compensation Plan;

Grant discretionary awards under the plan, determine the plan recipients, types of awards, terms and conditions of each award, and number of shares of Common Stock in each award;

Make all other determinations in connection with the plan and the awards; and

Delegate authority under the plan to our executive officers.

*Available Shares.* The aggregate number of shares of our Common Stock which may be issued or used for reference purposes under the Amended and Restated Incentive Compensation Plan or with respect to which awards may be granted may not exceed 4,700,000 shares. The number of shares available for issuance under the plan may be subject to adjustment in the event of a reorganization, stock split, merger or similar change in the corporate structure or the number of outstanding shares of our Common Stock. In the event of any of these occurrences, we may make any adjustments we consider appropriate to, among other things, the number and kind of shares, options or other property available for issuance under the plan or covered by grants previously made under the plan. The shares available for issuance under the plan may be either authorized and unissued shares of our Common Stock or shares of Common Stock held in or acquired for our treasury. In general, if awards under the Amended and Restated Incentive Compensation Plan are for any reason cancelled, or expire or terminate unexercised, the shares covered by such awards may again be available for the grant of awards under the Amended and Restated Incentive Compensation Plan.

*Maximum Awards.* The maximum number of shares of our Common Stock subject to any award to any participant during any fiscal year is 750,000 shares. The maximum number of shares of our Common Stock for all awards during any fiscal year is 1,500,000 shares. The maximum value of a cash payment made under a performance award with respect to any fiscal year is \$10,000,000.

## Edgar Filing: Acadia Healthcare Company, Inc. - Form DEF 14A

*Eligibility for Participation.* Members of our Board of Directors, as well as employees of, and consultants to, us or any of our subsidiaries and affiliates are eligible to receive awards under the Amended and Restated Incentive Compensation Plan.

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*Award Agreement.* Awards granted under the Amended and Restated Incentive Compensation Plan will generally be evidenced by award agreements, which need not be identical, that provide additional terms, conditions, restrictions or limitations covering the grant of the award, including additional terms providing for the acceleration of exercisability or vesting of awards in the event of a change of control or conditions regarding the participant's employment, as determined by the Compensation Committee.

*Stock Options.* The Compensation Committee may grant nonqualified stock options and incentive stock options to purchase shares of our Common Stock only to eligible employees. The Compensation Committee will determine the number of shares of our Common Stock subject to each option, the term of each option, which may not exceed ten years (or five years in the case of an incentive stock option granted to a 10% or greater stockholder), the exercise price, the vesting schedule (if any) and the other material terms of each option. No incentive stock option or nonqualified stock option may have an exercise price less than the fair market value of a share of our Common Stock at the time of grant or, in the case of an incentive stock option granted to a 10% or greater stockholder, 110% of such fair market value. Options will be exercisable at such time or times and subject to such terms and conditions as determined by the Compensation Committee at grant and the exercisability of such options may be accelerated by the Compensation Committee.

*Stock Appreciation Rights.* The Compensation Committee may grant stock appreciation rights (SARs) either with a stock option, which may be exercised only at such times and to the extent the related option is exercisable (a Tandem SAR), or independent of a stock option (a Non-Tandem SAR). A SAR is a right to receive a payment in shares of our Common Stock or cash, as determined by the Compensation Committee, equal in value to the excess of the fair market value of one share of our Common Stock on the date of exercise over the exercise price per share established in connection with the grant of the SAR. The term of each SAR may not exceed ten years. The exercise price per share covered by an SAR will be the exercise price per share of the related option in the case of a Tandem SAR and will be the fair market value of our Common Stock on the date of grant in the case of a Non-Tandem SAR. The Compensation Committee may also grant limited SARs, either as Tandem SARs or Non-Tandem SARs, which may become exercisable only upon the occurrence of a change in control, as defined in the Amended and Restated Incentive Compensation Plan, or such other event as the Compensation Committee may designate at the time of grant or thereafter.

*Restricted Stock.* The Compensation Committee may award shares of restricted stock. Except as otherwise provided by the Compensation Committee upon the award of restricted stock, the recipient generally will have the rights of a stockholder with respect to the shares, including the right to receive dividends, the right to vote the shares of restricted stock and, conditioned upon full vesting of shares of restricted stock, the right to tender such shares, subject to the conditions and restrictions generally applicable to restricted stock or specifically set forth in the recipient's restricted stock agreement. The Compensation Committee may determine at the time of award that the payment of dividends, if any, will be deferred until the expiration of the applicable restriction period. Recipients of restricted stock will generally be required to enter into a restricted stock agreement with us that states the restrictions to which the shares are subject, which may include satisfaction of pre-established performance goals, and the criteria or date or dates on which such restrictions will lapse. If the grant of restricted stock or the lapse of the relevant restrictions is based on the attainment of performance goals, the Compensation Committee will establish for each recipient the applicable performance goals, formulae or standards and the applicable vesting percentages with reference to the attainment of such goals or satisfaction of such formulae or standards while the outcome of the performance goals are substantially uncertain. Such performance goals may incorporate provisions for disregarding, or adjusting for, changes in accounting methods, corporate transactions, including dispositions and acquisitions, and other similar events or circumstances. Because Section 162(m) of the Code requires that performance awards be based upon objective performance measures, the performance goals for performance-based restricted stock will be based on one or more of the business criteria set forth in the Amended and Restated Incentive Compensation Plan.

*Other Stock-Based Awards.* The Compensation Committee may, subject to limitations under applicable law, make a grant of such other stock-based awards, including performance units, dividend equivalent units, stock equivalent units, restricted stock units and deferred stock units under the Amended and Restated Incentive Compensation Plan that are payable in cash or denominated or payable in or valued by shares of our Common Stock or factors that influence the value of such shares. The Compensation Committee may determine the terms and conditions of any such other awards, which may include the achievement of certain minimum performance goals for purposes of compliance with Section 162(m) of the Code and a minimum vesting period. The performance goals for performance-based other stock-based awards will be based on one or more of the business criteria set forth in the Amended and Restated Incentive Compensation Plan.

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*Other Cash-Based Awards.* The Compensation Committee may grant awards payable in cash. Cash-based awards shall be in such form, and dependent on such conditions, as the Compensation Committee shall determine, including being subject to the satisfaction of vesting conditions or awarded purely as a bonus and not subject to restrictions or conditions. If a cash-based award is subject to vesting conditions, the Compensation Committee may accelerate the vesting of such award in its discretion.

*Performance Awards.* The Compensation Committee may grant a performance award to a participant payable upon the attainment of specific performance goals. The Compensation Committee may grant performance awards that are intended to qualify as performance-based compensation under Section 162(m) of the Code, as well as performance awards that are not intended to so qualify. If the performance award is payable in cash, it may be paid upon the attainment of the relevant performance goals either in cash or in shares of restricted stock, based on the then current fair market value of such shares, as determined by the Compensation Committee. Based on service, performance or other factors or criteria, the Compensation Committee may, at or after grant, accelerate the vesting of all or any part of any performance award.

*Performance Goals.* The Compensation Committee may grant awards of restricted stock, performance awards, and other stock-based awards that are intended to qualify as performance-based compensation for purposes of Section 162(m) of the Code. These awards may be granted, vest and be paid based on attainment of specified performance goals established by the Compensation Committee. These performance goals may be based on the attainment of a certain target level of, or a specified increase or decrease in, one or more of the following measures selected by the Compensation Committee:

Earnings per share;

Operating income;

Gross income;

Net income, before or after taxes;

Cash flow;

Gross profit;

Gross profit return on investment;

Gross margin return on investment;

Gross margin;

Operating margin;

Working capital;

Earnings before interest and taxes;

Earnings before interest, tax, depreciation and amortization;

Return on equity;

Return on assets;

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Return on capital;

Return on invested capital;

Net revenues;

Gross revenues;

Revenue growth, as to either gross or net revenues;

Annual recurring net or gross revenues;

Recurring net or gross revenues;

License revenues;

Sales or market share;

Total stockholder return;

Economic value added;

Specified objectives with regard to limiting the level of increase in all or a portion of our bank debt or other long-term or short-term public or private debt or other similar financial obligations, which may be calculated net of cash balances and other offsets and adjustments as may be established by the Compensation Committee;

The fair market value of a share of Common Stock;

The growth in the value of an investment in the Common Stock assuming the reinvestment of dividends;

Reduction in operating expenses; or

Other objective criteria determined by the Compensation Committee.

To the extent permitted by law, the Compensation Committee may also exclude the impact of an event or occurrence which the Compensation Committee determines should be appropriately excluded, such as:

Restructurings, discontinued operations, extraordinary items and other unusual or non-recurring charges;

An event either not directly related to our operations or not within the reasonable control of management; or

A change in tax law or accounting standards required by generally accepted accounting principles.

Performance goals may also be based on an individual participant's performance goals, as determined by the Compensation Committee. In addition, all performance goals may be based upon the attainment of specified levels of our performance, or the performance of a subsidiary, division or other operational unit, under one or more of the measures described above relative to the performance of other corporations. To the extent permitted under Section 162(m), the Compensation Committee may also designate additional business criteria on which the performance goals may be based or adjust, modify or amend those criteria.

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*Change in Control.* In connection with a change in control, as defined in the Amended and Restated Incentive Compensation Plan, the Compensation Committee may accelerate vesting of outstanding awards under the Amended and Restated Incentive Compensation Plan. In addition, such awards may be, in the discretion of the Compensation Committee:

Assumed and continued or substituted in accordance with applicable law;

Purchased by us for an amount equal to the excess of the price of a share of our Common Stock paid in a change in control over the exercise price of the awards; or

Cancelled if the price of a share of our Common Stock paid in a change in control is less than the exercise price of the award. The Compensation Committee may also provide for accelerated vesting or lapse of restrictions of an award at any time.

*Stockholder Rights.* Except as otherwise provided in the applicable award agreement and with respect to an award of restricted stock, a participant will have no rights as a stockholder with respect to shares of our Common Stock covered by any award until the participant becomes the record holder of such shares.

*Amendment and Termination.* Notwithstanding any other provision of the Amended and Restated Incentive Compensation Plan, generally our Board of Directors may at any time amend any or all of the provisions of the Amended and Restated Incentive Compensation Plan, or suspend or terminate it entirely, retroactively or otherwise; provided, however, that, unless otherwise required by law or specifically provided in the Amended and Restated Incentive Compensation Plan, the rights of a participant with respect to awards granted prior to such amendment, suspension or termination may not be adversely affected without the consent of such participant.

*Transferability.* Awards granted under the Amended and Restated Incentive Compensation Plan generally are nontransferable, other than by will or the laws of descent and distribution, except that the Compensation Committee may provide for the transferability of nonqualified stock options at the time of grant or thereafter to certain family members.

*Recoupment of Awards.* The Amended and Restated Incentive Compensation Plan provides that awards granted under the Amended and Restated Incentive Compensation Plan are subject to any right that we might have (i) under any recoupment policy or (ii) regarding the clawback of incentive-based compensation under the Securities Exchange Act of 1934, as amended (the Exchange Act), and under any applicable rules and regulations promulgated by the Securities and Exchange Commission (the SEC).

## **Federal Income Tax Consequences**

Under present federal income tax law, participants will generally realize ordinary income equal to the amount of a cash award under the Amended and Restated Incentive Compensation Plan in the year of receipt. With respect to equity awards under the Amended and Restated Incentive Compensation Plan, participants will generally recognize ordinary income based on the market value of our Common Stock at the time it becomes vested or earned under an award. With respect to an award of Common Stock that is subject to the plan, participants can make an election under Section 83(b) of the Code to be taxed on the value of the Common Stock at the time the award is granted. In either case, the individual is also subject to capital gains treatment on the subsequent sale of the Common Stock acquired through an award. For this purpose, the individual's basis in the Common Stock is its fair market value at the time the Common Stock subject to the award becomes vested. If an election under Section 83(b) is made, basis is determined at the time the Common Stock was transferred.

We will generally be entitled to a corresponding federal income tax deduction at the time the participant recognizes ordinary income with respect to any award of performance-based compensation under the Amended and Restated Incentive Compensation Plan. If the stockholders do not approve the plan, which means that the business criteria will not have been approved for purposes of Section 162(m), compensation cannot qualify as performance-based and payments to covered employees cannot be deducted to the extent that the amount paid exceeds \$1 million in a taxable year.



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**New Plan Benefits**

The Amended and Restated Incentive Compensation Plan will not result in any new benefits being provided to participants in the plan. Awards under the Amended and Restated Incentive Compensation Plan are determined based on our actual performance compared to the performance goals established by the Compensation Committee. Therefore, the benefits or amounts to be received by participants cannot be determined at this time.

**Required Vote**

The affirmative vote of the holders of a majority of the shares of Common Stock present in person or represented by proxy at the Annual Meeting and entitled to vote on the matter is needed to approve the Amended and Restated Incentive Compensation Plan. Under Delaware law, an abstention will have the same legal effect as a vote against approval of the Amended and Restated Incentive Compensation Plan, and broker non-votes will have no effect on the outcome of the approval of the Amended and Restated Incentive Compensation Plan.

**The Board of Directors recommends that the stockholders vote FOR approval of the  
Amended and Restated Incentive Compensation Plan.**

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The following table provides information as of December 31, 2012 with respect to compensation plans (including individual compensation arrangements) under which shares of Common Stock are authorized for issuance:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans <sup>(1)</sup>
Equity Compensation Plans Approved by Stockholders <sup>(2)</sup>	540,791 <sup>(3)</sup>	\$ 15.57	1,300,356
Equity Compensation Plans Not Approved by Stockholders <sup>(4)</sup>	174,812	7.61	
<b>Total</b>	<b>715,603</b>	<b>\$ 13.16</b>	<b>1,300,356</b>

- (1) Excludes shares to be issued upon exercise of outstanding options and vesting of outstanding restricted stock units.
- (2) Represents securities issued or available for issuance under the 2011 Plan.
- (3) Includes 137,256 shares that may be issued upon vesting of outstanding restricted stock units that vest over three years, assuming that maximum performance goals are attained in all three years.
- (4) Includes warrants and stocks options issued pursuant to (i) the PHC, Inc. 1995 Non-Employee Director Stock Option Plan, as amended December 2002, (ii) the PHC, Inc. 2003 Stock Purchase and Option Plan, as amended December 2007, and (iii) the PHC, Inc. 2004 Non-Employee Director Stock Option Plan. On November 1, 2011, we issued warrants and options to purchase shares of our Common Stock as replacements for PHC, Inc. warrants and options.

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**PROPOSAL 3: NON-BINDING ADVISORY VOTE ON EXECUTIVE COMPENSATION**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act ) enables our stockholders to vote to approve, on a non-binding advisory basis, the compensation of our Named Executive Officers as described below in the sections entitled COMPENSATION DISCUSSION AND ANALYSIS and EXECUTIVE COMPENSATION. Because your vote is advisory, it will not be binding on the Board of Directors or the Compensation Committee, override any decision made by the Board of Directors or the Compensation Committee or create or imply any additional fiduciary duty of the Board of Directors or the Compensation Committee. The Compensation Committee will, however, review the voting results and take them into consideration when making future decisions regarding executive compensation.

Our executive compensation program is vital to our ability to attract, motivate and retain a highly experienced team of executives. We believe that the program is structured in a manner that supports our Company and our business objectives.

We are asking our stockholders to indicate their support for the compensation of our Named Executive Officers disclosed in this Proxy Statement. This proposal, commonly known as a say-on-pay proposal, gives our stockholders the opportunity to express their views on the compensation of our Named Executive Officers. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our Named Executive Officers and the philosophy, policies and practices described in this Proxy Statement. Accordingly, we ask our stockholders to vote FOR the following resolution at the Annual Meeting:

RESOLVED, that the Company's stockholders approve, on a non-binding advisory basis, the compensation of the Named Executive Officers as disclosed in the Company's Proxy Statement for the 2013 annual meeting of stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the sections entitled COMPENSATION DISCUSSION AND ANALYSIS and EXECUTIVE COMPENSATION.

Although the results of this advisory vote are not binding on the Board of Directors or the Compensation Committee, the Compensation Committee will review the voting results and take them into consideration when making future decisions regarding executive compensation.

**The Board of Directors recommends that stockholders vote FOR the resolution to approve, on a non-binding advisory basis, the compensation of our Named Executive Officers.**

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**PROPOSAL 4: NON-BINDING ADVISORY VOTE ON THE FREQUENCY OF THE VOTE  
ON EXECUTIVE COMPENSATION**

The Dodd-Frank Act requires us to include, at least once every six years, a non-binding advisory vote regarding the frequency of the non-binding advisory vote on executive compensation. In casting their advisory vote, stockholders may choose among four options:

An annual vote;

A vote every two years;

A vote every three years; or

To abstain from voting.

After careful consideration, the Board of Directors has determined that a non-binding advisory vote on executive compensation that occurs every three years is the most appropriate alternative for us at this time. The Board of Directors believes that an advisory vote every three years will be the most effective timeframe for us to respond to stockholders' feedback and provide us with sufficient time to engage with stockholders to understand and respond to the vote results. Setting a three-year period will enhance stockholder communication by providing a clear, simple means for us to obtain information on investor sentiment about our executive compensation philosophy. Additionally, a vote every three years would align more closely with the multi-year measurement cycle we use to reward long-term performance.

Although this advisory vote is non-binding, the Board of Directors and Compensation Committee will review and give consideration to the results of this vote when making a determination as to the frequency of future non-binding advisory votes on executive compensation.

**The Board of Directors recommends that stockholders vote for a frequency of every THREE YEARS for future non-binding stockholder advisory votes on the compensation of our Named Executive Officers.**

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**PROPOSAL 5: RATIFICATION OF APPOINTMENT OF  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board of Directors has appointed Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting and will have an opportunity to make a statement if they desire and will be available to respond to appropriate questions. Although ratification is not required by our Bylaws or otherwise, our Board of Directors is submitting the selection of Ernst & Young LLP to our stockholders for ratification as a matter of good corporate practice.

**Fees**

The following table presents fees for professional services rendered by Ernst & Young LLP for the audit of our annual financial statements for the years ended December 31, 2012 and 2011, and fees incurred for other services rendered by Ernst & Young LLP for such years:

	2012	2011
Audit Fees <sup>(1)</sup>	\$ 1,285,644	\$ 1,714,927
Audit-Related Fees		
Tax Fees <sup>(2)</sup>	215,636	24,770
All Other Fees		
<b>Total Fees</b>	<b>\$ 1,501,280</b>	<b>\$ 1,739,697</b>

- (1) Such services consisted primarily of the audit of our annual financial statements and the review of our quarterly financial statements, services provided in connection with registration statements filed with the SEC and acquisition due diligence services.
- (2) Such services consisted primarily of tax compliance services and other tax planning and tax advice services.

**Pre-approval of Auditor Services**

The charter of the Audit Committee provides that the Audit Committee must pre-approve all auditing and non-auditing services to be provided by our auditor, other than certain *de minimus* non-audit services. In addition, the Audit Committee shall have the sole authority to approve any compensation to our auditor for any approved audit or non-audit services. For 2012, all services provided by Ernst & Young LLP were pre-approved by the Audit Committee.

All non-audit services were reviewed by the Audit Committee, and the Audit Committee concluded that the provision of such services by Ernst & Young LLP was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

**Required Vote**

The affirmative vote of the holders of a majority of the shares of Common Stock present in person or represented by proxy at the Annual Meeting and entitled to vote on the matter is needed to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013. Under Delaware law, an abstention will have the same legal effect as a vote against the ratification of Ernst & Young LLP, and broker non-votes will have no effect on the outcome of the ratification of the independent registered public accounting firm. If the appointment is not ratified, the matter will be referred to the Audit Committee for further review.

**The Audit Committee and the Board of Directors recommend that the stockholders vote FOR ratification  
of the appointment of Ernst & Young LLP as our independent registered public  
accounting firm for the fiscal year ending December 31, 2013.**



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### **CORPORATE GOVERNANCE**

#### **Equity Sponsor**

We are listed on The NASDAQ Global Market under the symbol ACHC. So long as the WCP Investors own at least 17.5% of the Company's outstanding voting securities, they are entitled to designate the pro rata number of our directors that is proportional (but rounded up to the nearest whole number) to their collective percentage ownership of our outstanding Common Stock, subject to the applicable rules of The NASDAQ Stock Market regarding director independence, and have consent rights to many corporate actions, such as issuing equity or debt securities, paying dividends, acquiring any interest in another company and materially changing our business activities. See SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT for more information about the WCP Investors' ownership of our Common Stock.

#### **Independence of the Board of Directors**

Our Board annually reviews the independence of all of our directors and affirmatively makes a determination as to the independence of each director based on whether such director satisfies the definition of independent director as set forth in the applicable rules of The NASDAQ Stock Market. Our Board has determined that Messrs. Bissell, Grieco, Hubbard, Miquelon and Rogers and Dr. Petrie are independent directors.

#### **Loss of Controlled Company Status**

For purposes of the rules of The NASDAQ Stock Market, prior to May 21, 2012 we were a controlled company and exempt from the applicable rules of The NASDAQ Stock Market mandating a board of directors to be comprised of a majority of independent directors and mandating a compensation committee and nominating committee to be comprised solely of independent directors. Following the completion of our equity offering on May 21, 2012, WCP controlled the right to vote approximately 44% of our Common Stock and we no longer qualified as a controlled company within the meaning of the rules of The NASDAQ Stock Market. The rules of The NASDAQ Stock Market provide a 12 month phase-in period from the date a company ceases to be a controlled company to comply with the majority independent director requirement and independence rules for compensation and nomination committees. Therefore, we have until May 21, 2013 to comply with the requirements. Changes in the composition of our Board became effective April 30, 2013 and we expect to comply with any other requirements in a timely manner. See PROPOSAL 1: ELECTION OF DIRECTORS Introduction for additional information about changes in our Board of Directors.

#### **Code of Conduct and Code of Ethics for Senior Financial Officers**

Our Board of Directors has adopted a Code of Conduct which is applicable to all of our officers, employees and directors, including our Chief Executive Officer, Chief Financial Officer, the principal accounting officer or controller and all persons performing similar functions (together, the Senior Financial Officers). In addition, our Board has adopted a Code of Ethics that applies to the Senior Financial Officers. Both the Code of Conduct and the Code of Ethics are available on our website at [www.acadiahealthcare.com](http://www.acadiahealthcare.com) under the webpage Investor Relations Corporate Governance.

#### **Committees of the Board of Directors**

Our Board of Directors has established two standing committees: a Compensation Committee and an Audit Committee, each of which is described below.

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### ***Compensation Committee***

Our Board of Directors has appointed a Compensation Committee to assist it with executive compensation matters. The primary responsibilities and duties of the Compensation Committee are:

Reviewing and approving for the Chief Executive Officer and other executive officers (a) the annual base salary level, (b) bonus and other annual incentives, (c) equity compensation, (d) employment agreements, severance arrangements and change in control arrangements, and (e) any other benefits, compensations, compensation policies or arrangements;

Reviewing and making recommendations to the Board regarding the compensation policy for such other officers as directed by the Board;

Preparing a report to be included in the annual proxy statement that describes: (a) the criteria on which compensation paid to the Chief Executive Officer for the last completed fiscal year is based; (b) the relationship of such compensation to our performance; and (c) the Compensation Committee's executive compensation policies applicable to executive officers; and

Overseeing the administration and approval of our current equity-based compensation plans and making recommendations to our Board of Directors with respect to amendments to the plans, changes in the number of shares reserved for issuance thereunder and regarding other equity-based compensation plans proposed for adoption.

The Compensation Committee is currently comprised of Messrs. Waud, Miquelon and Grieco, with Mr. Waud serving as Chairman. We expect to comply with the rules of The NASDAQ Stock Market regarding compensation committee independence, described in the section above entitled "Loss of Controlled Company Status," in a timely manner. During 2012, the Compensation Committee held two meetings and took action by written consent two times. The Compensation Committee has a written charter that is available on our website at [www.acadiahealthcare.com](http://www.acadiahealthcare.com) under the webpage "Investor Relations" Corporate Governance.

### ***Audit Committee***

Our Board of Directors has appointed an Audit Committee to assist it in fulfilling its oversight responsibilities for our financial reports, systems of internal control over financial reporting and accounting policies, procedures and practices. The primary responsibilities and duties of the Audit Committee are:

Appointing, retaining, evaluating and, when appropriate, replacing our independent registered public accounting firm, whose duty it is to audit our financial statements and our internal control over financial reporting for the fiscal year in which it is appointed;

Determining the compensation to be paid to our independent registered public accounting firm (subject to ratification by our stockholders) and, in its sole discretion, approving all audit and engagement fees and terms and pre-approve all auditing and non-auditing services of our independent registered public accounting firm, other than certain *de minimus* non-audit services;

Reviewing and discussing our system of internal control over financial reporting, audit procedures and the adequacy and effectiveness of our disclosure controls and procedures with management, our independent registered public accounting firm and our internal auditors;

Reviewing the internal audit function of the Company, including the independence of its reporting obligations and the adequacy of the internal audit budget and staffing;



Reviewing and discussing with management and our independent registered public accounting firm the audited financial statements to be included in our Annual Report on Form 10-K, the quarterly financial statements to be included in our Quarterly Reports on Form 10-Q, our disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations and the selection, application and disclosure of critical accounting policies used in our financial statements;

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Reviewing and discussing with management the Company's major risk exposures with respect to the Company's accounting and financial reporting policies and procedures;

Reviewing and discussing with management all existing related-party transactions and approving any proposed related-party transactions to ensure that they are in our best interest;

Reviewing and discussing with management the quarterly earnings press releases and financial information and earnings guidance provided to analysts and rating agencies;

Establishing and overseeing procedures for receiving, retaining and treating complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and

Reviewing and reassessing the performance of the Audit Committee and the adequacy of the Audit Committee charter adopted by our Board of Directors and recommending proposed changes to the Board.

The Audit Committee is currently composed of Messrs. Grieco and Miquelon and Dr. Petrie, with Mr. Miquelon serving as Chairman. Mr. Waud served on the Audit Committee until November 1, 2012. Our Board of Directors has determined that each of Messrs. Grieco and Miquelon is an audit committee financial expert as defined in rules promulgated by the SEC under the Exchange Act, and that each member of the Audit Committee meets the financial literacy requirements under the Sarbanes-Oxley Act of 2002, NASDAQ and SEC rules and regulations. The Audit Committee held five meetings during 2012. The Audit Committee has a written charter available on our website, [www.acadiahealthcare.com](http://www.acadiahealthcare.com) under the webpage Investor Relations Corporate Governance.

### **Meetings of our Board of Directors and Committees**

During 2012, our Board of Directors held a total of nine meetings and took action by written consent nine times. Each director attended 75% or more of the meetings of our Board and the committees of our Board of Directors on which such director served.

### **Nomination of Directors**

Given the history of the Company and the contractual rights of certain stockholders to designate director nominees, we do not have a nominating committee. Instead all nominating functions are handled by the independent directors serving on the Board. The independent directors are required to act in accordance with the Board's director nomination guidelines generally described in the section below entitled Nominations by the Board. The independent directors are required, however, to comply with the provisions of the Stockholders Agreement regarding the nomination of directors to the Board and any committees thereof. See CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS Stockholders Agreement for additional information.

### ***Nominations By the Board***

Directors may be nominated by our Board of Directors, executive officers or by our stockholders in accordance with our Bylaws, Amended and Restated Certificate of Incorporation, Stockholders Agreement, applicable laws and any guidelines developed by the independent directors of our Board. The independent directors are responsible for identifying individuals qualified to become members of the Board and its committees, and recommending candidates for the Board's selection as director nominees for election at the annual or other properly convened meeting of the stockholders in accordance with our Bylaws and applicable laws and regulations. The independent directors meet to discuss and evaluate the qualities and skills of each candidate, both on an individual basis and taking into account the overall composition and needs of the Board. The independent directors consider each identified candidate's qualifications, which include the nominee's experience, business acumen, education,

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integrity, character, commitment, diligence, conflicts of interest and ability to exercise sound business judgment. While we have not established diversity standards for nominees, as a matter of practice, we generally seek nominees with a broad diversity of experience, professions, skills and backgrounds. We do not currently pay a fee to any third party to identify or assist in identifying or evaluating potential nominees.

### ***Nominations By Our Stockholders***

Our Bylaws govern stockholder nominations of directors. To make a director nomination at the 2014 annual meeting, a stockholder must deliver a written notice (containing certain information specified in our Bylaws as discussed below) to Christopher L. Howard, Esq., Executive Vice President, General Counsel and Secretary, at Acadia Healthcare Company, Inc., 830 Crescent Centre Drive, Suite 610, Franklin, Tennessee 37067 between the dates of January 23, 2014 and February 22, 2014. If the date of the 2014 annual meeting is more than 30 days before or more than 70 days after May 23, 2014, the stockholder's notice must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made by the Company.

To make a director nomination to be voted on at a special meeting of stockholders called for the purpose of electing directors, a stockholder must deliver written notice to Mr. Howard at the address above no earlier than the close of business on the 120th day prior to such special meeting and no later than the close of business on the later of the 90th day prior to such special meeting or the tenth day following the day on which we first publicly announce the date of the special meeting and the nominees proposed by the Board to be elected at such meeting. These requirements are separate from and in addition to the SEC's requirements that a stockholder must meet to have a stockholder proposal included in the Proxy Statement, which requirements are described in the section below entitled "GENERAL INFORMATION Stockholder Proposals for 2014 Annual Meeting."

For a stockholder nomination to be deemed proper, other than a nomination pursuant to the Stockholders Agreement, the notice must contain certain information specified in our Bylaws, including information as to the director nominee(s) proposed by the stockholder, the name and address of the stockholder, the class and number of shares of our capital stock beneficially owned by the stockholder, a description of all arrangements or understandings between the stockholder and any other persons (including each proposed nominee(s) if applicable) in connection with the proposed nominations, and a representation that such stockholder intends to appear in person or by proxy at the meeting to bring such business or nominate the person(s) named in the notice.

### **Communicating with the Board**

All stockholder communications with our Board of Directors should be directed to Christopher L. Howard, Esq., Executive Vice President, General Counsel and Secretary, at Acadia Healthcare Company, Inc., 830 Crescent Centre Drive, Suite 610, Franklin, Tennessee 37067, and should prominently indicate on the outside of the envelope that it is intended for our Board of Directors or for an individual director. Each communication intended for our Board of Directors and received by Mr. Howard will not be opened, but will be promptly forwarded unopened to the Chairman of the Audit Committee following its clearance through normal security procedures.

### **Attendance by Members of the Board of Directors at the Annual Meeting of Stockholders**

We encourage each member of our Board of Directors to attend the annual meeting of stockholders. All of the members of the Board, except for Mr. Gordon, attended the 2012 annual meeting of stockholders.

### **Board Leadership Structure**

The Board believes that our Chief Executive Officer is best situated to serve as Chairman of our Board of Directors because he is the director most familiar with our business and industry, and most capable of effectively identifying strategic priorities and leading the discussion and execution of strategy. Independent directors and management have different perspectives and roles in strategy development. Our independent directors bring experience, oversight and expertise from outside our company and industry, while the Chief Executive Officer

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brings company-specific experience and expertise. Our Board of Directors believes that the combined role of Chairman and Chief Executive Officer promotes strategy development and execution, and facilitates information flow between management and the Board, which are essential to effective governance.

Mr. Waud currently serves as Lead Director of the Board, with such rights and responsibilities as may be designated by the Board from time to time.

## **Risk Oversight**

Our Board is responsible for overseeing our risk management process. The Board fulfills its responsibility by delegating many of these functions to its committees. Under its charter, the Audit Committee is responsible for meeting periodically with management to review our major financial risks and the steps management has taken to monitor and control such risks. The Audit Committee also oversees our financial reporting and internal controls and compliance programs.

The Board receives reports on risk management from our senior officers and from the Chairman of the Audit Committee. Also, our Executive Vice President, General Counsel and Secretary provides a summary of our outstanding litigation and any governmental investigations to our Board at each Board meeting. Additionally, our Board regularly engages in discussions of the most significant risks that we are facing and how these risks are being managed. Our Board of Directors believes that the work undertaken by the Audit Committee, together with the oversight provided by the full Board of Directors, enables the Board to oversee our risk management function effectively.

## **Non-Management Executive Sessions**

We had three independent directors in 2012, Messrs. Grieco and Miquelon and Dr. Petrie. During 2012, there were three executive sessions of the independent directors.

## **Compensation Committee Interlocks and Insider Participation**

During 2012, the Compensation Committee consisted of Messrs. Waud, Miquelon and Grieco. None of the members of the Compensation Committee has at any time been one of our officers or employees. Except with respect to Mr. Waud (relating to his involvement with WCP) as described in the section below entitled **CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS**, none of the members of the Compensation Committee had any relationship during 2012 requiring disclosure by us. None of our executive officers serves, or in the past year served, as a member of the board of directors or compensation committee of any entity that has or had one or more of its executive officers serving on our Board or Compensation Committee.

## **Policy on Reporting of Concerns Regarding Accounting Matters**

The Audit Committee has adopted a policy on the reporting of concerns regarding accounting, internal accounting controls or auditing matters. We have established a compliance hotline called ValuesLine (800-500-0333), which is administered by a third party, as a hotline for the receipt, retention and treatment of complaints from employees or others regarding accounting, internal accounting controls and auditing matters. Information received through the hotline is conveyed directly to our Chief Compliance Officer. Complaints relating to accounting, internal accounting controls or auditing matters will then be directed to the Chairman of the Audit Committee. Any complaint may be made anonymously if the claimant so desires, and all claimants will be provided confidentiality in the handling of the complaint.

## **Procedure for Approval of Transactions with Related Persons**

We have established policies and other procedures regarding approval of transactions between the Company and any employee, officer, director, and certain of their family members and other related persons, including those required to be reported under Item 404 of Regulation S-K promulgated under the Securities Act of 1933, as amended (the **Securities Act**). These policies and procedures are generally not in writing, but are

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evidenced by principles set forth in our Code of Conduct or adhered to by our Board. As set forth in the Audit Committee Charter, the Audit Committee reviews and approves all related person transactions after reviewing such transaction for potential conflicts of interests and improprieties. Accordingly, all such related person transactions are submitted to the Audit Committee for ongoing review and oversight. Generally speaking, we enter into related person transactions only on terms that we believe are at least as favorable to the Company as those that we could obtain from an unrelated third party. See the section below entitled **CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS** for additional information.

**Table of Contents****MANAGEMENT****Executive Officers**

Below are the names and ages (as of April 30, 2013) of our executive officers and a brief account of the business experience of the executive officers who are not members of our Board:

<b>Name</b>	<b>Age</b>	<b>Title</b>
Joey A. Jacobs	59	Chairman and Chief Executive Officer
Brent Turner	47	President
Ronald M. Fincher	59	Chief Operating Officer
David M. Duckworth	33	Chief Financial Officer
Christopher L. Howard	46	Executive Vice President, General Counsel and Secretary
Bruce A. Shear	58	Executive Vice Chairman

The term of each executive officer runs until his or her successor is appointed and qualified, or until his or her earlier death, resignation or removal.

*Brent Turner* joined the Company in February 2011 and served as Co-President from that time until April 2012, when he was named President. Previously, Mr. Turner served as the Executive Vice President, Finance and Administration of PSI from August 2005 to November 2010 and as the Vice President, Treasurer and Investor Relations of PSI from February 2003 to August 2005. From late 2008 through 2010, Mr. Turner also served as a Division President of PSI overseeing facilities in Texas, Illinois and Minnesota. From 1996 until January 2001, Mr. Turner was employed by Corrections Corporation of America, a prison operator, serving as Treasurer from 1998 to 2001.

*Ronald M. Fincher* joined the Company in February 2011 and has served as our Chief Operating Officer since that time. Previously, Mr. Fincher served as PSI's Chief Operating Officer from October 2008 to November 2010. As Chief Operating Officer of PSI, Mr. Fincher oversaw hospital operations for 95 facilities. Mr. Fincher served as PSI's Division President from April 2003 to October 2008. As a Division President, Mr. Fincher was responsible for managing the operations of multiple inpatient behavioral healthcare facilities owned by PSI. Prior to joining PSI, Mr. Fincher served as a Regional Vice President of Universal Health Services, Inc. from 2000 until 2003.

*David M. Duckworth* joined the Company as our Controller in April 2011 and became Chief Accounting Officer in January 2012 and Chief Financial Officer in July 2012. From May 2010 to April 2011, Mr. Duckworth served as Director of Finance at Emdeon Inc., a leading provider of revenue and payment cycle management and clinical information exchange solutions. Prior to joining Emdeon, Mr. Duckworth was a Manager with Ernst & Young LLP, which he joined in 2002.

*Christopher L. Howard* joined the Company in February 2011 and has served as our Executive Vice President, General Counsel and Secretary since that time. Before joining the Company, Mr. Howard served as PSI's Executive Vice President, General Counsel and Secretary from September 2005 to November 2010. Prior to joining PSI, Mr. Howard was a partner at Waller Lansden Dortch & Davis, LLP, a law firm based in Nashville, Tennessee.

**Table of Contents****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The table below sets forth information with respect to ownership of our Common Stock, as of March 27, 2013, by:

Each person who we know to be the beneficial owner of more than 5% of the outstanding shares of Common Stock;

Each of our directors and nominees;

Each of our Named Executive Officers; and

All of our directors and executive officers as a group.

To our knowledge, unless otherwise indicated, each stockholder listed below has sole voting and investment power with respect to the shares beneficially owned. All computations are based on 50,240,486 shares of Common Stock outstanding on March 27, 2013, unless otherwise indicated.

Name of Beneficial Owner <sup>(1)</sup>	Amount and Nature of Beneficial Ownership <sup>(2)</sup>	Percent of Class
Waud Capital Partners, L.L.C.	11,757,454 <sup>(3)</sup>	23.4%
	2,855,877 <sup>(4)(5)</sup>	5.7%
	14,613,331	29.1%
Reeve B. Waud	11,757,454 <sup>(3)</sup>	23.4%
	2,855,877 <sup>(4)(5)</sup>	5.7%
	14,613,331	29.1%
T. Rowe Price Associates, Inc. <sup>(6)</sup>	3,184,949	6.3%
JPMorgan Chase & Co. <sup>(7)</sup>	2,780,160	5.5%
AllianceBernstein L.P. <sup>(8)</sup>	2,588,899	5.2%
Joey A. Jacobs <sup>(9)</sup>	1,102,214	2.2%
David M. Duckworth <sup>(10)</sup>	22,530	*
Brent Turner <sup>(11)</sup>	301,758	*
Bruce A. Shear <sup>(12)</sup>	323,950	*
Ronald M. Fincher <sup>(13)</sup>	260,264	*
Christopher L. Howard <sup>(14)</sup>	253,004	*
Jack E. Polson <sup>(15)</sup>	234,907	*
William F. Grieco <sup>(16)</sup>	101,318	*
Wade D. Miquelon <sup>(17)</sup>	12,068	*
William M. Petrie, M.D. <sup>(18)</sup>	4,789	*
E. Perot Bissell <sup>(19)</sup>		*
Allan B. Hubbard <sup>(19)</sup>		*
Kyle D. Lattner <sup>(19)</sup>		*
Hartley R. Rogers <sup>(19)</sup>		*
All directors and executive officers as a group (14 persons) <sup>(20)</sup>	15,077,986	29.9%

\* Less than 1%

(1) Unless otherwise indicated, the address of each beneficial owner is c/o Acadia Healthcare Company, Inc., 830 Crescent Centre Drive, Suite 610, Franklin, Tennessee 37067.

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- (2) Under SEC rules, the number of shares shown as beneficially owned includes shares of Common Stock subject to options that currently are exercisable or will be exercisable within 60 days of March 27, 2013. Such shares are deemed to be outstanding for the purpose of computing the percent of class for that individual, but are not deemed outstanding for the purpose of computing the percentage of any other person.
- (3) Information is based solely on the Schedule 13G/A filed by WCP and its affiliates with the SEC on February 14, 2013. The 11,757,454 shares of Common Stock are owned of record as follows: (i) 2,038,125 shares by Waud Capital Partners II, L.P. ( WCP II ); (ii) 3,726,016 shares by Waud Capital Partners QP II, L.P. ( Waud QP II ); (iii) 648,507



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shares by the Reeve B. Waud 2011 Family Trust; (iv) 72,057 shares by Waud Family Partners, L.P. ( WFP LP ); (v) 568,655 shares by WCP FIF II (Acadia), L.P. ( WCP FIF II ); (vi) 582,401 shares by Waud Capital Affiliates II, L.L.C. ( Waud Affiliates II ); (vii) 298,889 shares by Waud Capital Affiliates III, L.L.C. ( Waud Affiliates III ); (viii) 811,863 shares by WCP FIF III (Acadia), L.P. ( WCP FIF III ); (ix) 1,849,888 shares by Waud Capital Partners QP III, L.P. ( Waud QP III ); (x) 327,133 shares by Waud Capital Partners III, L.P. ( WCP III ); (xi) 4,920 shares of restricted stock by Mr. Waud; (xii) 795,667 shares by Crystal Cove LP; and (xiii) 33,333 shares by Melissa W. Waud, Mr. Waud's wife.

Waud Capital Partners Management II, L.P. ( WCPM II ), as the general partner of WCP II, Waud QP II and WCP FIF II and the Manager of Waud Affiliates II, and Waud Capital Partners II, L.L.C. ( Waud II LLC ), as the general partner of WCPM II, may be deemed to share beneficial ownership of the shares held of record by such entities. Waud Capital Partners Management III, L.P. ( WCPM III ), as the general partner of WCP III, Waud QP III and WCP FIF III and the Manager of Waud Affiliates III, and Waud Capital Partners III, L.L.C. ( Waud III LLC ), as the general partner of WCPM III, may be deemed to share beneficial ownership of the shares held of record by such entities. Mr. Waud may be deemed to beneficially own the shares of Common Stock held by each of the above entities by virtue of his (A) making decisions for the Limited Partner Committee of each of WCPM II and WCPM III, (B) being the manager of Waud II LLC, Waud III LLC, (C) being the general partner of WFP LP and Crystal Cove LP, (D) being the investment advisor of the Reeve B. Waud 2011 Family Trust and (E) being married to Ms. Waud.

The address for each of the entities named in this footnote is c/o Waud Capital Partners, L.L.C., 300 North LaSalle Street, Suite 4900, Chicago, Illinois 60654.

- (4) As described in the section below entitled "CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS" Stockholders Agreement, the parties to the Stockholders Agreement granted WCP II a proxy to vote their shares in connection with the election and removal of directors and certain other matters in the manner directed by the holders of a majority of the stock held by WCP. As a result, WCP II, WCPM II, Waud II LLC and Mr. Waud may be deemed to share beneficial ownership of the shares held by the current and former members of our management that have granted a proxy pursuant to the Stockholders Agreement. As a result, the following shares beneficially owned by members of our current and former management are included in the shares reported by WCP and Mr. Waud: (a) 223,695 shares by Mr. Jacobs; (b) 878,519 shares by the Joey A. Jacobs 2011 Grantor Retained Annuity Trust (Acadia); (c) 64,833 shares by Mr. Turner; (d) 236,925 shares by the William Brent Turner 2011 Grantor Retained Annuity Trust; (e) 240,896 shares by Norman K. Carter, III; (f) 113,403 shares by Mr. Fincher; (g) 146,861 shares by the Ron Fincher 2011 Grantor Retained Annuity Trust; (h) 234,907 shares by Mr. Polson; (i) 253,004 shares by Mr. Howard; (j) 81,933 shares by Danny Carpenter; (k) 188,326 shares by Karen Prince; (l) 92,351 shares by Robert Swinson; (m) 87,513 shares by Fred T. Dodd, Jr.; and (n) 12,711 shares by Randall Goldberg.
- (5) Includes 40,516 shares of restricted stock and options to purchase 42,396 shares of Common Stock.
- (6) Information is based solely on the Schedule 13G filed by T. Rowe Price Associates, Inc. with the SEC on February 12, 2013. T. Rowe Price Associates, Inc. reported that it possesses (i) sole voting power with respect to 364,799 shares, and (ii) sole dispositive power with respect to 3,184,949 shares. The address for T. Rowe Price Associates, Inc. is 100 E. Pratt Street, Baltimore, Maryland 21202.
- (7) Information is based solely on the Schedule 13G filed by JPMorgan Chase & Co. with the SEC on January 22, 2013. JPMorgan Chase & Co. reported that it possesses (i) sole voting power with respect to 2,702,485 shares, (ii) sole dispositive power with respect to 2,755,455 shares, (iii) shared voting power with respect to 3,305 shares, and (iv) shared dispositive power with respect to 3,305 shares. The address for JPMorgan Chase & Co. is 270 Park Avenue, New York, New York 10017.
- (8) Information is based solely on the Schedule 13G filed by AllianceBernstein L.P. with the SEC on February 13, 2013. AllianceBernstein L.P. reported that it possesses (i) sole voting power with respect to 2,211,154 shares, (ii) sole dispositive power with respect to 2,525,138 shares, and (iii) shared dispositive power with respect to 63,761 shares. The address for AllianceBernstein L.P. is 1345 Avenue of the Americas, New York, New York 10105.
- (9) Includes 878,519 shares owned of record by the Joey A. Jacobs 2011 Grantor Retained Annuity Trust (Acadia), 17,453 shares of restricted stock and options to purchase 18,314 shares of Common Stock.
- (10) Includes 14,705 shares of restricted stock and options to purchase 1,688 shares of Common Stock.
- (11) Includes 236,925 shares owned of record by the William Brent Turner 2011 Grantor Retained Annuity Trust, 7,232 shares of restricted stock and options to purchase 7,589 shares of Common Stock.
- (12) Includes 4,920 shares of restricted stock and options to purchase 25,000 shares of Common Stock.
- (13) Includes 146,861 shares owned of record by the Ron Fincher 2011 Grantor Retained Annuity Trust, 7,232 shares of restricted stock and options to purchase 7,589 shares of Common Stock.
- (14) Includes 6,160 shares of restricted stock and options to purchase 6,465 shares of Common Stock.



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- (15) Includes 51,084 shares owned of record by the Jack E. Polson Family 2012 Grantor Retained Annuity Trust.
- (16) Includes 9,685 shares of restricted stock and options to purchase 37,500 shares of Common Stock.
- (17) Includes 9,685 shares of restricted stock.
- (18) Represents shares of restricted stock.
- (19) Messrs. Bissell, Hubbard, Lattner and Rogers joined the Board on April 30, 2013.
- (20) Includes 86,781 shares of restricted stock and options to purchase 104,145 shares of Common Stock.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our directors, executive officers and persons who beneficially own more than 10% of our Common Stock to file with the SEC initial reports of ownership and reports of changes in ownership of our Common Stock. These officers, directors and greater than 10% stockholders are required by SEC rules to furnish us with copies of all Section 16(a) reports they file. There are specific due dates for these reports and we are required to report in this Proxy Statement any failure to file reports in a timely manner as required during 2012. Based upon a review of these filings and written representations from our directors and executive officers, we believe that all reports required to be filed with the SEC pursuant to Section 16(a) during 2012 were filed in a timely manner except:

Danny E. Carpenter filed a report on Form 4 on April 6, 2012 with respect to the acquisition of Common Stock and stock options as of March 19, 2012, and filed a report on Form 4 on December 14, 2012 with respect to the acquisition of Common Stock as of March 14, 2012;

Norman K. Carter, III filed a report on Form 4 on December 14, 2012 with respect to the disposition of Common Stock as of April 25, August 15, August 16, August 20 and August 21, 2012;

Fred Thomas Dodd, Jr. filed a report on Form 4 on April 6, 2012 with respect to the acquisition of Common Stock and stock options as of March 19, 2012, and filed a report on Form 4 on December 14, 2012 with respect to the acquisition of Common Stock as of March 16, 2012;

David M. Duckworth filed a report on Form 3 on August 3, 2012 although he became our principal accounting officer in October 2011, and filed a report on Form 4 on August 3, 2012 with respect to the acquisition of Common Stock and stock options as of November 16, 2011 and March 19, 2012;

Randall P. Goldberg filed a report on Form 4 on April 6, 2012 with respect to the acquisition of Common Stock and stock options as of March 19, 2012;

William F. Grieco filed a report on Form 4 on October 4, 2012 with respect to the acquisition of Common Stock and exercise of stock options as of September 26, 2012;

Karen Marie Prince filed a report on Form 4 on April 6, 2012 with respect to the acquisition of Common Stock and stock options as of March 19, 2012, and filed a report on Form 4 on December 14, 2012 with respect to the disposition of Common Stock as of April 25, August 17 and August 20, 2012; and

Robert Walton Swinson filed a report on Form 4 on April 6, 2012 with respect to the acquisition of Common Stock and stock options as of March 19, 2012, and filed a report on Form 4 on December 14, 2012 with respect to the disposition of Common Stock as of May 11, 2012.



**Table of Contents****COMPENSATION DISCUSSION AND ANALYSIS****Executive Summary**

This Compensation Discussion and Analysis describes the compensation arrangements we have with our Named Executive Officers, as required under the rules of the SEC. Our Named Executive Officers for 2012 were:

Name	Title
Joey A. Jacobs	Chief Executive Officer
David M. Duckworth <sup>(1)</sup>	Chief Financial Officer
Ronald M. Fincher	Chief Operating Officer
Brent Turner	President
Christopher L. Howard	Executive Vice President, General Counsel and Secretary
Jack E. Polson <sup>(2)</sup>	Former Chief Financial Officer and Executive Vice President

(1) Mr. Duckworth was appointed Chief Financial Officer, effective July 31, 2012.

(2) Mr. Polson resigned his positions with the Company, effective July 31, 2012.

The Compensation Committee is responsible for discharging our Board of Directors' responsibilities relating to the oversight, administration and approval of our compensation plans, policies and programs for our executive officers and directors. The primary responsibilities and duties of the Compensation Committee are described above in the section entitled "CORPORATE GOVERNANCE - Committees of the Board of Directors - Compensation Committee."

The components of our compensation program for executive officers include base salary, performance-based cash awards and performance-based equity incentive compensation. Our executive compensation program seeks to:

Link the interests of management with those of our stockholders by encouraging stock ownership;

Attract and retain superior executives by providing them with the opportunity to earn total compensation packages that are competitive within the healthcare industry;

Recognize and reward individual performance through salary, annual cash incentives and long-term stock-based incentives; and

Manage compensation based on the individual's level of skill, knowledge, effort and responsibility.

The Compensation Committee believes that the compensation of our executive officers should provide a competitive level of total compensation necessary to attract and retain talented and experienced executives, and motivate them to contribute to our success.

**Compensation Process and Philosophy**

Our Compensation Committee approves compensation arrangements with our executive officers. Salaries and other compensation for all other officers and employees are determined by management in accordance with our compensation policies and plans. Our objective is to have an executive compensation program that will attract and retain the best possible executive talent, to tie annual and long-term cash and equity compensation to the achievement of measurable corporate and individual performance goals and objectives and to align executives' incentives with stockholder value creation.



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Our Compensation Committee reviews and approves, in advance, employment and similar arrangements or payments to be made to any executive officer. Our Compensation Committee also relies on the input of our Chief

Executive Officer concerning the performance of our executive officers in making its compensation decisions. Our Chief Executive Officer considers internal pay equity issues, individual contribution and performance, competitive pressures and our financial performance in making his recommendations to the Compensation Committee.

Our Compensation Committee believes that our executive compensation program should be internally consistent and equitable in order to achieve our compensation goals. The committee relies on its collective subjective judgment together with the information provided to it by management, the analyses and goals described above and the recommendations of our Chief Executive Officer. The committee also considers the qualifications, length of service, experience, consistency of performance, position, responsibilities, individual performance and available competitive alternatives of our executives, their existing compensation and our financial resources, performance and prospects in determining appropriate levels of compensation for our executives. Our Compensation Committee believes that the difference between the compensation of our Chief Executive Officer and the compensation of our other Named Executive Officers is appropriate given the range of compensation paid to the chief executive officers in our peer group, the greater responsibilities of Mr. Jacobs, the impact Mr. Jacobs has on our financial performance and the role Mr. Jacobs plays as the Chairman of our Board.

### ***Role of Compensation Consultant***

In 2012, our Compensation Committee retained an outside compensation consultant, the Hay Group, to advise it regarding market trends and practices in executive compensation and with respect to specific compensation decisions. In March 2012, to assist the Compensation Committee in evaluating 2011 compensation and setting compensation for 2012, the compensation consultant provided to the Compensation Committee a detailed report assessing the competitiveness of the compensation amounts offered by us to our executive officers, including an examination of base salary, actual total cash consideration, target total cash consideration and long-term incentives, and a comparison of our overall equity dilution and financial performance with comparable healthcare companies.

In February and March 2013, the compensation consultant provided similar advice to the Compensation Committee to assist the committee in evaluating the 2012 compensation and setting compensation for 2013.

Our Compensation Committee has considered the relationships that the Hay Group has had with the Company, the members of the Compensation Committee and our executive officers, as well as the policies that the Hay Group has in place to maintain its independence and objectivity, and determined that the Hay Group's work as our compensation consultant in 2012 did not raise any conflicts of interest. Outside of its direct engagement by the Compensation Committee as the independent compensation consultant to the Compensation Committee with respect to executive compensation matters, the Hay Group did not provide other services to the Company in 2012.

### ***2012 Peer Group***

In order to compare our compensation to other healthcare companies, in 2012 our compensation consultant selected a peer group of 11 publicly-traded healthcare companies with similar revenue and service offerings to us. The peer group for the consultant's report delivered in March 2012 consisted of the following companies:

Almost Family Inc.;

Amsurg Corp.;

Assisted Living Concepts Inc.;

Ensign Group, Inc.;

Hanger, Inc.;

Healthways, Inc.;

IPC The Hospitalist Company, Inc.;



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LHC Group, Inc.;

Skilled Healthcare Group, Inc.;

The Providence Service Corporation; and

U.S. Physical Therapy Inc.

**Components of Executive Compensation****Base Salary**

Our Compensation Committee generally meets on an annual basis to review each Named Executive Officer's base salary and to consider adjustments to each Named Executive Officer's base salary for the following year. In setting base salaries for 2012 and 2013, the committee reviewed the composition of the peer group and the market studies prepared by the compensation consultant, discussed the peer group and the market studies with the compensation consultant and Mr. Jacobs, evaluated the performance of each executive officer and considered our financial performance. The committee noted that, since becoming a public company in November 2011, we consistently have been the top performing company in the peer group. After considering these factors, the committee approved the following base salaries for the Named Executive Officers effective as of November 1, 2011 and 2012:

Name	Base Salary	
	As of November 1, 2011	As of November 1, 2012
Joey A. Jacobs	\$ 550,000	\$ 660,000
David M. Duckworth <sup>(1)</sup>	125,000	327,000
Ronald M. Fincher	380,000	450,000
Brent Turner	380,000	435,000
Christopher L. Howard	380,000	420,000
Jack E. Polson <sup>(2)</sup>	380,000	

(1) Mr. Duckworth was appointed Chief Financial Officer, effective July 31, 2012.

(2) Mr. Polson resigned his positions with the Company, effective July 31, 2012.

The base salaries under the employment agreements for Messrs. Jacobs, Fincher, Turner and Howard are subject to an annual increase in the sole discretion of our Board. See EXECUTIVE COMPENSATION Summary Compensation Table for more information about the base salaries paid to our Named Executive Officers.

**Annual Non-Equity Incentive Compensation**

Annual non-equity incentive awards paid to our Named Executive Officers are a reward for the realization of established performance objectives. Our Compensation Committee annually adopts a cash bonus plan pursuant to the 2011 Plan for each Named Executive Officer that establishes performance objectives for the Named Executive Officer. The Compensation Committee generally meets in February and/or March to review whether and the extent to which performance objectives have been achieved for the prior year. All non-equity incentive awards are discretionary and subject to the review and approval of the Compensation Committee. The Compensation Committee has the ability to apply positive or negative discretion to any and all such awards.

**2012 Awards**

Annual non-equity incentive compensation payable to our Named Executive Officers for 2012 was based 80% on company-wide measures and 20% on individual measures. The company-wide components of the annual non-equity incentive awards for 2012 were Adjusted EBITDA and Adjusted EPS (as defined below). Adjusted EBITDA determined 60% of the total incentive award and Adjusted EPS determined 20% of the total incentive



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award (for a total of 80% of the total incentive award). No cash incentive payments, whether based on company-wide or individual measures, were payable unless the Company achieved at least 80% of its budgeted Adjusted EBITDA for 2012.

We define EBITDA as net income adjusted for loss from discontinued operations, net interest expense, income tax provision and depreciation and amortization. We define Adjusted EBITDA as EBITDA adjusted for equity-based compensation expense, transaction-related expenses, loss on extinguishment of debt, impairment and other non-cash charges, legal settlement costs, and severance and restructuring costs. Adjusted EPS is defined as earnings per share from continuing operations adjusted for non-recurring, infrequent or unusual items. Adjusted EBITDA and Adjusted EPS are calculated net of non-equity incentive payments. Adjusted EBITDA is fully adjusted for acquisitions, while Adjusted EPS is adjusted to include 50% of earnings generated by acquisitions. The Compensation Committee believes that Adjusted EBITDA and Adjusted EPS are the appropriate financial measures for determining annual cash incentive awards because they are important measures of our performance and the performance of our management, they drive our success and growth and they are key criteria by which management plans and monitors our business.

The Compensation Committee believes that most of the cash incentive awards should be based on objective measures of company-wide financial performance, but believes that individual elements are also important in recognizing achievement and motivating officers. Accordingly, 20% of the cash incentive award is based upon the Compensation Committee's assessment of individual performance against performance objectives set at the beginning of the year as well as the Named Executive Officer's overall contribution to our success. Individual performance measures for 2012 were specific to each Named Executive Officer and included financial and operating measures as well as compliance matters.

For 2012, the threshold cash incentive award (as a percentage of base salary) for Mr. Jacobs was 50% and for each of Messrs. Duckworth, Fincher, Turner, Howard and Polson was 33.33%. The target cash incentive award (as a percentage of base salary) for Mr. Jacobs was 100% and for each of Messrs. Duckworth, Fincher, Turner, Howard and Polson was 66.67%. The maximum cash incentive award (as a percentage of base salary) for Mr. Jacobs was 200% and for each of Messrs. Duckworth, Fincher, Turner, Howard and Polson was 133.3%.

For purposes of our 2012 non-equity incentive awards, budgeted Adjusted EBITDA was \$73.3 million. The table below sets forth the portion of the cash incentive award based upon budgeted Adjusted EBITDA performance levels that each Named Executive Officer was eligible to receive for 2012. For example, if our actual Adjusted EBITDA for 2012 was 100% of our budgeted Adjusted EBITDA, Mr. Jacobs would receive 60% of his cash incentive award at the 100% level. Straight-line interpolation is used to determine awards for performance between goal levels.

Name	90% - 100% of Budgeted Adjusted EBITDA	Budgeted Adjusted EBITDA	100% -110% of Budgeted Adjusted EBITDA	110% of Budgeted Adjusted EBITDA or Greater
Joey A. Jacobs	50% - 100%	100%	100% - 200%	200%
David M. Duckworth	33.33% - 66.7%	66.7%	66.7% - 133.3%	133.3%
Ronald M. Fincher	33.33% - 66.7%	66.7%	66.7% - 133.3%	133.3%
Brent Turner	33.33% - 66.7%	66.7%	66.7% - 133.3%	133.3%
Christopher L. Howard	33.33% - 66.7%	66.7%	66.7% - 133.3%	133.3%
Jack E. Polson	33.33% - 66.7%	66.7%	66.7% - 133.3%	133.3%

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The table below sets forth the portion of the cash incentive award based upon our achievement of certain Adjusted EPS performance levels that each Named Executive Officer was eligible to receive for 2012. For example, if our Adjusted EPS for 2012 was \$0.51, Mr. Jacobs would receive 20% of his cash incentive award at the 100% level. Straight-line interpolation is used to determine awards for performance between goal levels.

Name	Adjusted EPS of \$0.46 - \$0.51	Adjusted EPS of \$0.51 - \$0.56	Adjusted EPS of \$0.56 or Greater
Joey A. Jacobs	50% - 100%	100% - 200%	200%
David M. Duckworth	33.33% - 66.7%	66.7% - 133.3%	133.3%
Ronald M. Fincher	33.33% - 66.7%	66.7% - 133.3%	133.3%
Brent Turner	33.33% - 66.7%	66.7% - 133.3%	133.3%
Christopher L. Howard	33.33% - 66.7%	66.7% - 133.3%	133.3%
Jack E. Polson	33.33% - 66.7%	66.7% - 133.3%	133.3%

In February 2013, the Compensation Committee met to determine whether and the extent to which the performance goals for the 2012 annual non-equity incentive awards had been achieved. The Compensation Committee determined that actual Adjusted EBITDA for 2012 was 110.5% of budgeted Adjusted EBITDA and actual Adjusted EPS for 2012 was \$0.66. As a result, the Named Executive Officers received the following cash incentive payments with respect to 2012:

Name	Cash Incentive Payment
Joey A. Jacobs	\$ 1,136,667
David M. Duckworth	195,500
Ronald M. Fincher	522,222
Brent Turner	518,889
Christopher L. Howard	515,556
Jack E. Polson	

**2013 Awards**

Effective March 29, 2013, the Board approved non-equity incentive awards (subject to stockholder approval of the Amended and Restated Incentive Compensation Plan) for each of our Named Executive Officers other than Mr. Polson for 2013 with potential cash incentive payments to be based 90% on company-wide measures and 10% on individual measures. The company-wide components of the annual non-equity incentive awards for 2013 are Adjusted EBITDA and Adjusted EPS. No cash incentive payments, whether based on company-wide or individual measures, will be payable unless the Company achieves at least 95% of its budgeted Adjusted EBITDA for 2013. For 2013, the threshold cash incentive award (as a percentage of base salary) for Mr. Jacobs is 50% and for each of Messrs. Duckworth, Fincher, Turner and Howard is 33.33%. The target cash incentive award (as a percentage of base salary) for Mr. Jacobs is 100% and for each of Messrs. Duckworth, Fincher, Turner and Howard is 66.67%. The maximum cash incentive award (as a percentage of base salary) for Mr. Jacobs is 200% and for each of Messrs. Duckworth, Fincher, Turner and Howard is 133.3%.

**Equity-Based Compensation**

Our Compensation Committee believes that stock options, restricted stock and restricted stock units are a key component to the compensation of our executive officers. The committee believes that stock options, restricted stock and restricted stock units provide a substantial incentive to our Named Executive Officers by allowing them to directly participate in any increase in our long-term value. These incentives are intended to reward, motivate and retain the services of our Named Executive Officers. Equity-based compensation also aligns the interests of our Named Executive Officers and our stockholders. Equity-based awards are typically granted under the 2011 Plan in February or March after the filing of our Annual Report on Form 10-K. For more information about the 2011 Plan, see PROPOSAL 2: APPROVAL OF THE AMENDED AND RESTATED INCENTIVE COMPENSATION PLAN.

**Table of Contents***2012 Awards*

On March 19, 2012 (except as otherwise noted), the Board approved grants of the following number of performance vesting restricted stock units, time vesting restricted stock and time vesting stock options under the 2011 Plan to our Named Executive Officers:

Name	Restricted Stock Units	Restricted Stock	Stock Options
Joey A. Jacobs	23,271	23,271	73,254
David M. Duckworth <sup>(1)</sup>	9,643	12,893	33,605
Ronald M. Fincher	9,643	9,643	30,355
Brent Turner	9,643	9,643	30,355
Christopher L. Howard	8,214	8,214	25,858
Jack E. Polson <sup>(2)</sup>	9,643	9,643	30,355

(1) Includes 9,643 restricted stock units, 9,643 shares of restricted stock and options to purchase 30,355 shares of Common Stock that were approved by the Board on August 2, 2012 in connection with Mr. Duckworth's appointment as Chief Financial Officer.

(2) All equity awards granted to Mr. Polson in 2012 were forfeited upon his resignation, effective July 31, 2012.

The Named Executive Officers must be employed by the Company at the time the restricted stock units, restricted stock and/or options vest in order to receive the shares of Common Stock underlying each award.

*Restricted Stock Units.* The restricted stock units granted in 2012 vest in three equal annual installments based upon the achievement of specified performance levels related to our Adjusted EPS for 2012, 2013 and 2014. The number of shares of Common Stock that may be issued upon vesting of the restricted stock units ranges from 0% to 200% of the total number of shares set forth above in accordance with a formula based on our Adjusted EPS. None of the performance vesting restricted stock units will vest for performance below 90% of the specified Adjusted EPS.

For 2012, the threshold award (as a percentage of the number of restricted stock units listed above) for each Named Executive Officer was 50%, the target award was 100% and the maximum award was 200%. The actual number of shares of Common Stock to be issued upon vesting of the restricted stock units each year is based on a performance range of 90-110% of the specified Adjusted EPS for the corresponding year.

The table below sets forth the number of shares of Common Stock that each Named Executive Officer was eligible to earn (as a percentage of the number of restricted stock units vesting based on 2012 performance), subject to continued employment throughout the performance period, based upon the Company's performance relative to Adjusted EPS performance levels. For example, if our Adjusted EPS for 2012 was \$0.51, each Named Executive Officer would earn the number of shares of Common Stock equal to 100% of the number of restricted stock units that may vest based on 2012 performance.

Adjusted EPS of \$0.46 - \$0.51	Adjusted EPS of \$0.51 - \$0.56	Adjusted EPS of \$0.56 or Greater
50% - 100%	100% - 200%	200%

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In February 2013, the Compensation Committee met to determine whether and the extent to which the performance goals for the 2012 restricted stock unit awards had been achieved. The Compensation Committee determined that actual Adjusted EPS for 2012 was \$0.66. As a result, the following number of shares of Common Stock were earned by the Named Executive Officers for 2012:

Name	Shares Issued Upon Vesting of Restricted Stock Units
Joey A. Jacobs	15,514
David M. Duckworth	6,429
Ronald M. Fincher	6,429
Brent Turner	6,429
Christopher L. Howard	5,476
Jack E. Polson	

*Restricted Stock.* The time vesting restricted stock granted in 2012 vests 25% per year on the four successive anniversaries of the date of grant.

*Stock Options.* The stock options granted in 2012 are exercisable at \$15.96 per share (except for options to purchase 30,355 shares of Common Stock granted to Mr. Duckworth on August 2, 2012, which are exercisable at \$16.60 per share), have a term of ten years and vest 25% per year on the four successive anniversaries of the date of grant.

*2013 Awards*

Effective March 29, 2013, the Board approved grants of the following number of performance vesting restricted stock units (subject to stockholder approval of the Amended and Restated Incentive Compensation Plan, the achievement of certain performance goals and continued employment), time vesting restricted stock and time vesting stock options under the 2011 Plan to our Named Executive Officers other than Mr. Polson:

Name	Restricted Stock Units	Restricted Stock	Stock Options
Joey A. Jacobs	18,800	18,800	66,600
David M. Duckworth	5,400	5,400	19,000
Ronald M. Fincher	7,500	7,500	26,700
Brent Turner	7,500	7,500	26,700
Christopher L. Howard	5,400	5,400	19,000

*Restricted Stock Units.* The restricted stock units granted in 2013 are earned in three equal annual installments based upon the achievement of specified performance levels related to our Adjusted EPS for 2013, 2014 and 2015. All shares of Common Stock earned for 2013 and 2014 shall not vest until the end of the three-year performance period. The number of shares of Common Stock that may be issued upon vesting of the restricted stock units ranges from 0% to 200% of the total number of shares set forth above in accordance with a formula based on our Adjusted EPS. None of the performance vesting restricted stock units will vest for performance below 95% of the specified Adjusted EPS.

For 2013, the threshold award (as a percentage of the number of restricted stock units listed above) for each Named Executive Officer is 50%, the target award is 100% and the maximum award is 200%. The actual number of shares of Common Stock to be issued upon vesting of the restricted stock units each year is based on a performance range of the specified Adjusted EPS for the corresponding year.

*Restricted Stock.* The time vesting restricted stock granted in 2013 vests 25% per year on the four successive anniversaries of the date of grant.

*Stock Options.* The stock options granted in 2013 are exercisable at \$29.39 per share, have a term of ten years and vest 25% per year on the four successive anniversaries of the date of grant.

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### ***Perquisites***

We provide our executive officers with perquisites that our Compensation Committee believes are reasonable and consistent with our overall executive compensation program. Our Compensation Committee believes that such perquisites help us to retain our executive personnel and allows them to operate more effectively.

### **Deferred Compensation Plan**

On February 28, 2013, our Board adopted and approved the Acadia Healthcare Company, Inc. Deferred Compensation Plan, effective February 1, 2013. The Deferred Compensation Plan is designed to provide tax-deferred compensation for our eligible employees, including executive officers.

Under the plan, participants may defer up to 50% of their annual base compensation and up to 100% of any performance-based compensation. Participants are fully vested in their deferral accounts as to amounts they elect to defer. No employer matching contributions are made to the Deferred Compensation Plan. Participants will be able to select from several fund choices and their deferred compensation account will increase or decrease in value in accordance with the performance of the funds selected. Participants may receive a distribution from the Deferred Compensation Plan upon a qualifying distribution event such as separation from service, disability, death, change in control or an unforeseeable emergency. Following a participant's separation from the Company for any reason, the participant's vested interest in the account is paid to the participant (or the participant's beneficiary in the event of the participant's death) either in a lump sum or up to ten annual installments, as elected by the participant. The Deferred Compensation Plan is intended to be an unfunded plan administered and maintained by the Company primarily for the purpose of providing deferred compensation benefits to participants.

### **Internal Revenue Code Section 162(m)**

Payments to executives under the 2011 Plan are designed to qualify as performance-based compensation under Section 162(m) of the Code. If we pay compensation that is performance-based compensation under Section 162(m), we can receive a federal income tax deduction for the compensation even if such compensation exceeds \$1 million in a single year. In order for compensation to qualify as performance-based compensation, it must meet certain conditions and be paid upon the achievement of objective performance goals selected by the Compensation Committee based on one or more of the business criteria set forth in the 2011 Plan. Our Compensation Committee considers the impact of Section 162(m) and its limits on deductibility, and intends that our executive compensation qualifies for an exception to the limitations of Section 162(m) so that we may fully deduct compensation paid to our executives.

### **Employment Agreements**

In 2011, we entered into employment agreements with each of Messrs. Jacobs, Fincher, Turner, Howard and Polson. The base salaries under the employment agreements are subject to an annual increase in the sole discretion of our Board. In addition to base salary, under the employment agreements the executives are entitled to participate, in their sole discretion, in all of our employee benefit programs for which senior executive employees are generally eligible. Each executive is also eligible to receive an annual bonus of up to 100% of such executive's base salary and reimbursement of reasonable expenses incurred in connection with services performed under each executive's employment agreement.

### ***Severance***

Under each employment agreement, if the executive is terminated without Cause or resigns with Good Reason, such executive is generally entitled to receive (subject to the satisfaction of certain conditions):

Such executive's base salary through the termination date;

Any bonus amounts under such executive's employment agreement to which such executive is entitled determined by reference to the calendar year that ended on or prior to the termination date;

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Any unused and unpaid time off and sick pay accrued through the termination date and any incurred but unreimbursed business expenses as of the termination date;

A prorated bonus amount for the calendar year in which the termination occurs;

Certain bonus amounts, prorated based on the actual number of days elapsed in such year prior to the termination date;

An amount equal to the cost of the premiums for continued health and dental insurance for the executive and/or his dependents in accordance with the Consolidated Budget Reconciliation Act of 1985 ( COBRA ) for a specified period; and

A specified severance payment (collectively, the Termination Payments ).

Cause (as defined in the employment agreements) means the occurrence of one or more of the following with respect to the applicable executive:

The conviction of or plea of nolo contendere to a felony or other crime involving moral turpitude or the conviction of any crime involving misappropriation, embezzlement or fraud with respect to the Company or any of its subsidiaries or any of their customers, suppliers or other business relations;

Conduct outside the scope of such executive s duties and responsibilities under his employment agreement that causes the Company or any of its subsidiaries substantial public disgrace or disrepute or economic harm;

Repeated failure to perform duties consistent with such employment agreement as reasonably directed by our Board;

Any act or knowing omission aiding or abetting a competitor, supplier or customer of ours to our disadvantage or detriment;

Breach of fiduciary duty, gross negligence or willful misconduct with respect to us;

An administrative or other proceeding results in the suspension or debarment of such executive from participation in any contracts with, or programs of, the United States or any individual state or any agency or department thereof; or

Any other material breach by such executive of his employment agreement or any other agreement between such executive and us, which is not cured to the reasonable satisfaction of our Board within 30 days after written notice thereof to such executive.

Good Reason (as defined in the employment agreements) means if the applicable executive resigns his employment with the Company (a) as a result of one or more of the following actions (in each case taken without the executive s written consent): (i) a reduction in such executive s base salary (other than as part of an across-the-board reduction that (A) results in a 10% or less reduction of such executive s base salary as in effect on the date of any such reduction or (B) is approved by our Chief Executive Officer); (ii) a material diminution of such executive s job duties or responsibilities inconsistent with the executive s position; (iii) any other material breach by us of such employment agreement; or (iv) a relocation of our principal executive offices and corporate headquarters outside of a 30-mile radius of Nashville, Tennessee following relocation thereto in accordance with such employment agreement; provided that, none of the events described in clauses (i) through (iv) shall constitute Good Reason unless such executive shall have notified us in writing describing the event which constitutes Good Reason within 90 days after the occurrence of such event and then only if we shall have failed to cure such event within 30 days after our receipt of such written notice and such executive elects to terminate his employment as a result at the end of such 30 day period, or (b) for any reason within 180 days following a



change of control of the Company.

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If an executive that is party to an employment agreement dies or becomes disabled, such executive is entitled to the applicable Termination Payments (other than the severance payment contemplated under the definition thereof). In the event that an executive becomes disabled not due to death, such executive shall be entitled to receive continued installment payments of such executive's base salary as in effect on the termination date for a specified period of time.

If we terminate an executive under an employment agreement for Cause or if any such executive resigns without Good Reason, such executive will only be entitled to receive his unpaid base salary through the termination date and any bonus amount to which such executive is entitled by reference to the calendar year that ended on or prior to the termination date.

***Non-Competition and Non-Solicitation***

During the term of each employment agreement and for one year thereafter (or 24 months thereafter in the case of Mr. Jacobs), each such executive is prohibited from (i) directly or indirectly managing, controlling, consulting, rendering services for or participating, engaging or owning an interest in any business which derives 25% of its gross revenue from the business of providing behavioral healthcare and/or related services and (ii) directly or indirectly managing, controlling, rendering services for or participating or consulting with any unit, division, segment or subsidiary of any other business that engages in or otherwise competes with (or was organized for the purpose of engaging in or competing with) the business of providing behavioral healthcare and/or related services, subject to certain exceptions. Each such executive is prohibited from directly or indirectly soliciting or hiring any employee or independent contractor of ours or directly or indirectly soliciting any customer, supplier, licensee, licensor or other business relation of ours during the employment period and for 12 months thereafter. In addition, the executives are subject to customary confidentiality and non-disparagement obligations both during and following their employment with the Company.

**Table of Contents****EXECUTIVE COMPENSATION****Summary Compensation Table**

The following summary compensation table reflects the compensation paid or accrued by us with respect to each of the Named Executive Officers:

Name and Principal Position	Year	Salary	Stock Awards <sup>(1)</sup>	Option Awards <sup>(2)</sup>	Non-Equity Incentive Plan Compensation <sup>(3)</sup>	All Other Compensation <sup>(4)</sup>	Total
Joey A. Jacobs <sup>(5)</sup>	2012	\$ 567,769	\$ 742,810	\$ 497,395	\$ 1,136,667	\$	\$ 2,944,641
<i>Chief Executive Officer</i>	2011	274,000	133,994		258,510	3,127	669,631
David M. Duckworth <sup>(6)</sup>							
<i>Chief Financial Officer</i>	2012	209,554	372,018	232,731	195,500		1,009,802
Ronald M. Fincher <sup>(5)</sup>	2012	391,308	307,805	206,110	522,222		1,427,445
<i>Chief Operating Officer</i>	2011	245,230	97,450		231,548	3,565	577,793
Brent Turner <sup>(5)</sup>	2012	388,885	307,805	206,110	518,889		1,421,689
<i>President</i>	2011	245,230	91,359		231,548	3,731	571,868
Christopher L. Howard <sup>(5)</sup>	2012	386,462	262,191	175,576	515,556		1,339,785
<i>Executive Vice President, General Counsel, and Secretary</i>	2011	245,230	91,359		231,548	3,731	571,868
Jack E. Polson <sup>(7)</sup>	2012	223,175	307,805	206,110			737,090
<i>Former Chief Financial Officer and Executive Vice President</i>	2011	245,230	91,359		231,548		568,137

- (1) Reflects the aggregate grant date fair value of restricted stock and restricted stock units granted to each Named Executive Officer pursuant to the 2011 Plan, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Stock Compensation, or ASC 718. With respect to restricted stock units, the units vest over three years and the amounts assume that target performance goals are attained in all three years. Assuming that the maximum performance goals are attained in all three years, the aggregate grant date fair value of the stock awards during 2012 would have been:

Name	Stock Awards
Joey A. Jacobs	\$ 1,485,620
David M. Duckworth	692,166
Ronald M. Fincher	615,610
Brent Turner	615,610
Christopher L. Howard	524,382
Jack E. Polson	615,610

See the section above entitled **COMPENSATION DISCUSSION AND ANALYSIS** **Components of Executive Compensation** **Equity-Based Compensation** for more information about the restricted stock and restricted stock units.

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- (2) Reflects the grant date fair value of stock options granted to each Named Executive Officer pursuant to the 2011 Plan, computed in accordance with ASC 718. See Note 9 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2012 regarding assumptions underlying valuation of the stock options. See the section above entitled COMPENSATION DISCUSSION AND ANALYSIS Components of Executive Compensation Equity-Based Compensation for more information about the stock options.
- (3) Reflects cash awards earned during the years indicated under the 2011 Plan.
- (4) Represents Company contributions to the Company's 401(k) plan.
- (5) Messrs. Jacobs, Fincher, Turner and Howard were appointed executive officers of the Company in February 2011.
- (6) Mr. Duckworth was appointed Chief Financial Officer, effective July 31, 2012.
- (7) Mr. Polson resigned his positions with the Company, effective July 31, 2012. Equity awards granted prior to Mr. Polson's resignation were forfeited upon his resignation. Total compensation, net of forfeited equity awards, paid to Mr. Polson for 2012 was \$223,175.

**Table of Contents****Grants of Plan-Based Awards**

The following table sets forth certain information regarding plan-based awards granted to the Named Executive Officers during 2012:

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards <sup>(1)</sup>			Estimated Future Payouts Under Equity Incentive Plan Awards <sup>(2)</sup>			All Other Stock Awards: Number of Shares of Stock or Units <sup>(3)</sup>	All Other Option Awards: Number of Securities Underlying Options <sup>(4)</sup>	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards <sup>(5)</sup>
		Threshold	Target	Maximum	Threshold	Target	Maximum				
Joey A. Jacobs	N/A	\$ 284,167	\$ 568,333	\$ 1,136,667						\$	\$
	3/19/12								73,254	15.96	497,395 <sup>(6)</sup>
	3/19/12							23,271			371,405
	3/19/12				11,636	23,271	46,542				371,405 <sup>(7)</sup>
David M. Duckworth	N/A	88,625	110,043	195,500							
	3/19/12								3,250	15.96	22,068 <sup>(6)</sup>
	3/19/12							3,250			51,870
	8/2/12								30,355	16.60	210,664 <sup>(6)</sup>
	8/2/12							9,643			160,074
	8/2/12				4,822	9,643	19,286				160,074 <sup>(7)</sup>
Ronald M. Fincher	N/A	195,833	261,242	522,222							
	3/19/12								30,355	15.96	206,110 <sup>(6)</sup>
	3/19/12							9,643			153,902
	3/19/12				4,822	9,643	19,286				153,902 <sup>(7)</sup>
Brent Turner	N/A	194,583	259,574	518,889							
	3/19/12								30,355	15.96	206,110 <sup>(6)</sup>
	3/19/12							9,643			153,902
	3/19/12				4,822	9,643	19,286				153,902 <sup>(7)</sup>
Christopher L. Howard	N/A	193,334	257,907	515,556							
	3/19/12								25,858	15.96	175,576 <sup>(6)</sup>
	3/19/12							8,214			131,095
	3/19/12				4,107	8,214	16,428				131,095 <sup>(7)</sup>
Jack E. Polson <sup>(8)</sup>	N/A	126,654	253,460	505,400							

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3/19/12		30,355	15.96	206,110 <sup>(6)</sup>
3/19/12		9,643		153,902
3/19/12	4,822	9,643	19,286	153,902 <sup>(7)</sup>

- (1) The estimated payouts shown reflect cash non-equity incentive awards granted under the 2011 Plan, where receipt is contingent upon the achievement of specified performance goals. See the section above entitled "COMPENSATION DISCUSSION AND ANALYSIS - Components of Executive Compensation - Annual Non-Equity Incentive Compensation" for more information about the awards.
- (2) Reflects the number of shares of Common Stock that will be issued upon vesting of restricted stock units granted under the 2011 Plan. The restricted stock units vest in three annual installments based upon the achievement of certain performance goals and continued employment. See the section above entitled "COMPENSATION DISCUSSION AND ANALYSIS - Components of Executive Compensation - Equity-Based Compensation" for more information about the restricted stock units.
- (3) Reflects shares of restricted stock granted under the 2011 Plan, which will vest in four equal annual installments commencing one year after the date of grant.
- (4) Reflects shares of Common Stock underlying stock options granted under the 2011 Plan. The options will vest in four equal annual installments commencing one year after the date of grant.
- (5) Reflects the aggregate grant date fair value computed in accordance with ASC 718.
- (6) A discussion of the assumptions used in calculating the aggregate grant date fair value of the stock options is set forth in Note 9 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012.
- (7) With respect to restricted stock units granted under the 2011 Plan, the amounts shown assume that target performance goals are attained during each of the three years in the performance period and continued employment throughout the performance period. For additional information, see the section above entitled "COMPENSATION DISCUSSION AND ANALYSIS - Components of Executive Compensation - Equity-Based Compensation."
- (8) All awards granted to Mr. Polson in 2012 were forfeited upon his resignation, effective July 31, 2012.

**Table of Contents****Outstanding Equity Awards at Fiscal Year-End**

The following table provides certain information with respect to the Named Executive Officers regarding outstanding equity awards as of December 31, 2012 that represent potential amounts that may be realized in the future:

Name	Option Awards		Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Stock Awards		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested <sup>(2)</sup>
	Number of Securities Underlying Unexercised Options <sup>(1)</sup>	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested <sup>(3)</sup>				Market Value of Shares or Units of Stock Held that Have Not Vested <sup>(2)</sup>	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested <sup>(2)</sup>	
	(Exercisable)	(Unexercisable)						
Joey A. Jacobs	73,254 <sup>(4)</sup>		\$ 15.96	3/19/22	23,271 <sup>(5)</sup>	\$ 543,378		\$ 543,378
David M. Duckworth	875	2,625 <sup>(6)</sup>	9.40	11/16/21	2,625 <sup>(7)</sup>	61,294		
		3,250 <sup>(4)</sup>	15.96	3/19/22	3,250 <sup>(5)</sup>	75,888		
		30,355 <sup>(8)</sup>	16.60	8/2/22	9,643 <sup>(9)</sup>	225,164		
Ronald M. Fincher		30,355 <sup>(4)</sup>	15.96	3/19/22	9,643 <sup>(5)</sup>	225,164	9,643	225,164
Brent Turner		30,355 <sup>(4)</sup>	15.96	3/19/22	9,643 <sup>(5)</sup>	225,164	9,643	225,164
Christopher L. Howard		25,858 <sup>(4)</sup>	15.96	3/19/22	8,214 <sup>(5)</sup>	191,797	8,214	191,797
Jack E. Polson <sup>(10)</sup>								

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- (1) The amounts shown reflect stock options granted under the 2011 Plan.
- (2) Based on the closing sales price of our Common Stock of \$23.35 on The NASDAQ Global Market on December 31, 2012.
- (3) Reflects the aggregate target number of restricted stock units granted in 2012 under the 2011 Plan that will vest upon the achievement of certain performance goals and continued employment. See the section above entitled "COMPENSATION DISCUSSION AND ANALYSIS - Components of Executive Compensation - Equity-Based Compensation" for more information about the restricted stock units.
- (4) One-fourth of these stock options becomes exercisable on each of March 19, 2013, March 19, 2014, March 19, 2015 and March 19, 2016.
- (5) One-fourth of these shares of restricted stock vest on each of March 19, 2013, March 19, 2014, March 19, 2015 and March 19, 2016.
- (6) One-third of these stock options becomes exercisable on each of November 16, 2013, November 16, 2014 and November 16, 2015.
- (7) One-third of these shares of restricted stock vest on each of November 16, 2013, November 16, 2014 and November 16, 2015.
- (8) One-fourth of these stock options becomes exercisable on each of August 2, 2013, August 2, 2014, August 2, 2015 and August 2, 2016.
- (9) One-fourth of these shares of restricted stock vest on each of August 2, 2013, August 2, 2014, August 2, 2015 and August 2, 2016.
- (10) All of Mr. Polson's unvested equity awards were forfeited upon his resignation, effective July 31, 2012.



**Table of Contents****Option Exercises and Stock Vested**

The following table shows the amounts received by the Named Executive Officers upon the exercise of stock options or the vesting of restricted stock during 2012:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting <sup>(1)</sup>
Joey A. Jacobs			14,255	\$ 232,357
David M. Duckworth				
Ronald M. Fincher			10,367	168,982
Brent Turner			9,719	158,420
Christopher L. Howard			9,719	158,420
Jack E. Polson			9,719	158,420

- (1) Based on the closing sales price of our Common Stock of \$16.30 on The NASDAQ Global Market on April 1, 2012, the date that the shares of restricted stock vested.

**Potential Payments Upon Termination or Change in Control**

The tables below show the amounts that each Named Executive Officer would have received assuming that the Named Executive Officer's employment was terminated, a change in control occurred or he died or became disabled effective December 31, 2012. As of December 31, 2012 and except as noted below, none of the Named Executive Officers were entitled to any compensation or benefits for resignation or retirement. See COMPENSATION DISCUSSION AND ANALYSIS Employment Agreements.

*Mr. Jacobs*

	Involuntary Termination without Cause <sup>(1)</sup>	Death or Disability
Executive Benefits and Payments upon Termination		
Base Salary	\$ 1,320,000 <sup>(2)</sup>	\$ 330,000 <sup>(3)</sup>
Non-Equity Incentive Plan Compensation	1,136,667 <sup>(4)</sup>	1,136,667 <sup>(4)</sup>
Options (unexercised) <sup>(5)</sup>		
Restricted Stock (unvested) <sup>(6)</sup>		
Insurance Benefits	22,229 <sup>(7)</sup>	5,557 <sup>(8)</sup>
Accrued Vacation <sup>(9)</sup>	70,820	70,820

*Mr. Duckworth<sup>(10)</sup>*

	Involuntary Termination without Cause	Death or Disability
Executive Benefits and Payments upon Termination		
Base Salary	\$	\$
Non-Equity Incentive Plan Compensation		
Options (unexercised) <sup>(5)</sup>		
Restricted Stock (unvested) <sup>(6)</sup>		
Insurance Benefits		
Accrued Vacation		



**Table of Contents***Mr. Fincher*

	Involuntary Termination without Cause <sup>(1)</sup>	Death or Disability
Executive Benefits and Payments upon Termination		
Base Salary	\$ 450,000 <sup>(2)</sup>	\$ 225,000 <sup>(3)</sup>
Non-Equity Incentive Plan Compensation	522,222 <sup>(4)</sup>	522,222 <sup>(4)</sup>
Options (unexercised) <sup>(5)</sup>		
Restricted Stock (unvested) <sup>(6)</sup>		
Insurance Benefits	16,297 <sup>(7)</sup>	8,148 <sup>(8)</sup>
Accrued Vacation <sup>(9)</sup>	29,248	29,248

*Mr. Turner*

	Involuntary Termination without Cause <sup>(1)</sup>	Death or Disability
Executive Benefits and Payments upon Termination		
Base Salary	\$ 435,000 <sup>(2)</sup>	\$ 217,500 <sup>(3)</sup>
Non-Equity Incentive Plan Compensation	518,889 <sup>(4)</sup>	518,889 <sup>(4)</sup>
Options (unexercised) <sup>(5)</sup>		
Restricted Stock (unvested) <sup>(6)</sup>		
Insurance Benefits	15,267 <sup>(7)</sup>	7,633 <sup>(8)</sup>
Accrued Vacation <sup>(9)</sup>	34,965	34,965

*Mr. Howard*

	Involuntary Termination without Cause <sup>(1)</sup>	Death or Disability
Executive Benefits and Payments upon Termination		
Base Salary	\$ 420,000 <sup>(2)</sup>	\$ 210,000 <sup>(3)</sup>
Non-Equity Incentive Plan Compensation	515,556 <sup>(4)</sup>	515,556 <sup>(4)</sup>
Options (unexercised) <sup>(5)</sup>		
Restricted Stock (unvested) <sup>(6)</sup>		
Insurance Benefits	15,267 <sup>(7)</sup>	7,633 <sup>(8)</sup>
Accrued Vacation <sup>(9)</sup>	12,760	12,760

- (1) The amounts shown would have been payable if we terminated the Named Executive Officer's employment without Cause (as defined in his employment agreement) or if the Named Executive Officer resigned his employment for Good Reason (as defined in his employment agreement and which includes a termination related to a change in control).
- (2) The amount shown reflects the Named Executive Officer's base salary (except for Mr. Jacobs, which amount reflects the product of two times his base salary) as in effect on December 31, 2012 pursuant to the terms of his employment agreement (assuming that he is not in violation of the restrictive covenants set forth in his employment agreement or his General Release, if applicable).
- (3) The amount shown reflects the Named Executive Officer's base salary as in effect on December 31, 2012 payable for a period of six months in the event of disability pursuant to the terms of his employment agreement.
- (4) The amount shown reflects the cash incentive award of 133.3% of the Named Executive Officer's base salary (except for Mr. Jacobs, which amount reflects 200% of his base salary) for 2012, assuming achievement of the performance goals at the maximum level, pursuant to the terms of his employment agreement.
- (5) Under the 2011 Plan, all stock options that have not vested as of the date of a participant's termination for any reason shall terminate and expire as of the date of such termination.
- (6) Under the 2011 Plan, all restricted stock and restricted stock units that have not vested as of the date of a participant's termination for any reason are forfeited as of the date of such termination.
- (7)

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The amount shown reflects the cost of the premiums for continued health and dental insurance for the Named Executive Officer or his dependents, in accordance with COBRA, for a period of 12 months pursuant to the terms of his employment agreement (except for Mr. Jacobs, which shall be for a period of 24 months).

- (8) The amount shown reflects the cost of the premiums for continued health and dental insurance for the Named Executive Officer or his dependents, in accordance with COBRA, for a period of six months pursuant to the terms of his employment agreement.
- (9) The amount shown reflects unused paid time off, pursuant to the terms of the Named Executive Officer's employment agreement and our paid time off policies.
- (10) We do not have an employment agreement with Mr. Duckworth.

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*Mr. Polson*

Mr. Polson resigned his positions with the Company, effective July 31, 2012. He did not receive any additional compensation or benefits in connection with his resignation and forfeited all of his unvested equity awards.

**Table of Contents****DIRECTOR COMPENSATION**

The table below sets forth the 2012 compensation earned by or paid to our non-management directors. Messrs. Jacobs and Shear do not receive any additional compensation for their services as directors.

Name	Fees Earned or Paid in Cash <sup>(1)</sup>	Stock Awards <sup>(2)</sup>	Total
Matthew W. Clary <sup>(3,4)</sup>	\$ 33,333	\$ 100,799	\$ 134,132
Bradley M. Eckmann <sup>(3,4)</sup>	33,333	100,799	134,132
Charles E. Edwards <sup>(5)</sup>	15,208		15,208
Eric S. Gordon <sup>(3,4)</sup>	33,333	100,799	134,132
Christopher J. Graber <sup>(3,4)</sup>	33,333	100,799	134,132
William F. Grieco <sup>(6)</sup>	65,625	179,925	245,550
Matthew A. London <sup>(4)</sup>	50,000	80,639	131,082
Gary A. Mecklenburg <sup>(7)</sup>	19,167		19,167
Wade D. Miquelon <sup>(8)</sup>	59,000	179,925	238,925
David O. Neighbours <sup>(3,4)</sup>	33,000	100,799	134,132
William M. Petrie, M.D. <sup>(9)</sup>	10,000	99,899	109,899
Reeve B. Waud	103,333	80,639	183,972
E. Perot Bissell <sup>(10)</sup>			
Allan B. Hubbard <sup>(10)</sup>			
Kyle D. Lattner <sup>(10)</sup>			
Hartley R. Rogers <sup>(10)</sup>			

(1) Includes annual retainers and fees associated with chairing a Board committee.

(2) This column reflects the grant date fair value of restricted stock awards granted to directors calculated in accordance with ASC 718. The fair value of restricted stock awards is computed by multiplying the total number of shares subject to the award by the closing market price of the Company's common stock on the date of grant. Grants of restricted stock were made to Messrs. Clary, Eckmann, Gordon, Graber, Grieco, London, Miquelon, Neighbours and Waud on May 23, 2012, pursuant to the terms of the 2011 Plan, as reflected in the table below. Grants of restricted stock were made to Messrs. Grieco and Miquelon on March 1, 2012, pursuant to the terms of the 2011 Plan, as reflected in the table below. A grant of restricted stock was made to Dr. Petrie on November 8, 2012, pursuant to the 2011 Plan, as reflected in the table below. The table below reflects all of the shares of restricted stock held by each director, as of December 31, 2012.

Name	Date of Grant	Shares of Restricted Stock	Market Price on Date of Grant	Grant Date Fair Value
Matthew W. Clary	May 23, 2012	6,150	\$ 16.39	\$ 100,799
Bradley M. Eckmann	May 23, 2012	6,150	16.39	100,799
Eric S. Gordon	May 23, 2012	6,150	16.39	100,799
Christopher J. Graber	May 23, 2012	6,150	16.39	100,799
William F. Grieco	March 1, 2012	7,148	13.89	99,286
	May 23, 2012	4,920	16.39	80,639
Matthew A. London	May 23, 2012	4,920	16.39	80,639
Wade D. Miquelon	March 1, 2012	7,148	13.89	99,286
	May 23, 2012	4,920	16.39	80,639
David O. Neighbours	May 23, 2012	6,150	16.39	100,799
William M. Petrie, M.D.	November 8, 2012	4,789	20.86	99,899
Reeve B. Waud	May 23, 2012	4,920	16.39	80,639
E. Perot Bissell				
Allan B. Hubbard				
Kyle D. Lattner				
Hartley R. Rogers				

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- (3) Messrs. Clary, Eckmann, Gordon, Graber and Neighbours joined the Board in April 2012.
- (4) Effective April 30, 2013, Messrs. Clary, Eckmann, Gordon, Graber, London and Neighbours resigned as directors.
- (5) Effective March 23, 2012, Mr. Edwards resigned as a director in connection with his separation from WCP.
- (6) Mr. Grieco also owns exercisable options to purchase 37,500 shares of Common Stock (which were all granted to Mr. Grieco prior to 2012).
- (7) Mr. Mecklenburg resigned as a director in April 2012.

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(8) Mr. Miquelon joined the Board in January 2012.

(9) Dr. Petrie joined the Board in October 2012.

(10) Messrs. Bissell, Hubbard, Lattner and Rogers joined the Board on April 30, 2013.

In March 2012, our Board of Directors adopted a compensation plan for non-management directors (the Directors Plan ), which provides:

An annual cash retainer of \$50,000;

An annual cash retainer of \$10,000 for each member of the Audit Committee and \$15,000 for the chair of the Audit Committee;

An annual cash retainer of \$7,500 for each member of the Compensation Committee and \$12,500 for the chair of the Compensation Committee;

An annual cash retainer of \$7,500 for each member of the Nominating and Corporate Governance Committee and \$10,000 for the chair of the Nominating and Corporate Governance Committee, if such a committee is appointed;

An annual cash retainer of \$65,000 for the Lead Director;

An initial grant of restricted stock having a value equal to \$100,000; and

An annual grant of restricted stock having a value equal to \$80,000.

Under the Directors Plan, all annual retainers shall be paid on the date of our annual meeting of stockholders (the Annual Meeting Date ). Each year as of the Annual Meeting Date, each non-management member of our Board who is re-elected or who otherwise continues to be a member of the Board immediately thereafter is automatically granted under the Directors Plan, without further action by us, our Board of Directors, the Compensation Committee or our stockholders, shares of our restricted stock having a value equal to \$80,000. The value of the restricted shares shall be based on the closing trading price of our Common Stock on the trading day immediately preceding the Annual Meeting Date. All restricted shares issued to non-management directors shall vest over three years with such shares to vest  $33\frac{1}{3}\%$  per year on the three successive anniversary dates of the grant of restricted stock beginning on the first anniversary of the grant date.

In March 2013, our Board of Directors approved certain changes to the Directors Plan, effective January 1, 2013. Except as follows, all other aspects of the Directors Plan remain the same:

An annual cash retainer of \$60,000;

An annual cash retainer of \$15,000 for each member of the Audit Committee and \$30,000 for the chair of the Audit Committee;

An annual cash retainer of \$12,500 for each member of the Compensation Committee and \$27,500 for the chair of the Compensation Committee;

An annual cash retainer of \$10,000 for each member of the Nominating and Corporate Governance Committee and \$22,000 for the chair of the Nominating and Corporate Governance Committee, if such a committee is appointed;



An annual cash retainer of \$15,000 for the lead director; and

An annual grant of restricted stock having a value equal to \$100,000.

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Each of our directors is a party to an Indemnification Agreement with the Company pursuant to which we have agreed to indemnify and advance expenses to such director in connection with his service as our director, officer or agent to the fullest extent permitted by law and as set forth in each such agreement and, to the extent applicable, to maintain insurance coverage for each such director under our policies of directors and officers liability insurance.

In addition to the compensation described above, we also reimburse our directors for travel and out-of-pocket expenses in connection with their attendance at meetings of our Board of Directors.

In March 2012, the Board of Directors adopted stock ownership guidelines for non-management directors. The guidelines require that each non-management director hold an investment position in Common Stock equal in value to five times the annual cash retainer (exclusive of any Board committee retainers) paid to non-management directors. The policy provides for a five-year transition period during which directors can attain the required ownership.

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**AUDIT COMMITTEE REPORT**

Our management has primary responsibility for preparing our financial statements and implementing internal controls over financial reporting. Our independent registered public accounting firm, Ernst & Young LLP, is responsible for expressing an opinion on the conformity of our audited financial statements with accounting principles generally accepted in the United States and the effectiveness of our internal control over financial reporting.

The role and responsibilities of the Audit Committee are set forth in a written charter adopted by our Board of Directors. The charter is available on our website, [www.acadiahealthcare.com](http://www.acadiahealthcare.com), under the webpage Investor Relations Corporate Governance. The Audit Committee reviews and reassesses the adequacy of the charter annually or more often as necessary and recommends any proposed changes to the Board. The Audit Committee acted in accordance with its charter in 2012. In fulfilling its responsibilities for fiscal year 2012, the Audit Committee:

Pre-approved all auditing and non-auditing services of Ernst & Young LLP, other than certain *de minimus* non-audit services;

Reviewed and discussed with management our unaudited quarterly financial statements during 2012 and our audited financial statements for the fiscal year ended December 31, 2012, including a discussion of critical accounting policies used in such financial statements;

Reviewed and discussed with the internal auditor the quality and appropriateness of our internal controls and reporting procedures;

Discussed with Ernst & Young LLP the matters required to be discussed under Statement on Auditing Standards No. 61 (AICPA, *Professional Standards*, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T, relating to the conduct of the audit, both with and without management present; and

Received the written disclosures and the letter from Ernst & Young LLP as required by the applicable requirements of the Public Company Accounting Oversight Board regarding Ernst & Young LLP's communications with the Audit Committee concerning independence and discussed with Ernst & Young LLP their independence from us and management.

Based on the Audit Committee's review of the audited financial statements and discussions with management and Ernst & Young LLP as described above, and in reliance thereon, the Audit Committee recommended to our Board of Directors that the audited financial statements for the fiscal year ended December 31, 2012 be included in our Annual Report on Form 10-K for filing with the SEC.

AUDIT COMMITTEE:

Wade D. Miquelon, Chairman  
William F. Grieco  
William M. Petrie, M.D.

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**COMPENSATION COMMITTEE REPORT**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by SEC Regulation S-K, Item 402(b) with management. Based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

COMPENSATION COMMITTEE:

Reeve B. Waud, Chairman

William F. Grieco

Wade D. Miquelon

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### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

*The following section references Acadia Healthcare Holdings, LLC ( Acadia Holdings ), which was a privately owned holding company that owned the Company prior to the consummation of the Company's acquisition of PHC (the PHC Acquisition ) and was controlled by WCP and its affiliates.*

#### **True Partners Engagement Agreement**

The Company and True Partners Consulting LLC ( True Partners ), an affiliate of WCP, are parties to an engagement agreement dated January 7, 2011, pursuant to which True Partners renders tax consulting and compliance services to the Company and its affiliated entities. WCP and its affiliates indirectly own a majority of the True Partners membership interests. The engagement agreement will automatically terminate upon the completion of the services to be rendered by True Partners thereunder. Either party may terminate the engagement agreement upon at least 30 days' prior written notice to the other party. Upon such termination, True Partners shall be entitled to receive payment for services performed and expenses incurred through the date of termination. Pursuant to the engagement agreement, the Company pays certain fixed fees to True Partners for various tax consulting and compliance services, which are billed monthly as incurred. The Company paid \$62,065, \$196,387 and \$23,000 to True Partners for such services in 2010, 2011 and 2012, respectively. In the event of a large transaction or other activity not otherwise covered under the engagement agreement for which True Partners provides services to the Company, True Partners will provide consulting services to the Company at its standard hourly rates, plus reimbursement of out-of-pocket expenses.

#### **Registration Rights Agreement**

Acadia Holdings entered into an amended and restated registration rights agreement with the holders of substantially all of its equity securities pursuant to which such holders have the right to demand the registration of all or a portion of their securities and have certain piggyback registration rights, subject to certain limitations. In connection with the consummation of the PHC Acquisition, WCP and the other members of Acadia Holdings caused the dissolution of Acadia Holdings and the distribution of the Common Stock held by Acadia Holdings to its members. In connection with such dissolution and distribution, the Company assumed Acadia Holdings' rights and obligations under the amended and restated registration rights agreement.

#### **Affiliate Transactions**

We have entered into employment agreements for certain of our executive officers. See the section above entitled COMPENSATION DISCUSSION AND ANALYSIS Employment Agreements for more information about such employment agreements.

#### **Stockholders Agreement**

In connection with consummation of the PHC Acquisition, the Company, the Management Investors, WCP and the WCP Investors entered into the Stockholders Agreement.

*Management Rights.* For so long as the WCP Investors hold at least 17.5% of our outstanding voting securities, the WCP Investors will have the right to designate at least such number of directors to our Board of Directors that, when compared to the authorized number of directors on our Board, is not less than proportional to the total number of Stockholder Shares (as defined below) over which the WCP Investors retain voting control relative to the total number of Stockholder Shares then issued and outstanding (with the number of representatives rounded up to the next whole number in all cases). From and after such time as the WCP Investors cease to hold at least 17.5% of our outstanding voting securities, the WCP Investors will have no right to designate any representative to our Board of Directors. Notwithstanding the foregoing, the Stockholders Agreement provides that no reduction in the number of shares of our Common Stock and other of our and our subsidiaries' equity securities over which the WCP Investors retain voting control will shorten the term of any incumbent director on our Board.

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In accordance with the Stockholders Agreement, our Board appointed Messrs. Jacobs and Shear as Class III directors. Mr. Jacob's appointment shall last as long as he continues to serve as our Chief Executive Officer or the Chief Executive Officer of any of our subsidiaries. Mr. Shear's appointment will terminate after the expiration of the three-year term following his initial term.

*Stockholder Shares* is defined as (i) any shares of our Common Stock or other of our or our subsidiaries' equity securities from time to time purchased or otherwise acquired or held by any party to the Stockholders Agreement, (ii) any of our Common Stock or other of our or our subsidiaries' equity securities from time to time issued or issuable directly or indirectly upon the conversion, exercise or exchange of any securities purchased or otherwise acquired by any party to the Stockholders Agreement (excluding options to purchase our Common Stock granted by us unless and until such options are exercised), and (iii) any other capital stock or other of our or our subsidiaries' other equity securities from time to time issued or issuable directly or indirectly with respect to the securities referred to in clauses (i) or (ii) above by way of a stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization.

*Voting Agreement.* Under the Stockholders Agreement, in the event the approval of the Company or its stockholders is required in connection with any election or removal of directors, merger, consolidation, business combination, recapitalization, conversion, sale, lease or exchange of all or substantially all of our property or assets, authorization or issuance of capital stock or other securities (including the adoption of any equity incentive plan), executive compensation, stockholder proposal, amendment to or restatement of our certificate of incorporation or Bylaws or pursuant to any contractual agreement to which a Management Investor is a party or is bound, each Management Investor will vote all of his or her Stockholder Shares and any other voting securities over which such Management Investor has voting control, and will take all other necessary or desirable actions within his, her or its control so that all such Stockholder Shares and other of our voting securities are voted as directed by the Majority WCP Investors. In furtherance of the foregoing, each Management Investor has appointed WCP II as such Management Investor's true and lawful proxy and attorney-in fact, with full power and authority to vote such Management Investor's Stockholder Shares and any other of our voting securities over which such Management Investor has voting control for the election and/or removal of directors (in accordance with the provisions described above in the subsection entitled "Management Rights") and all such matters as described in this "Voting Agreement" subsection. The Stockholders Agreement provides that the voting agreements and proxy described in this paragraph will terminate from and after such time as the WCP Investors cease to hold 17.5% of our outstanding voting securities.

*Transfer Restrictions.* The Stockholders Agreement provides that no Management Investor may transfer any interest in any Stockholder Shares, except as described in the following sentence, without first obtaining the consent of the Majority WCP Investors; provided, that the Management Investors may transfer Stockholder Shares to their "Permitted Transferees" (as defined in the Stockholders Agreement) as long as the transferring Management Investor retains voting control over the transferred Stockholder Shares. The aforementioned restrictions on transfer do not apply to the following Stockholder Shares:

Stockholder Shares received as consideration in the PHC Acquisition;

Stockholder Shares purchased or otherwise acquired by any Management Investor after the effective time of the PHC Acquisition (excluding, for the avoidance of doubt, Stockholder Shares received in the dissolution of Acadia Holdings); and

A percentage of Stockholder Shares held by each Management Investor and designated as "Unrestricted Shares" in accordance with the terms of the Stockholders Agreement.

The Stockholders Agreement defines "Unrestricted Shares," with respect to any Management Investor, as the number of such Management Investor's Subject Shares (as defined below) determined by multiplying (x) the total number of Subject Shares held by such Management Investor as of November 1, 2011 (as appropriately adjusted for stock splits, stock dividends, stock combinations, recapitalizations and the like), by (y) the difference of 100% minus the WCP Liquidity Percentage (as defined below); provided, that (a) from and after November 1, 2014, no fewer than 33% of the Subject Shares held by such Management Investor as of November 1, 2011 shall be

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Unrestricted Shares, (b) from and after November 1, 2015, no fewer than 67% of the Subject Shares held by such Management Investor as of November 1, 2011 shall be Unrestricted Shares, and (c) from and after November 1, 2016, 100% of such Management Investor's Subject Shares shall be Unrestricted Shares; and provided further, that 50,000 of the Subject Shares held by each of Norman K. Carter, III and Karen Prince shall become Unrestricted Shares on April 25, 2013 and an additional 50,000 of the Subject Shares held by each of Norman K. Carter, III and Karen Prince shall become Unrestricted Shares at the expiration of each 90-day period thereafter (notwithstanding the foregoing, each such former executive agrees to Transfer (as defined in the Stockholders Agreement) no more than 10,000 of such Subject Shares on any single trading day).

The Stockholders Agreement also defines Subject Shares, with respect to any Management Investor, as all Stockholder Shares purchased or otherwise acquired or held by such Management Investor other than (A) any Stockholder Shares received by such Management Investor as consideration in the PHC Acquisition, and (B) any Stockholder Shares purchased or otherwise acquired by such Management Investor after the effective time of the PHC Acquisition (which, for purposes of clarity, shall not include any Stockholder Shares received by such Management Investor in connection with the dissolution of Acadia Holdings or otherwise in connection with the liquidation and dissolution of Acadia Holdings), and defines WCP Liquidity Percentage as the percentage obtained by dividing (i) the total number of Stockholder Shares constituting WCP Equity (as defined below) as of the date of determination, by (ii) the total number of Stockholder Shares constituting WCP Equity as of November 1, 2011 (as appropriately adjusted for stock splits, stock dividends, stock combinations, recapitalizations and the like).

The Stockholders Agreement defines WCP Equity as (i) the Common Stock held by the WCP Investors on November 1, 2011 and any other Stockholder Shares from time to time issued to or otherwise acquired by the WCP Investors (other than pursuant to purchases made on the open market and not in connection with any private placement by us), and (ii) any securities issued with respect to the securities referred to in clause (i) by way of a stock split, stock dividend, or other division of securities, or in connection with a combination of securities, recapitalization, merger, consolidation, or other reorganization. As to any particular securities constituting WCP Equity, such securities shall cease to be WCP Equity when they have been (A) effectively registered under the Securities Act and disposed of for cash in accordance with the registration statement covering them, (B) purchased or otherwise acquired for cash by any person other than a WCP Investor, or (C) redeemed or repurchased for cash by the Company or any of its subsidiaries or any designee thereof. The Stockholder Shares not described in clauses (i), (ii) and (iii) of the prior sentence are referred to in the Stockholders Agreement as Restricted Shares.

*Lock-Ups.* The Stockholders Agreement provides that no Management Investor or other holder of Restricted Shares will take any of the following actions from the date the Company gives notice to the Management Investors that a preliminary or final prospectus has been circulated for a public offering and during the 90 days following the date of the final prospectus for such public offering: (i) offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any of the Company's or its subsidiaries' equity securities or any securities convertible into or exchangeable or exercisable for such securities; (ii) enter into any transaction which would have the same effect as described in clause (i); (iii) enter into any swap, hedge or other arrangement that transfers, in whole or part, any of the economic consequences or ownership of any of the securities described in clause (i); or (iv) publicly disclose the intention to enter into any transaction described in clauses (i), (ii) or (iii). The foregoing restrictions do not apply to transactions made in the subject public offering and those to which the underwriters managing such public offering agree in writing. As used in this Stockholders Agreement section, public offering refers to any offering by the Company of the Company's or its subsidiaries' capital stock or other equity securities to the public pursuant to an effective registration statement under the Securities Act or any comparable statement under any similar federal statute then in force.

*Certain Covenants.* Under the Stockholders Agreement, we are obligated, for so long as the WCP Investors continue to hold 17.5% of our outstanding voting securities, to deliver to the WCP Investors certain audited and unaudited financial statements, annual budgets and operating plans and other information and financial data concerning us and our subsidiaries as reasonably requested by the WCP Investors. We will also be obligated during such period to permit any representative designated by any WCP Investor, upon reasonable notice and execution of a customary confidentiality agreement, to visit and inspect any of our properties, to examine our and our subsidiaries' corporate, financial and other records and to consult with our and our subsidiaries' directors, officers, managers, key employees and independent accountants.

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For so long as the WCP Investors continue to hold 17.5% of our outstanding voting securities, we are not permitted to take (or with respect to certain actions be permitted to cause our subsidiaries to take) any of the following actions, subject to certain limited exceptions, without the prior written consent of the Majority WCP Investors:

Pay dividends, redeem stock or make other distributions;

Authorize, issue or enter into any agreement providing for the issuance of any debt or equity securities;

Make loans, advances, guarantees or Investments (as defined in the Stockholders Agreement);

Engage in mergers or consolidations;

Make or fail to make certain capital expenditures;

Sell, lease, license or dispose of any assets;

Liquidate, dissolve or wind up or effect a recapitalization, reclassification or reorganization;

Acquire any interest in any company or business;

Materially change our business activities;

Enter into, amend, modify or supplement or waive any provisions of any agreement, transaction, commitment or arrangement with any affiliate;

Incur additional indebtedness exceeding \$10.0 million in aggregate principal amount outstanding at any time on a consolidated basis;  
or

Make an assignment for the benefit of creditors or admit in writing its inability to pay our debts generally as they become due. Furthermore, so long as the WCP Investors continue to hold 17.5% of our outstanding voting securities we will (and will cause each of our subsidiaries to) take the following actions (subject to certain limited exceptions), unless we have received the prior written consent of the Majority WCP Investors:

Maintain and keep our tangible assets in good repair, working order and condition;



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Maintain all material intellectual property rights necessary to the conduct of our business and maintain agreements providing for the confidentiality and protection of our intellectual property rights;

Comply in all material respects with all applicable laws, rules and regulations of all governmental entities;

Cause to be done all things reasonably necessary to maintain, preserve and renew all licenses, permits and other approvals necessary for the conduct of our business;

Pay and discharge when payable all material taxes, assessments and governmental charges imposed upon our properties or the income or profits therefrom;

Use commercially reasonable efforts to continue in force adequate insurance; and

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Maintain proper books of record and account which present fairly in all material respects our financial conditions and results of operations and make provisions on our financial statements for all proper reserves, each in accordance with GAAP.

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### GENERAL INFORMATION

#### **Stockholder Proposals for 2014 Annual Meeting**

Pursuant to Rule 14a-8 under the Exchange Act, proper stockholder proposals intended to be presented at our 2014 annual meeting of stockholders must be received by us at our principal executive offices at 830 Crescent Centre Drive, Suite 610, Franklin, Tennessee 37067 no later than December 31, 2013 for the proposals to be included in the Proxy Statement and form of proxy card for that meeting.

If a stockholder desires to bring a matter before our annual meeting of stockholders and the matter is submitted outside the process of Rule 14a-8, including with respect to nominations for election as directors, the stockholder must follow the procedures set forth in our Bylaws. Our Bylaws provide generally that stockholder proposals and director nominations to be considered at an annual meeting of stockholders may be made by a stockholder only if (1) the stockholder is a stockholder of record and is entitled to vote at the meeting, and (2) the stockholder gives timely written notice of the matter to our corporate secretary. To be timely, a stockholder's notice must be received at our principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting of stockholders. However, in the event that our annual meeting is more than 30 days before or more than 70 days after the date of first anniversary of the preceding year's annual meeting of stockholders, notice by the stockholder must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made by the Company. Under our Bylaws, notice with respect to the 2014 annual meeting of stockholders must be received at our principal executive offices between the dates of January 23, 2014 and February 22, 2014, unless the 2014 annual meeting is called for a date that is more than 30 days before or more than 70 days after May 23, 2014. The notice must set forth the information required by the provisions of our Bylaws dealing with stockholder proposals and nominations of directors.

#### **Annual Report to Stockholders**

A copy of this Proxy Statement and our 2012 Annual Report to Stockholders has been posted on our website at [www.acadiahealthcare.com](http://www.acadiahealthcare.com). **Upon the written request of any stockholder entitled to vote at the Annual Meeting, we will furnish, without charge, a copy of our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC. Requests should be directed to Acadia Healthcare Company, Inc., 830 Crescent Centre Drive, Suite 610, Franklin, Tennessee 37067, Attention: Christopher L. Howard, Esq., Executive Vice President, General Counsel and Secretary, (615) 851-6000.** Our Annual Report to Stockholders and Annual Report on Form 10-K are not proxy soliciting materials.

#### **Delivery of Documents to Stockholders Sharing an Address**

Householding is a program adopted by the SEC that permits companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for annual reports, proxy statements and other proxy materials sent to multiple stockholders of record who have the same address by delivering a single set of proxy materials to that address. Householding is designed to reduce a company's printing costs and postage fees. Brokers with account holders who are stockholders of the Company may be householding the Company's proxy materials. If your household participates in the householding program, you will receive a single set of proxy materials. If you are a beneficial holder, you can request information about householding from your broker, bank or other nominee.

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If you receive more than one set of proxy materials, this means that you have multiple accounts holding Common Stock with brokers and/or the Company's transfer agent. Please vote all of your shares by following the instructions included in the materials provided to you. Additionally, to avoid receiving multiple sets of proxy materials in the future, the Company recommends that you contact Broadridge Financial Services, Inc. at [www.proxyvote.com](http://www.proxyvote.com) or (800) 579-1639 to consolidate as many accounts as possible under the same name and address. If you are a beneficial holder, please call your broker for instructions.

ACADIA HEALTHCARE COMPANY, INC.

/s/ Joey A. Jacobs

Joey A. Jacobs

*Chairman, Director and Chief Executive Officer*

April 30, 2013

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*Appendix A*

**ACADIA HEALTHCARE COMPANY, INC.**

**INCENTIVE COMPENSATION PLAN**

**Article I**

**PURPOSE**

Acadia Healthcare Company, Inc. hereby amends and restates the 2011 Incentive Compensation Plan, as the Acadia Healthcare Company, Inc. Incentive Compensation Plan, effective as of the date set forth in Article XV to enhance the profitability and value of the Company for the benefit of its stockholders by enabling the Company to offer Eligible Individuals cash and stock-based incentives in order to attract, retain and reward such individuals and strengthen the mutuality of interests between such individuals and the Company's stockholders.

**Article II**

**DEFINITIONS**

For purposes of the Plan, the following terms shall have the following meanings:

**2.1** **Acquisition Event** has the meaning set forth in Section 4.2(d).

**2.2** **Affiliate** means each of the following: (a) any Subsidiary; (b) any Parent; (c) any corporation, trade or business (including, without limitation, a partnership or limited liability company) which is directly or indirectly controlled 50% or more (whether by ownership of stock, assets or an equivalent ownership interest or voting interest) by the Company or one of its Affiliates; (d) any trade or business (including, without limitation, a partnership or limited liability company) which directly or indirectly controls 50% or more (whether by ownership of stock, assets or an equivalent ownership interest or voting interest) of the Company; and (e) any other entity in which the Company or any of its Affiliates has a material equity interest and which is designated as an Affiliate by resolution of the Committee; provided that, unless otherwise determined by the Committee, the Common Stock subject to any Award constitutes service recipient stock for purposes of Section 409A of the Code or otherwise does not subject the Award to Section 409A of the Code.

**2.3** **Award** means any award under the Plan of any Stock Option, Stock Appreciation Right, Restricted Stock, Performance Award, Other Stock-Based Award or Other Cash-Based Award. All Awards shall be granted by, confirmed by, and subject to the terms of, a written agreement executed by the Company and the Participant.

**2.4** **Award Agreement** means the written or electronic agreement setting forth the terms and conditions applicable to an Award.

**2.5** **Board** means the Board of Directors of the Company.

**2.6** **Cause** means, unless otherwise provided by the Committee in the applicable Award Agreement, with respect to a Participant's Termination of Employment or Termination of Consultancy, the following: (a) in the case where there is no employment agreement, consulting agreement, change in control agreement or similar agreement in effect between the Company or an Affiliate and the Participant at the time of the grant of the Award (or where there is such an agreement but it does not define cause (or words of like import)), termination due to a (i) willful or serious misconduct or gross negligence in the performance of the Participant's duties to the Company; (ii) willful or repeated failure to satisfactorily perform the Participant's duties to the Company or to follow the lawful directives of the Board or any executive or supervisor to

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which the Participant reports (other than as a result of death or due to Disability); (iii) commission of, indictment for, conviction of, or pleading of guilty or nolo

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contendere to, a felony or any crime involving moral turpitude; (iv) performance of any act of theft, embezzlement, fraud, malfeasance, dishonesty or misappropriation of the Company's property; or (v) breach of, or failure to comply with, any material agreement with the Company, or a violation of the Company's code of conduct or other written policy; or (b) in the case where there is an employment agreement, consulting agreement, change in control agreement or similar agreement in effect between the Company or an Affiliate and the Participant at the time of the grant of the Award that defines "cause" (or words of like import), "cause" as defined under such agreement; provided, however, that with regard to any agreement under which the definition of "cause" only applies on occurrence of a change in control, such definition of "cause" shall not apply until a change in control actually takes place and then only with regard to a termination thereafter. With respect to a Participant's Termination of Directorship, "cause" means an act or failure to act that constitutes cause for removal of a director under applicable Delaware law.

2.7 **Change in Control** has the meaning set forth in 11.2.

2.8 **Change in Control Price** has the meaning set forth in Section 11.1.

2.9 **Code** means the Internal Revenue Code of 1986, as amended. Any reference to any section of the Code shall also be a reference to any successor provision and any treasury regulation promulgated thereunder.

2.10 **Committee** means any committee of the Board duly authorized by the Board to administer the Plan. If no committee is duly authorized by the Board to administer the Plan, the term "Committee" shall be deemed to refer to the Board for all purposes under the Plan.

2.11 **Common Stock** means the common stock, \$0.01 par value per share, of the Company.

2.12 **Company** means Acadia Healthcare Company, Inc., a Delaware corporation, and its successors by operation of law.

2.13 **Consultant** means any Person who is an advisor or consultant to the Company or its Affiliates.

2.14 **Disability** means, unless otherwise provided by the Committee in the applicable Award Agreement, with respect to a Participant's Termination, a permanent and total disability as defined in Section 22(e)(3) of the Code. Notwithstanding the foregoing, for Awards that are subject to Section 409A of the Code, Disability shall mean that a Participant is disabled under Section 409A(a)(2)(C)(i) or (ii) of the Code.

2.15 **Effective Date** means the effective date of the Plan as defined in Article XV.

2.16 **Eligible Employees** means each employee of the Company or an Affiliate.

2.17 **Eligible Individual** means any Eligible Employee, Non-Employee Director or Consultant.

2.18 **Exchange Act** means the Securities Exchange Act of 1934, as amended. Reference to a specific section of the Exchange Act or regulation thereunder shall include such section or regulation, any valid regulation or interpretation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

2.19 **Fair Market Value** means, for purposes of the Plan, unless otherwise required by any applicable provision of the Code or any regulations issued thereunder, as of any date and except as provided below, the last sales price reported for the Common Stock on the applicable date: (a) as reported on the principal national securities exchange in the United States on which it is then traded or (b) if the Common Stock is not traded, listed or otherwise reported or quoted, the Committee shall determine in good faith the Fair Market Value in whatever manner it considers appropriate taking into account the requirements of Section 409A of the Code. For purposes of the grant of any Award, the applicable date shall be the trading day immediately prior to the date on which the Award is granted. For purposes of the exercise of any Award, the applicable date shall be the date a notice of exercise is received by the Committee or, if not a day on which the applicable market is open, the next day that it is open.

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- 2.20** **Family Member** means family member as defined in Section A.1.(a)(5) of the general instructions of Form S-8.
- 2.21** **Incentive Stock Option** means any Stock Option awarded to an Eligible Employee of the Company, its Subsidiaries and its Parents (if any) under the Plan intended to be and designated as an Incentive Stock Option within the meaning of Section 422 of the Code.
- 2.22** **Non-Employee Director** means a director or a member of the Board of the Company or any Affiliate who is not an active employee of the Company or any Affiliate.
- 2.23** **Non-Qualified Stock Option** means any Stock Option awarded under the Plan that is not an Incentive Stock Option.
- 2.24** **Non-Tandem Stock Appreciation Right** shall mean the right to receive an amount in cash and/or stock equal to the difference between (x) the Fair Market Value of a share of Common Stock on the date such right is exercised, and (y) the aggregate exercise price of such right, otherwise than on surrender of a Stock Option.
- 2.25** **Other Cash-Based Award** means an Award granted pursuant to Section 10.3 of the Plan and payable in cash at such time or times and subject to such terms and conditions as provided by the Committee in the applicable Award Agreement.
- 2.26** **Other Stock-Based Award** means an Award under Article X of the Plan that is valued in whole or in part by reference to, or is payable in or otherwise based on, Common Stock, including, without limitation, an Award valued by reference to an Affiliate.
- 2.27** **Parent** means any parent corporation of the Company within the meaning of Section 424(e) of the Code.
- 2.28** **Participant** means an Eligible Individual to whom an Award has been granted pursuant to the Plan.
- 2.29** **Performance Award** means an Award granted to a Participant pursuant to Article IX hereof contingent upon achieving certain Performance Goals.
- 2.30** **Performance Goals** means goals established by the Committee as contingencies for Awards to vest and/or become exercisable or distributable based on one or more of the performance goals set forth in Exhibit A hereto.
- 2.31** **Performance Period** means the period designated during which the Performance Goals must be satisfied with respect to the Award to which the Performance Goals relate.
- 2.32** **Person** means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a government or any branch, department, agency, political subdivision or official thereof.
- 2.33** **Plan** means this Incentive Compensation Plan, as an amendment and restatement of the 2011 Incentive Compensation Plan and as amended from time to time.
- 2.34** **Reference Stock Option** has the meaning set forth in Section 7.1.
- 2.35** **Registration Date** means the date on which the Company sells its Common Stock in a bona fide, firm commitment underwriting pursuant to a registration statement under the Securities Act.
- 2.36** **Restricted Stock** means an Award of shares of Common Stock under the Plan that is subject to restrictions under Article VIII.



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- 2.37** **Restriction Period** has the meaning set forth in Section 8.3(a) with respect to Restricted Stock.
- 2.38** **Rule 16b-3** means Rule 16b-3 under Section 16(b) of the Exchange Act as then in effect or any successor provision.
- 2.39** **Section 162(m) of the Code** means the exception for performance-based compensation under Section 162(m) of the Code and any applicable treasury regulations thereunder.
- 2.40** **Section 409A of the Code** means the nonqualified deferred compensation rules under Section 409A of the Code and any applicable treasury regulations and other official guidance thereunder.
- 2.41** **Securities Act** means the Securities Act of 1933, as amended and all rules and regulations promulgated thereunder. Reference to a specific section of the Securities Act or regulation thereunder shall include such section or regulation, any valid regulation or interpretation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.
- 2.42** **Stock Appreciation Right** shall mean the right pursuant to an Award granted under Article VII.
- 2.43** **Stock Option or Option** means any option to purchase shares of Common Stock granted to Eligible Individuals granted pursuant to Article VI.
- 2.44** **Subsidiary** means any subsidiary corporation of the Company within the meaning of Section 424(f) of the Code.
- 2.45** **Tandem Stock Appreciation Right** shall mean the right to surrender to the Company all (or a portion) of a Stock Option in exchange for an amount in cash and/or stock equal to the difference between (i) the Fair Market Value on the date such Stock Option (or such portion thereof) is surrendered, of the Common Stock covered by such Stock Option (or such portion thereof), and (ii) the aggregate exercise price of such Stock Option (or such portion thereof).
- 2.46** **Ten Percent Stockholder** means a Person owning stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, its Subsidiaries or its Parent.
- 2.47** **Termination** means a Termination of Consultancy, Termination of Directorship or Termination of Employment, as applicable.
- 2.48** **Termination of Consultancy** means: (a) that the Consultant is no longer acting as a consultant to the Company or an Affiliate; or (b) when an entity which is retaining a Participant as a Consultant ceases to be an Affiliate unless the Participant otherwise is, or thereupon becomes, a Consultant to the Company or another Affiliate at the time the entity ceases to be an Affiliate. In the event that a Consultant becomes an Eligible Employee or a Non-Employee Director upon the termination of such Consultant's consultancy, no Termination of Consultancy shall be deemed to occur until such time as such Consultant is no longer a Consultant, an Eligible Employee or a Non-Employee Director. Notwithstanding the foregoing, the Committee may otherwise define Termination of Consultancy in the Award Agreement or, if no rights of a Participant are reduced, may otherwise define Termination of Consultancy thereafter, provided that any such change to the definition of the term Termination of Consultancy does not subject the applicable Award to Section 409A of the Code.
- 2.49** **Termination of Directorship** means that the Non-Employee Director has ceased to be a director of the Company; except that if a Non-Employee Director becomes an Eligible Employee or a Consultant upon the termination of such Non-Employee Director's directorship, such Non-Employee Director's ceasing to be a director of the Company shall not be treated as a Termination of Directorship unless and until the Participant has a Termination of Employment or Termination of Consultancy, as the case may be.

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**2.50** **Termination of Employment** means: (a) a termination of employment (for reasons other than a military or personal leave of absence granted by the Company) of a Participant from the Company and its Affiliates; or (b) when an entity which is employing a Participant ceases to be an Affiliate, unless the Participant otherwise is, or thereupon becomes, employed by the Company or another Affiliate at the time the entity ceases to be an Affiliate. In the event that an Eligible Employee becomes a Consultant or a Non-Employee Director upon the termination of such Eligible Employee's employment, no Termination of Employment shall be deemed to occur until such time as such Eligible Employee is no longer an Eligible Employee, a Consultant or a Non-Employee Director. Notwithstanding the foregoing, the Committee may otherwise define Termination of Employment in the Award Agreement or, if no rights of a Participant are reduced, may otherwise define Termination of Employment thereafter, provided that any such change to the definition of the term Termination of Employment does not subject the applicable Award to Section 409A of the Code.

**2.51** **Transfer** means: (a) when used as a noun, any direct or indirect transfer, sale, assignment, pledge, hypothecation, encumbrance or other disposition (including the issuance of equity in any entity), whether for value or no value and whether voluntary or involuntary (including by operation of law), and (b) when used as a verb, to directly or indirectly transfer, sell, assign, pledge, encumber, charge, hypothecate or otherwise dispose of (including the issuance of equity in any entity) whether for value or for no value and whether voluntarily or involuntarily (including by operation of law). Transferred and Transferable shall have a correlative meaning.

**2.52** **Transition Period** means the period beginning with the Registration Date and ending as of the earlier of: (i) the date of the first annual meeting of stockholders of the Company at which directors are to be elected that occurs after the close of the third calendar year following the calendar year in which the Registration Date occurs; and (ii) the expiration of the reliance period under Treasury Regulation Section 1.162-27(f)(2).

**Article III**

**ADMINISTRATION**

**3.1** **The Committee.** The Plan shall be administered and interpreted by the Committee. To the extent required by applicable law, rule or regulation, it is intended that each member of the Committee shall qualify as (a) a non-employee director under Rule 16b-3, (b) an outside director under Section 162(m) of the Code and (c) an independent director under the rules of any national securities exchange or national securities association, as applicable. If it is later determined that one or more members of the Committee do not so qualify, actions taken by the Committee prior to such determination shall be valid despite such failure to qualify.

**3.2** **Grants of Awards.** The Committee shall have full authority to grant, pursuant to the terms of the Plan, to Eligible Individuals: (i) Stock Options; (ii) Stock Appreciation Rights; (iii) Restricted Stock; (iv) Performance Awards; (v) Other Stock-Based Awards; and (vi) Other Cash-Based Awards. In particular, the Committee shall have the authority:

- (a) to select the Eligible Individuals to whom Awards may from time to time be granted hereunder;
- (b) to determine whether and to what extent Awards, or any combination thereof, are to be granted hereunder to one or more Eligible Individuals;
- (c) to determine the number of shares of Common Stock to be covered by each Award granted hereunder;
- (d) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder (including, but not limited to, the exercise or purchase price (if any), any restriction or limitation, any vesting schedule or acceleration thereof, or any forfeiture restrictions or waiver thereof, regarding any Award and the shares of Common Stock relating thereto, based on such factors, if any, as the Committee shall determine);
- (e) to determine the amount of cash to be covered by each Award granted hereunder;

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- (f) to determine whether, to what extent and under what circumstances grants of Options and other Awards under the Plan are to operate on a tandem basis and/or in conjunction with or apart from other awards made by the Company outside of the Plan;
- (g) to determine whether and under what circumstances a Stock Option may be settled in cash, Common Stock and/or Restricted Stock under Section 6.4(d);
- (h) to determine whether a Stock Option is an Incentive Stock Option or Non-Qualified Stock Option;
- (i) to determine whether to require a Participant, as a condition of the granting of any Award, to not sell or otherwise dispose of shares acquired pursuant to the exercise of an Award for a period of time as determined by the Committee following the date of the acquisition or exercise of such Award;
- (j) to modify, extend or renew an Award, subject to Article XII and Section 6.4(l), provided, however, that such action does not subject the Award to Section 409A of the Code without the consent of the Participant; and
- (k) solely to the extent permitted by applicable law, to determine whether, to what extent and under what circumstances to provide loans (which may be on a recourse basis and shall bear interest at the rate the Committee shall provide) to Participants in order to exercise Options under the Plan.

**3.3 Guidelines.** Subject to Article XII hereof, the Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan and perform all acts, including the delegation of its responsibilities (to the extent permitted by applicable law and applicable stock exchange rules), as it shall, from time to time, deem advisable; to construe and interpret the terms and provisions of the Plan and any Award issued under the Plan (and any agreements relating thereto); and to otherwise supervise the administration of the Plan. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any agreement relating thereto in the manner and to the extent it shall deem necessary to effectuate the purpose and intent of the Plan. The Committee may adopt special guidelines and provisions for Persons who are residing in or employed in, or subject to, the taxes of, any domestic or foreign jurisdictions to comply with applicable tax and securities laws of such domestic or foreign jurisdictions. Notwithstanding the foregoing, no action of the Committee under this Section 3.3 shall impair the rights of any Participant without the Participant's consent. To the extent applicable, the Plan is intended to comply with the applicable requirements of Rule 16b-3, and with respect to Awards intended to be performance-based, the applicable provisions of Section 162(m) of the Code, and the Plan shall be limited, construed and interpreted in a manner so as to comply therewith.

**3.4 Decisions Final.** Any decision, interpretation or other action made or taken in good faith by or at the direction of the Company, the Board or the Committee (or any of its members) arising out of or in connection with the Plan shall be within the absolute discretion of all and each of them, as the case may be, and shall be final, binding and conclusive on the Company and all employees and Participants and their respective heirs, executors, administrators, successors and assigns.

**3.5 Procedures.** If the Committee is appointed, the Board shall designate one of the members of the Committee as chairman and the Committee shall hold meetings, subject to the By-Laws of the Company, at such times and places as it shall deem advisable, including, without limitation, by telephone conference or by written consent to the extent permitted by applicable law. A majority of the Committee members shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members. Any decision or determination reduced to writing and signed by all of the Committee members in accordance with the By-Laws of the Company, shall be fully effective as if it had been made by a vote at a meeting duly called and held. The Committee shall keep minutes of its meetings and shall make such rules and regulations for the conduct of its business as it shall deem advisable.

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**3.6 Designation of Consultants/Liability.**

(a) The Committee may designate employees of the Company and professional advisors to assist the Committee in the administration of the Plan and (to the extent permitted by applicable law and applicable exchange rules) may grant authority to officers to grant Awards and/or execute agreements or other documents on behalf of the Committee. In the event of any designation of authority hereunder, subject to applicable law, applicable stock exchange rules and any limitations imposed by the Committee in connection with such designation, such designee or designees shall have the power and authority to take such actions, exercise such powers and make such determinations that are otherwise specifically designated to the Committee hereunder.

(b) The Committee may employ such legal counsel, consultants and agents as it may deem desirable for the administration of the Plan and may rely upon any opinion received from any such counsel or consultant and any computation received from any such consultant or agent. Expenses incurred by the Committee or the Board in the engagement of any such counsel, consultant or agent shall be paid by the Company. The Committee, its members and any Person designated pursuant to sub-section (a) above shall not be liable for any action or determination made in good faith with respect to the Plan. To the maximum extent permitted by applicable law, no officer of the Company or member or former member of the Committee or of the Board shall be liable for any action or determination made in good faith with respect to the Plan or any Award granted under it.

**3.7 Indemnification.** To the maximum extent permitted by applicable law and the Certificate of Incorporation and By-Laws of the Company and to the extent not covered by insurance directly insuring such person, each officer or employee of the Company or any Affiliate and member or former member of the Committee or the Board shall be indemnified and held harmless by the Company against any cost or expense (including reasonable fees of counsel reasonably acceptable to the Committee) or liability (including any sum paid in settlement of a claim with the approval of the Committee), and advanced amounts necessary to pay the foregoing at the earliest time and to the fullest extent permitted, arising out of any act or omission to act in connection with the administration of the Plan, except to the extent arising out of such officer's, employee's, member's or former member's own fraud or bad faith. Such indemnification shall be in addition to any right of indemnification the employees, officers, directors or members or former officers, directors or members may have under applicable law or under the Certificate of Incorporation or By-Laws of the Company or any Affiliate. Notwithstanding anything else herein, this indemnification will not apply to the actions or determinations made by an individual with regard to Awards granted to such individual under the Plan.

**Article IV**

**SHARE LIMITATION**

**4.1 Shares.**

(a) The aggregate number of shares of Common Stock that may be issued or used for reference purposes or with respect to which Awards may be granted under the Plan shall not exceed 4,700,000 shares (subject to any increase or decrease pursuant to Section 4.2), which may be either authorized and unissued Common Stock or Common Stock held in or acquired for the treasury of the Company or both. The maximum number of shares of Common Stock with respect to which Incentive Stock Options may be granted under the Plan shall be 4,700,000 shares. With respect to Stock Appreciation Rights settled in Common Stock, upon settlement, only the number of shares of Common Stock delivered to a Participant (based on the difference between the Fair Market Value of the shares of Common Stock subject to such Stock Appreciation Right on the date such Stock Appreciation Right is exercised and the exercise price of each Stock Appreciation Right on the date such Stock Appreciation Right was awarded) shall count against the aggregate and individual share limitations set forth under Sections 4.1(a) and 4.1(b). If any Option, Stock Appreciation Right or Other Stock-Based Awards granted under the Plan expires, terminates or is canceled for any reason without having been exercised in full, the number of shares of Common Stock underlying any unexercised Award shall again be available for the purpose of Awards under the Plan. If any shares of Restricted Stock, Performance Awards or Other Stock-Based Awards denominated in shares of Common Stock awarded under the Plan to a Participant are forfeited for any

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reason, the number of forfeited shares of Restricted Stock, Performance Awards or Other Stock-Based Awards denominated in shares of Common Stock shall again be available for purposes of Awards under the Plan. If a Tandem Stock Appreciation Right or a Limited Stock Appreciation Right is granted in tandem with an Option, such grant shall only apply once against the maximum number of shares of Common Stock which may be issued under the Plan. Any Award under the Plan settled in cash shall not be counted against the foregoing maximum share limitations.

(b) **Individual Participant Limitations.** To the extent required by Section 162(m) of the Code for Awards under the Plan to qualify as performance-based compensation, the following individual Participant limitations shall only apply after the expiration of the Transition Period:

(i) The maximum number of shares of Common Stock subject to any Award of Stock Options, or Stock Appreciation Rights, or shares of Restricted Stock, or Other Stock-Based Awards for which the grant of such Award or the lapse of the relevant Restriction Period is subject to the attainment of Performance Goals in accordance with Section 8.3(a)(ii) which may be granted under the Plan during any fiscal year of the Company to any Participant shall be 750,000 shares per type of Award (which shall be subject to any further increase or decrease pursuant to Section 4.2), provided that the maximum number of shares of Common Stock for all types of Awards does not exceed 1,500,000 shares (which shall be subject to any further increase or decrease pursuant to Section 4.2) during any fiscal year of the Company. If a Tandem Stock Appreciation Right is granted or a Limited Stock Appreciation Right is granted in tandem with a Stock Option, it shall apply against the Participant's individual share limitations for both Stock Appreciation Rights and Stock Options.

(ii) There are no annual individual share limitations applicable to Participants on Restricted Stock or Other Stock-Based Awards for which the grant, vesting or payment (as applicable) of any such Award is not subject to the attainment of Performance Goals.

(iii) The maximum number of shares of Common Stock subject to any Performance Award which may be granted under the Plan during any fiscal year of the Company to any Participant shall be 750,000 shares (which shall be subject to any further increase or decrease pursuant to Section 4.2) with respect to any fiscal year of the Company.

(iv) The maximum value of a cash payment made under a Performance Award which may be granted under the Plan with respect to any fiscal year of the Company to any Participant shall be \$10,000,000.

(v) The individual Participant limitations set forth in this Section 4.1(b) (other than Section 4.1(b)(iii)) shall be cumulative; that is, to the extent that shares of Common Stock for which Awards are permitted to be granted to a Participant during a fiscal year are not covered by an Award to such Participant in a fiscal year, the number of shares of Common Stock available for Awards to such Participant shall automatically increase in the subsequent fiscal years during the term of the Plan until used.

## **4.2 Changes.**

(a) The existence of the Plan and the Awards granted hereunder shall not affect in any way the right or power of the Board or the stockholders of the Company to make or authorize (i) any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, (ii) any merger or consolidation of the Company or any Affiliate, (iii) any issuance of bonds, debentures, preferred or prior preference stock ahead of or affecting the Common Stock, (iv) the dissolution or liquidation of the Company or any Affiliate, (v) any sale or transfer of all or part of the assets or business of the Company or any Affiliate or (vi) any other corporate act or proceeding.

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(b) Subject to the provisions of Section 4.2(d), if there shall occur any such change in the capital structure of the Company by reason of any stock split, reverse stock split, stock dividend, subdivision, combination or reclassification of shares that may be issued under the Plan, any recapitalization, any merger, any consolidation, any spin off, any reorganization or any partial or complete liquidation, or any other corporate transaction or event having an effect similar to any of the foregoing (a Section 4.2 Event ), then (i) the aggregate number and/or kind of shares that thereafter may be issued under the Plan, (ii) the number and/or kind of shares or other property (including cash) to be issued upon exercise of an outstanding Award granted under the Plan, and/or (iii) the purchase price thereof, shall be appropriately adjusted. In addition, subject to Section 4.2(d), if there shall occur any change in the capital structure or the business of the Company that is not a Section 4.2 Event (an Other Extraordinary Event ), including by reason of any extraordinary dividend (whether cash or stock), any conversion, any adjustment, any issuance of any class of securities convertible or exercisable into, or exercisable for, any class of stock, or any sale or transfer of all or substantially all of the Company's assets or business, then the Committee, in its sole discretion, may adjust any Award and make such other adjustments to the Plan. Any adjustment pursuant to this Section 4.2 shall be consistent with the applicable Section 4.2 Event or the applicable Other Extraordinary Event, as the case may be, and in such manner as the Committee may, in its sole discretion, deem appropriate and equitable to prevent substantial dilution or enlargement of the rights granted to, or available for, Participants under the Plan. Any such adjustment determined by the Committee shall be final, binding and conclusive on the Company and all Participants and their respective heirs, executors, administrators, successors and permitted assigns. Except as expressly provided in this Section 4.2 or in the applicable Award Agreement, a Participant shall have no rights by reason of any Section 4.2 Event or any Other Extraordinary Event.

(c) Fractional shares of Common Stock resulting from any adjustment in Awards pursuant to Section 4.2(a) or 4.2(b) shall be aggregated until, and eliminated at, the time of exercise by rounding-down for fractions less than one-half and rounding-up for fractions equal to or greater than one-half. No cash settlements shall be made with respect to fractional shares eliminated by rounding. Notice of any adjustment shall be given by the Committee to each Participant whose Award has been adjusted and such adjustment (whether or not such notice is given) shall be effective and binding for all purposes of the Plan.

(d) In the event of a merger or consolidation in which the Company is not the surviving entity or in the event of any transaction that results in the acquisition of substantially all of the Company's outstanding Common Stock by a single person or entity or by a group of persons and/or entities acting in concert, or in the event of the sale or transfer of all or substantially all of the Company's assets (all of the foregoing being referred to as an Acquisition Event ), then the Committee may, in its sole discretion, terminate all outstanding and unexercised Stock Options, Stock Appreciation Rights, or any Other Stock-Based Award that provides for a Participant elected exercise, effective as of the date of the Acquisition Event, by (i) cashing-out such Awards upon the date of consummation of the Acquisition Event, or (ii) delivering notice of termination to each Participant at least 20 days prior to the date of consummation of the Acquisition Event, in which case during the period from the date on which such notice of termination is delivered to the consummation of the Acquisition Event, each such Participant shall have the right to exercise in full all of such Participant's Awards that are then outstanding (without regard to any limitations on exercisability otherwise contained in the Award Agreements), but any such exercise shall be contingent on the occurrence of the Acquisition Event, and, provided that, if the Acquisition Event does not take place within a specified period after giving such notice for any reason whatsoever, the notice and exercise pursuant thereto shall be null and void.

If an Acquisition Event occurs but the Committee does not terminate the outstanding Awards pursuant to this Section 4.2(d), then the provisions of Section 4.2(b) and Article XI shall apply.

**4.3 Minimum Purchase Price.** Notwithstanding any provision of the Plan to the contrary, if authorized but previously unissued shares of Common Stock are issued under the Plan, such shares shall not be issued for a consideration that is less than as permitted under applicable law.

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### **Article V**

#### **ELIGIBILITY**

- 5.1 General Eligibility.** All current and prospective Eligible Individuals are eligible to be granted Awards. Eligibility for the grant of Awards and actual participation in the Plan shall be determined by the Committee.
- 5.2 Incentive Stock Options.** Notwithstanding the foregoing, only Eligible Employees of the Company, its Subsidiaries and its Parent (if any) are eligible to be granted Incentive Stock Options under the Plan. Eligibility for the grant of an Incentive Stock Option and actual participation in the Plan shall be determined by the Committee.
- 5.3 General Requirement.** The vesting and exercise of Awards granted to a prospective Eligible Individual are conditioned upon such individual actually becoming an Eligible Employee, Consultant or Non-Employee Director, respectively.

### **Article VI**

#### **STOCK OPTIONS**

- 6.1 Options.** Stock Options may be granted alone or in addition to other Awards granted under the Plan. Each Stock Option granted under the Plan shall be of one of two types: (a) an Incentive Stock Option or (b) a Non-Qualified Stock Option.
- 6.2 Grants.** The Committee shall have the authority to grant to any Eligible Employee one or more Incentive Stock Options, Non-Qualified Stock Options, or both types of Stock Options. The Committee shall have the authority to grant any Consultant or Non-Employee Director one or more Non-Qualified Stock Options. To the extent that any Stock Option does not qualify as an Incentive Stock Option (whether because of its provisions or the time or manner of its exercise or otherwise), such Stock Option or the portion thereof which does not so qualify shall constitute a separate Non-Qualified Stock Option.
- 6.3 Incentive Stock Options.** Notwithstanding anything in the Plan to the contrary, no term of the Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consent of the Participants affected, to disqualify any Incentive Stock Option under such Section 422.
- 6.4 Terms of Options.** Options granted under the Plan shall be subject to the following terms and conditions and shall be in such form and contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:
- (a) **Exercise Price.** The exercise price per share of Common Stock subject to a Stock Option shall be provided by the Committee in the applicable Award Agreement at the time of grant, provided that the per share exercise price of a Stock Option shall not be less than 100% (or, in the case of an Incentive Stock Option granted to a Ten Percent Stockholder, 110%) of the Fair Market Value of the Common Stock at the time of grant.
- (b) **Stock Option Term.** The term of each Stock Option shall be fixed by the Committee, provided that no Stock Option shall be exercisable more than 10 years after the date the Option is granted; and provided further that the term of an Incentive Stock Option granted to a Ten Percent Stockholder shall not exceed five years.
- (c) **Exercisability.** Unless otherwise provided by the Committee in accordance with the provisions of this Section 6.4, Stock Options granted under the Plan shall be exercisable at such time or times and subject to such terms and conditions as shall be provided by the Committee in the applicable Award Agreement at the time of grant. If the Committee provides, in its discretion, that any Stock Option is exercisable subject to certain limitations (including, without limitation, that such Stock Option is exercisable only in installments or within certain time periods), the Committee may waive such limitations

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on the exercisability at any time at or after the time of grant in whole or in part (including, without limitation, waiver of the installment exercise provisions or acceleration of the time at which such Stock Option may be exercised), based on such factors, if any, as the Committee shall determine.

(d) **Method of Exercise.** Subject to whatever installment exercise and waiting period provisions apply under Section 6.4(c), to the extent vested, Stock Options may be exercised in whole or in part at any time during the Option term, by giving written notice of exercise to the Company specifying the number of shares of Common Stock to be purchased. Such notice shall be accompanied by payment in full of the purchase price as follows: (i) in cash or by check, bank draft or money order payable to the order of the Company; (ii) solely to the extent permitted by applicable law, if the Common Stock is traded on a national securities exchange, and the Committee authorizes, through a procedure whereby the Participant delivers irrevocable instructions to a broker reasonably acceptable to the Committee to deliver promptly to the Company an amount equal to the purchase price; or (iii) on such other terms and conditions as may be acceptable to the Committee (including, without limitation, having the Company withhold shares of Common Stock issuable upon exercise of the Stock Option, or by payment in full or in part in the form of Common Stock owned by the Participant, based on the Fair Market Value of the Common Stock on the payment date as determined by the Committee). No shares of Common Stock shall be issued until payment therefor, as provided herein, has been made or provided for.

(e) **Non-Transferability of Options.** No Stock Option shall be Transferable by the Participant other than by will or by the laws of descent and distribution, and all Stock Options shall be exercisable, during the Participant's lifetime, only by the Participant. Notwithstanding the foregoing, the Committee may provide in the applicable Award Agreement at the time of grant or thereafter that a Non-Qualified Stock Option that is otherwise not Transferable pursuant to this Section is Transferable to a Family Member or such other Person or entity in whole or in part and in such circumstances, and under such conditions, as specified by the Committee. A Non-Qualified Stock Option that is Transferred to a Family Member or such other Person or entity pursuant to the preceding sentence (i) may not be subsequently Transferred other than by will or by the laws of descent and distribution and (ii) remains subject to the terms of the Plan and the applicable Award Agreement. Any shares of Common Stock acquired upon the exercise of a Non-Qualified Stock Option by a permissible transferee of a Non-Qualified Stock Option or a permissible transferee pursuant to a Transfer after the exercise of the Non-Qualified Stock Option shall be subject to the terms of the Plan and the applicable Award Agreement.

(f) **Termination by Death and Disability.** Unless otherwise provided by the Committee in the applicable Award Agreement at the time of grant, or if no rights of the Participant are reduced, thereafter, if a Participant's Termination is by reason of death or Disability, all Stock Options that are held by such Participant that are vested and exercisable at the time of the Participant's Termination may be exercised by the Participant at any time within a period of one year from the date of such Termination, but in no event beyond the expiration of the stated term of such Stock Options; provided, however, that, following a termination by reason of Disability, if the Participant dies within such exercise period, all unexercised Stock Options held by such Participant shall thereafter be exercisable, to the extent to which they were exercisable at the time of death, for a period of one year from the date of such death, but in no event beyond the expiration of the stated term of such Stock Options.

(g) **Involuntary Termination Without Cause.** Unless otherwise provided by the Committee in the applicable Award Agreement at the time of grant, or if no rights of the Participant are reduced, thereafter, if a Participant's Termination is by involuntary termination by the Company without Cause, all Stock Options that are held by such Participant that are vested and exercisable at the time of the Participant's Termination may be exercised by the Participant at any time within a period of 90 days from the date of such Termination, but in no event beyond the expiration of the stated term of such Stock Options.

(h) **Voluntary Termination.** Unless otherwise provided by the Committee in the applicable Award Agreement at the time of grant, or if no rights of the Participant are reduced, thereafter, if a Participant's Termination is voluntary (other than a voluntary termination described in Section 6.4(i)(y) hereof), all Stock Options that are held by such Participant that are vested and exercisable at the time of the



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Participant's Termination may be exercised by the Participant at any time within a period of 30 days from the date of such Termination, but in no event beyond the expiration of the stated term of such Stock Options.

(i) Termination for Cause. Unless otherwise provided by the Committee in the applicable Award Agreement at the time of grant, or if no rights of the Participant are reduced, thereafter, if a Participant's Termination (x) is for Cause or (y) is a voluntary Termination (as provided in Section 6.4(h)) after the occurrence of an event that would be grounds for a Termination for Cause, all Stock Options, whether vested or not vested, that are held by such Participant shall thereupon terminate and expire as of the date of such Termination.

(j) Unvested Stock Options. Unless otherwise provided by the Committee in the applicable Award Agreement at the time of grant, or if no rights of the Participant are reduced, thereafter, Stock Options that are not vested as of the date of a Participant's Termination for any reason shall terminate and expire as of the date of such Termination.

(k) Incentive Stock Option Limitations. To the extent that the aggregate Fair Market Value (determined as of the time of grant) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by an Eligible Employee during any calendar year under the Plan and/or any other stock option plan of the Company, any Subsidiary or any Parent exceeds \$100,000, such Options shall be treated as Non-Qualified Stock Options. Should any provision of the Plan not be necessary in order for the Stock Options to qualify as Incentive Stock Options, or should any additional provisions be required, the Committee may amend the Plan accordingly, without the necessity of obtaining the approval of the stockholders of the Company.

(l) Form, Modification, Extension and Renewal of Stock Options. Subject to the terms and conditions and within the limitations of the Plan, Stock Options shall be evidenced by such form of agreement or grant as is approved by the Committee, and the Committee may (i) modify, extend or renew outstanding Stock Options granted under the Plan (provided that the rights of a Participant are not reduced without such Participant's consent and provided further that such action does not subject the Stock Options to Section 409A of the Code without the consent of the Participant), and (ii) accept the surrender of outstanding Stock Options (to the extent not theretofore exercised) and authorize the granting of new Stock Options in substitution therefor (to the extent not theretofore exercised). Notwithstanding anything herein to the contrary, the exercise price with respect to a Stock Option cannot be lowered, and a Stock Option cannot be replaced (including replacement with cash) or regranted to the affected Participant through cancellation without stockholder approval.

(m) Deferred Delivery of Common Shares. The Committee may in its discretion permit Participants to defer delivery of Common Stock acquired pursuant to a Participant's exercise of an Option in accordance with the terms and conditions established by the Committee in the applicable Award Agreement, which shall be intended to comply with the requirements of Section 409A of the Code.

(n) Early Exercise. The Committee may provide that a Stock Option include a provision whereby the Participant may elect at any time before the Participant's Termination to exercise the Stock Option as to any part or all of the shares of Common Stock subject to the Stock Option prior to the full vesting of the Stock Option and such shares shall be subject to the provisions of Article VIII and be treated as Restricted Stock. Unvested shares of Common Stock so purchased may be subject to a repurchase option in favor of the Company or to any other restriction the Committee determines to be appropriate.

(o) Cashing-Out of Stock Options. Unless otherwise provided in the Award Agreement, on receipt of written notice of exercise, the Committee may elect to cash-out all or part of the portion of the shares for which an Option is being exercised by paying the optionee an amount, in cash or shares of Common Stock, equal to the excess of the Fair Market Value of the shares of Common Stock over the exercise price multiplied by the number of shares of Common Stock for which the Option is being exercised on the effective date of such cash-out.

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(p) **Other Terms and Conditions.** The Committee may include a provision in an Award Agreement providing for the automatic exercise of a Non-Qualified Stock Option on a cashless basis on the last day of the term of such Option if the Participant has failed to exercise the Non-Qualified Stock Option as of such date, with respect to which the Fair Market Value of the shares of Common Stock underlying the Non-Qualified Stock Option exceeds the exercise price of such Non-Qualified Stock Option on the date of expiration of such Option, subject to Section 14.4. Stock Options may contain such other provisions, which shall not be inconsistent with any of the terms of the Plan, as the Committee shall deem appropriate.

**Article VII**

**STOCK APPRECIATION RIGHTS**

**7.1 Tandem Stock Appreciation Rights.** Stock Appreciation Rights may be granted in conjunction with all or part of any Stock Option (a Reference Stock Option ) granted under the Plan ( Tandem Stock Appreciation Rights ). In the case of a Non-Qualified Stock Option, such rights may be granted either at or after the time of the grant of such Reference Stock Option. In the case of an Incentive Stock Option, such rights may be granted only at the time of the grant of such Reference Stock Option.

**7.2 Terms and Conditions of Tandem Stock Appreciation Rights.** Tandem Stock Appreciation Rights granted hereunder shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be provided by the Committee in the applicable Award Agreement at the time of grant, and the following:

(a) **Exercise Price.** The exercise price per share of Common Stock subject to a Tandem Stock Appreciation Right shall be provided by the Committee in the applicable Award Agreement at the time of grant, provided that the per share exercise price of a Tandem Stock Appreciation Right shall not be less than 100% of the Fair Market Value of the Common Stock at the time of grant.

(b) **Term.** A Tandem Stock Appreciation Right or applicable portion thereof granted with respect to a Reference Stock Option shall terminate and no longer be exercisable upon the termination or exercise of the Reference Stock Option, except that, unless otherwise provided by the Committee in the applicable Award Agreement at the time of grant, a Tandem Stock Appreciation Right granted with respect to less than the full number of shares covered by the Reference Stock Option shall not be reduced until, and then only to the extent that the exercise or termination of the Reference Stock Option causes, the number of shares covered by the Tandem Stock Appreciation Right to exceed the number of shares remaining available and unexercised under the Reference Stock Option.

(c) **Exercisability.** Tandem Stock Appreciation Rights shall be exercisable only at such time or times and to the extent that the Reference Stock Options to which they relate shall be exercisable in accordance with the provisions of Article VI, and shall be subject to the provisions of Section 6.4(c).

(d) **Method of Exercise.** A Tandem Stock Appreciation Right may be exercised by the Participant by surrendering the applicable portion of the Reference Stock Option. Upon such exercise and surrender, the Participant shall be entitled to receive an amount determined in the manner prescribed in this Section 7.2. Stock Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent that the related Tandem Stock Appreciation Rights have been exercised.

(e) **Payment.** Upon the exercise of a Tandem Stock Appreciation Right, a Participant shall be entitled to receive up to, but no more than, an amount in cash and/or Common Stock (as chosen by the Committee) equal in value to the excess of the Fair Market Value of one share of Common Stock over the Option exercise price per share specified in the Reference Stock Option agreement multiplied by the number of shares of Common Stock in respect of which the Tandem Stock Appreciation Right shall have been exercised, with the Committee having the right to determine the form of payment.

(f) **Deemed Exercise of Reference Stock Option.** Upon the exercise of a Tandem Stock Appreciation Right, the Reference Stock Option or part thereof to which such Stock Appreciation Right is related shall be deemed to have been exercised for the purpose of the limitation set forth in Article IV of the Plan on the number of shares of Common Stock to be issued under the Plan.

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(g) **Non-Transferability**. Tandem Stock Appreciation Rights shall be Transferable only when and to the extent that the underlying Stock Option would be Transferable under Section 6.4(e) of the Plan.

**7.3 Non-Tandem Stock Appreciation Rights**. Non-Tandem Stock Appreciation Rights may also be granted without reference to any Stock Options granted under the Plan.

**7.4 Terms and Conditions of Non-Tandem Stock Appreciation Rights**. Non-Tandem Stock Appreciation Rights granted hereunder shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be provided by the Committee in the applicable Award Agreement at the time of grant, and the following:

(a) **Exercise Price**. The exercise price per share of Common Stock subject to a Non-Tandem Stock Appreciation Right shall be provided by the Committee in the applicable Award Agreement at the time of grant, provided that the per share exercise price of a Non-Tandem Stock Appreciation Right shall not be less than 100% of the Fair Market Value of the Common Stock at the time of grant.

(b) **Term**. The term of each Non-Tandem Stock Appreciation Right shall be fixed by the Committee, but shall not be greater than 10 years after the date the right is granted.

(c) **Exercisability**. In accordance with the provisions of this Section 7.4, Non-Tandem Stock Appreciation Rights granted under the Plan shall be exercisable at such time or times and subject to such terms and conditions as shall be provided by the Committee in the applicable Award Agreement at the time of grant. If the Committee provides, in its discretion, that any such right is exercisable subject to certain limitations (including, without limitation, that it is exercisable only in installments or within certain time periods), the Committee may waive such limitations on the exercisability at any time at or after grant in whole or in part (including, without limitation, waiver of the installment exercise provisions or acceleration of the time at which such right may be exercised), based on such factors, if any, as the Committee shall determine.

(d) **Method of Exercise**. Subject to whatever installment exercise and waiting period provisions apply under Section 7.4(c), Non-Tandem Stock Appreciation Rights may be exercised in whole or in part at any time in accordance with the applicable Award Agreement, by giving written notice of exercise to the Company specifying the number of Non-Tandem Stock Appreciation Rights to be exercised.

(e) **Payment**. Upon the exercise of a Non-Tandem Stock Appreciation Right a Participant shall be entitled to receive, for each right exercised, up to, but no more than, an amount in cash and/or Common Stock (as chosen by the Committee) equal in value to the excess of the Fair Market Value of one share of Common Stock on the date that the right is exercised over the Fair Market Value of one share of Common Stock on the date that the right was awarded to the Participant.

(f) **Termination**. Unless otherwise provided by the Committee in the applicable Award Agreement at the time of grant or, if no rights of the Participant are reduced, thereafter, subject to the provisions of the applicable Award Agreement and the Plan, upon a Participant's Termination for any reason, Non-Tandem Stock Appreciation Rights will remain exercisable following a Participant's Termination on the same basis as Stock Options would be exercisable following a Participant's Termination in accordance with the provisions of Sections 6.4(f) through 6.4(j).

(g) **Non-Transferability**. No Non-Tandem Stock Appreciation Rights shall be Transferable by the Participant other than by will or by the laws of descent and distribution, and all such rights shall be exercisable, during the Participant's lifetime, only by the Participant.

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**7.5 Limited Stock Appreciation Rights.** The Committee may grant Tandem and Non-Tandem Stock Appreciation Rights either as a general Stock Appreciation Right or as a Limited Stock Appreciation Right. Limited Stock Appreciation Rights may be exercised only upon the occurrence of a Change in Control or such other event as the Committee may designate at the time of grant or thereafter. Upon the exercise of Limited Stock Appreciation Rights, except as otherwise provided in an Award Agreement, the Participant shall receive in cash and/or Common Stock, an amount equal to the amount (i) set forth in Section 7.2(e) with respect to Tandem Stock Appreciation Rights, or (ii) set forth in Section 7.4(e) with respect to Non-Tandem Stock Appreciation Rights.

**7.6 Cashing-Out of SARs.** Unless otherwise provided in the Award Agreement, on receipt of written notice of exercise, the Committee may elect to cash-out all or part of the portion of the shares underlying a SAR by paying the holder an amount, in cash or shares of Common Stock, equal to the excess of the Fair Market Value of the shares of Common Stock over the base price multiplied by the number of shares of Common Stock for which the SAR is being exercised on the effective date of such cash-out.

**7.7 Other Terms and Conditions.** The Committee may include a provision in an Award Agreement providing for the automatic exercise of a Stock Appreciation Right on a cashless basis on the last day of the term of such Stock Appreciation Right if the Participant has failed to exercise the Stock Appreciation Right as of such date, with respect to which the Fair Market Value of the shares of Common Stock underlying the Stock Appreciation Right exceeds the exercise price of such Stock Appreciation Right on the date of expiration of such Stock Appreciation Right, subject to Section 14.4. Stock Appreciation Rights may contain such other provisions, which shall not be inconsistent with any of the terms of the Plan, as the Committee shall deem appropriate. Notwithstanding anything herein to the contrary, the exercise price with respect to a Stock Option, or base price with respect to a Stock Appreciation Right, cannot be lowered, and neither a Stock Option nor a Stock Appreciation Right can be replaced (including replacement with cash) or regranted to the affected Participant through cancellation without stockholder approval.

## **Article VIII**

### **RESTRICTED STOCK**

**8.1 Awards of Restricted Stock.** Shares of Restricted Stock may be issued either alone or in addition to other Awards granted under the Plan. The Committee shall determine the Eligible Individuals, to whom, and the time or times at which, grants of Restricted Stock shall be made, the number of shares to be awarded, the price (if any) to be paid by the Participant (subject to Section 8.2), the time or times within which such Awards may be subject to forfeiture, the vesting schedule and rights to acceleration thereof, and all other terms and conditions of the Awards.

The Committee may condition the grant or vesting of Restricted Stock upon the attainment of specified performance targets (including, the Performance Goals) or such other factor as the Committee may determine, including to comply with the requirements of Section 162(m) of the Code.

Restricted Stock for which the grant is conditioned on Performance Goals or other factors may be referred to as Restricted Stock Units.

**8.2 Awards and Certificates.** Eligible Individuals selected to receive Restricted Stock shall not have any right with respect to such Award, unless and until such Participant has delivered a fully executed copy of the agreement evidencing the Award to the Company, to the extent required by the Committee, and has otherwise complied with the applicable terms and conditions of such Award. Further, such Award shall be subject to the following conditions:

(a) **Purchase Price.** The purchase price of Restricted Stock shall be fixed by the Committee. Subject to Section 4.3, the purchase price for shares of Restricted Stock may be zero to the extent permitted by applicable law, and, to the extent not so permitted, such purchase price may not be less than par value.

(b) **Acceptance.** Awards of Restricted Stock must be accepted within a period of 60 days (or such shorter period as the Committee may specify at grant) after the grant date, by executing a Restricted Stock agreement and by paying whatever price (if any) the Committee has designated thereunder.

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(c) **Legend.** Each Participant receiving Restricted Stock shall be issued a stock certificate in respect of such shares of Restricted Stock, unless the Committee elects to use another system, such as book entries by the transfer agent, as evidencing ownership of shares of Restricted Stock. Such certificate shall be registered in the name of such Participant, and shall, in addition to such legends required by applicable securities laws, bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award, substantially in the following form:

The anticipation, alienation, attachment, sale, transfer, assignment, pledge, encumbrance or charge of the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Acadia Healthcare Company, Inc. (the Company ) Incentive Compensation Plan (the Plan ) and an Agreement entered into between the registered owner and the Company dated\_\_\_\_ . Copies of such Plan and Agreement are on file at the principal office of the Company.

(d) **Custody.** If stock certificates are issued in respect of shares of Restricted Stock, the Committee may require that any stock certificates evidencing such shares be held in custody by the Company until the restrictions thereon shall have lapsed, and that, as a condition of any grant of Restricted Stock, the Participant shall have delivered a duly signed stock power or other instruments of assignment (including a power of attorney), each endorsed in blank with a guarantee of signature if deemed necessary or appropriate by the Company, which would permit transfer to the Company of all or a portion of the shares subject to the Restricted Stock Award in the event that such Award is forfeited in whole or part.

**8.3 Restrictions and Conditions.** The shares of Restricted Stock awarded pursuant to the Plan shall be subject to the following restrictions and conditions:

(a) **Restriction Period.**

(i) The Participant shall not be permitted to Transfer shares of Restricted Stock awarded under the Plan during the period or periods set by the Committee (the Restriction Period ) commencing on the date of such Award, as set forth in the Restricted Stock Award Agreement and such agreement shall set forth a vesting schedule and any event that would accelerate vesting of the shares of Restricted Stock. Within these limits, based on service, attainment of Performance Goals pursuant to Section 8.3(a)(ii) and/or such other factors or criteria as the Committee may determine, the Committee may condition the grant or provide for the lapse of such restrictions in installments in whole or in part, or may accelerate the vesting of all or any part of any Restricted Stock Award and/or waive the deferral limitations for all or any part of any Restricted Stock Award.

(ii) If the grant of shares of Restricted Stock or the lapse of restrictions is based on the attainment of Performance Goals, the Committee shall establish the objective Performance Goals and the applicable vesting percentage of the Restricted Stock applicable to each Participant or class of Participants in writing prior to the beginning of the applicable fiscal year or at such later date as otherwise determined by the Committee and while the outcome of the Performance Goals are substantially uncertain. Such Performance Goals may incorporate provisions for disregarding (or adjusting for) changes in accounting methods, corporate transactions (including, without limitation, dispositions and acquisitions) and other similar type events or circumstances. With regard to a Restricted Stock Award that is intended to comply with Section 162(m) of the Code, to the extent that any such provision would create impermissible discretion under Section 162(m) of the Code or otherwise violate Section 162(m) of the Code, such provision shall be of no force or effect.

(b) **Rights as a Stockholder.** Except as provided in Section 8.3(a) and this Section 8.3(b) or as otherwise provided by the Committee in the applicable Award Agreement at the time of grant, the Participant shall have, with respect to the shares of Restricted Stock, all of the rights of a holder of shares of Common Stock of the Company, including, without limitation, the right to receive dividends, the right to vote such shares and, subject to and conditioned upon the full vesting of shares of Restricted Stock, the right to tender such shares. The Committee may provide in the applicable Award Agreement at the time of grant that the payment of dividends shall be deferred until, and conditioned upon, the expiration of the applicable Restriction Period.

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(c) **Termination.** Unless otherwise provided by the Committee in the applicable Award Agreement at grant or, if no rights of the Participant are reduced, thereafter, subject to the applicable provisions of the Award Agreement and the Plan, upon a Participant's Termination for any reason during the relevant Restriction Period, all Restricted Stock still subject to restriction will be forfeited in accordance with the terms and conditions established by the Committee at grant or thereafter.

(d) **Lapse of Restrictions.** If and when the Restriction Period expires without a prior forfeiture of the Restricted Stock, the certificates for such shares shall be delivered to the Participant. All legends shall be removed from said certificates at the time of delivery to the Participant, except as otherwise required by applicable law or other limitations imposed by the Committee.

**Article IX**

**PERFORMANCE AWARDS**

**9.1 Performance Awards.** The Committee may grant a Performance Award to a Participant payable upon the attainment of specific Performance Goals. The Committee may grant Performance Awards that are intended to qualify as performance-based compensation under Section 162(m) of the Code, as well as Performance Awards that are not intended to qualify as performance-based compensation under Section 162(m) of the Code. If the Performance Award is payable in shares of Restricted Stock, such shares shall be transferable to the Participant only upon attainment of the relevant Performance Goal in accordance with Article VIII. If the Performance Award is payable in cash, it may be paid upon the attainment of the relevant Performance Goals either in cash or in shares of Restricted Stock (based on the then current Fair Market Value of such shares), as provided by the Committee in the applicable Award Agreement at the time of grant. Each Performance Award shall be evidenced by an Award Agreement in such form that is not inconsistent with the Plan and that the Committee may from time to time approve.

With respect to Performance Awards that are intended to qualify as performance-based compensation under Section 162(m) of the Code, the Committee shall condition the right to payment of any Performance Award upon the attainment of objective Performance Goals established pursuant to Section 9.2(c).

**9.2 Terms and Conditions.** Performance Awards awarded pursuant to this Article IX shall be subject to the following terms and conditions:

(a) **Earning of Performance Award.** At the expiration of the applicable Performance Period, the Committee shall determine the extent to which the Performance Goals established pursuant to Section 9.2(c) are achieved and the percentage of each Performance Award that has been earned.

(b) **Non-Transferability.** Subject to the applicable provisions of the Award Agreement and the Plan, Performance Awards may not be Transferred during the Performance Period.

(c) **Objective Performance Goals, Formulae or Standards.** With respect to Performance Awards that are intended to qualify as performance-based compensation under Section 162(m) of the Code, the Committee shall establish the objective Performance Goals for the earning of Performance Awards based on a Performance Period applicable to each Participant or class of Participants in writing prior to the beginning of the applicable Performance Period or at such later date as permitted under Section 162(m) of the Code and while the outcome of the Performance Goals are substantially uncertain. Such Performance Goals may incorporate, if and only to the extent permitted under Section 162(m) of the Code, provisions for disregarding (or adjusting for) changes in accounting methods, corporate transactions (including, without limitation, dispositions and acquisitions) and other similar type events or circumstances. To the extent that any such provision would create impermissible discretion under Section 162(m) of the Code or otherwise violate Section 162(m) of the Code, such provision shall be of no force or effect, with respect to Performance Awards that are intended to qualify as performance-based compensation under Section 162(m) of the Code.

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- (d) **Dividends.** Unless otherwise provided by the Committee in the applicable Award Agreement at the time of grant, amounts equal to dividends declared during the Performance Period with respect to the number of shares of Common Stock covered by a Performance Award will not be paid to the Participant. Notwithstanding anything herein to the contrary, no dividends or dividend equivalents will be granted with respect to unearned Performance Awards.
- (e) **Payment.** Following the Committee's determination in accordance with Section 9.2(a), the Company shall settle Performance Awards, in such form (including, without limitation, in shares of Common Stock or in cash) as determined by the Committee, in an amount equal to such Participant's earned Performance Awards. With respect to any Award that is intended to qualify as performance-based compensation under Section 162(m) of the Code, the Committee shall be precluded from having discretion to increase the amount of compensation payable under the terms of such Award.
- (f) **Termination.** Subject to the applicable provisions of the Award Agreement and the Plan, upon a Participant's Termination for any reason during the Performance Period for a given Performance Award, the Performance Award in question will vest or be forfeited in accordance with the terms and conditions established by the Committee at grant.
- (g) **Accelerated Vesting.** Based on service, performance and/or such other factors or criteria, if any, as the Committee may determine, the Committee may, at or after grant, accelerate the vesting of all or any part of any Performance Award.

**Article X**

**OTHER STOCK-BASED AND CASH-BASED AWARDS**

**10.1 Other Stock-Based Awards.** The Committee is authorized to grant to Eligible Individuals Other Stock-Based Awards that are payable in, valued in whole or in part by reference to, or otherwise based on or related to shares of Common Stock, including but not limited to, shares of Common Stock awarded purely as a bonus and not subject to restrictions or conditions, shares of Common Stock in payment of the amounts due under an incentive or performance plan sponsored or maintained by the Company or an Affiliate, stock equivalent units, restricted stock units, and Awards valued by reference to book value of shares of Common Stock. Other Stock-Based Awards may be granted either alone or in addition to or in tandem with other Awards granted under the Plan.

Subject to the provisions of the Plan, the Committee shall have authority to determine the Eligible Individuals, to whom, and the time or times at which, such Awards shall be made, the number of shares of Common Stock to be awarded pursuant to such Awards, and all other conditions of the Awards. The Committee may also provide for the grant of Common Stock under such Awards upon the completion of a specified Performance Period.

The Committee may condition the grant or vesting of Other Stock-Based Awards upon the attainment of specified Performance Goals as the Committee may determine; provided that to the extent that such Other Stock-Based Awards are intended to comply with Section 162(m) of the Code, the Committee shall establish the objective Performance Goals for the grant or vesting of such Other Stock-Based Awards based on a Performance Period applicable to each Participant or class of Participants in writing prior to the beginning of the applicable Performance Period or at such later date as permitted under Section 162(m) of the Code and while the outcome of the Performance Goals are substantially uncertain. Such Performance Goals may incorporate, if and only to the extent permitted under Section 162(m) of the Code, provisions for disregarding (or adjusting for) changes in accounting methods, corporate transactions (including, without limitation, dispositions and acquisitions) and other similar type events or circumstances. To the extent that any such provision would create impermissible discretion under Section 162(m) of the Code or otherwise violate Section 162(m) of the Code, such provision shall be of no force or effect, with respect to Performance Awards that are intended to qualify as performance-based compensation under Section 162(m) of the Code.

**10.2 Terms and Conditions.** Other Stock-Based Awards made pursuant to this Article X shall be subject to the following terms and conditions:

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- (a) **Non-Transferability.** Subject to the applicable provisions of the Award Agreement and the Plan, shares of Common Stock subject to Awards made under this Article X may not be Transferred prior to the date on which the shares are issued, or, if later, the date on which any applicable restriction, performance or deferral period lapses.
- (b) **Dividends.** Unless otherwise provided by the Committee in the applicable Award Agreement at the time of grant, subject to the provisions of the Award Agreement and the Plan, the recipient of an Award under this Article X shall not be entitled to receive, currently or on a deferred basis, dividends or dividend equivalents in respect of the number of shares of Common Stock covered by the Award.
- (c) **Vesting.** Any Award under this Article X and any Common Stock covered by any such Award shall vest or be forfeited to the extent so provided in the Award Agreement.
- (d) **Price.** Common Stock issued on a bonus basis under this Article X may be issued for no cash consideration. Common Stock purchased pursuant to a purchase right awarded under this Article X shall be priced, as determined by the Committee.

**10.3 Other Cash-Based Awards.** The Committee is authorized to grant to Eligible Individuals Other Cash-Based Awards in such amounts, on such terms and conditions, and for such consideration, including no consideration or such minimum consideration as may be required by applicable law. Other Cash-Based Awards may be granted subject to the satisfaction of vesting conditions or may be awarded purely as a bonus and not subject to restrictions or conditions, and if subject to vesting conditions, the Committee may accelerate the vesting of such Awards at any time. The grant of an Other Cash-Based Award shall not require a segregation of any of the Company's assets for satisfaction of the Company's payment obligation thereunder.

Subject to the provisions of the Plan, the Committee shall have authority to determine the Eligible Individuals, to whom, and the time or times at which, such Other Cash-Based Awards shall be made, the amounts to be awarded pursuant to such Awards, and all other conditions of the Awards. The Committee may also provide for the grant of Cash-Based Awards upon the completion of a specified Performance Period.

The Committee may condition the grant or vesting of Other Cash-Based Awards upon the attainment of specified Performance Goals as the Committee may determine; provided that to the extent that such Other Cash-Based Awards are intended to comply with Section 162(m) of the Code, the Committee shall establish the objective Performance Goals for the grant or vesting of such Other Cash-Based Awards based on a Performance Period applicable to each Participant or class of Participants in writing prior to the beginning of the applicable Performance Period or at such later date as permitted under Section 162(m) of the Code and while the outcome of the Performance Goals are substantially uncertain. Such Performance Goals may incorporate, if and only to the extent permitted under Section 162(m) of the Code, provisions for disregarding (or adjusting for) changes in accounting methods, corporate transactions (including, without limitation, dispositions and acquisitions) and other similar type events or circumstances. To the extent that any such provision would create impermissible discretion under Section 162(m) of the Code or otherwise violate Section 162(m) of the Code, such provision shall be of no force or effect, with respect to Performance Awards that are intended to qualify as performance-based compensation under Section 162(m) of the Code.

## **Article XI**

### **CHANGE IN CONTROL PROVISIONS**

**11.1 Benefits.** In the event of a Change in Control of the Company (as defined below), and except as otherwise provided by the Committee in an Award Agreement, a Participant's unvested Award shall not vest automatically and a Participant's Award shall be treated in accordance with one of the following methods as determined by the Committee:

- (a) Awards, whether or not then vested, shall be continued, assumed, have new rights substituted therefor or be treated in accordance with Section 4.2(d) hereof, as determined by the Committee, and restrictions to which shares of Restricted Stock or any other Award granted prior to the



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Change in Control are subject shall not lapse upon a Change in Control and the Restricted Stock or other Award shall, where appropriate in the sole discretion of the Committee, receive the same distribution as other Common Stock on such terms as determined by the Committee; provided that the Committee may decide to award additional Restricted Stock or other Awards in lieu of any cash distribution. Notwithstanding anything to the contrary herein, for purposes of Incentive Stock Options, any assumed or substituted Stock Option shall comply with the requirements of Treasury Regulation Section 1.424-1 (and any amendment thereto).

(b) The Committee, in its sole discretion, may provide for the purchase of any Awards by the Company or an Affiliate for an amount of cash equal to the excess of the Change in Control Price (as defined below) of the shares of Common Stock covered by such Awards, over the aggregate exercise price of such Awards. For purposes of this Section 11.1, Change in Control Price shall mean the highest price per share of Common Stock paid in any transaction related to a Change in Control of the Company.

(c) Notwithstanding any other provision herein to the contrary, the Committee may, in its sole discretion, provide for accelerated vesting or lapse of restrictions, of an Award at any time.

**11.2 Change in Control.** Unless otherwise provided by the Committee in the applicable Award Agreement at the time of grant or other written agreement approved by the Committee, a Change in Control shall be deemed to occur if:

(a) any person, as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, any trustee or other fiduciary holding securities under any employee benefit plan of the Company, or any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of Common Stock of the Company), becoming the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities;

(b) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in paragraph (a), (c), or (d) of this Section 11.2 or a director whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such term is used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the Board;

(c) a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; provided, however, that a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person (other than those covered by the exceptions in Section 11.2(a)) acquires more than 50% of the combined voting power of the Company's then outstanding securities shall not constitute a Change in Control of the Company; or

(d) a complete liquidation or dissolution of the Company or the consummation of a sale or disposition by the Company of all or substantially all of the Company's assets other than the sale or disposition of all or substantially all of the assets of the Company to a person or persons who beneficially own, directly or indirectly, 50% or more of the combined voting power of the outstanding voting securities of the Company at the time of the sale.

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Notwithstanding the foregoing, with respect to any Award that is characterized as nonqualified deferred compensation within the meaning of Section 409A of the Code, an event shall not be considered to be a Change in Control under the Plan for purposes of payment of such Award unless such event is also a change in ownership, a change in effective control or a change in the ownership of a substantial portion of the assets of the Company within the meaning of Section 409A of the Code.

**11.3 Initial Public Offering not a Change in Control.** Notwithstanding the foregoing, for purposes of the Plan, the occurrence of the Registration Date or any change in the composition of the Board within one year following the Registration Date shall not be considered a Change in Control.

## **Article XII**

### **TERMINATION OR AMENDMENT OF PLAN**

**12.1 Termination or Amendment.** Notwithstanding any other provision of the Plan, the Board may at any time, and from time to time, amend, in whole or in part, any or all of the provisions of the Plan (including any amendment deemed necessary to ensure that the Company may comply with any regulatory requirement referred to in Article XIV or Section 409A of the Code), or suspend or terminate it entirely, retroactively or otherwise; provided, however, that, unless otherwise required by law or specifically provided herein, the rights of a Participant with respect to Awards granted prior to such amendment, suspension or termination, may not be impaired without the consent of such Participant and, provided further, that without the approval of the holders of the Company's Common Stock entitled to vote in accordance with applicable law, no amendment may be made that would (i) increase the aggregate number of shares of Common Stock that may be issued under the Plan (except by operation of Section 4.2); (ii) increase the maximum individual Participant limitations for a fiscal year under Section 4.1(b) (except by operation of Section 4.2); (iii) change the classification of individuals eligible to receive Awards under the Plan; (iv) decrease the minimum option price of any Stock Option or Stock Appreciation Right; (v) extend the maximum option period under Section 6.4; (vi) alter the Performance Goals for Restricted Stock, Performance Awards, Other Stock-Based Awards or Other Cash-Based Awards as set forth in Exhibit A hereto; (vii) award any Stock Option or Stock Appreciation Right in replacement of a canceled Stock Option or Stock Appreciation Right with a higher exercise price than the replacement award, except in accordance with Section 6.4(1); or (viii) require stockholder approval in order for the Plan to continue to comply with the applicable provisions of Section 162(m) of the Code or, to the extent applicable to Incentive Stock Options, Section 422 of the Code. In no event may the Plan be amended without the approval of the stockholders of the Company in accordance with the applicable laws of the State of Delaware to increase the aggregate number of shares of Common Stock that may be issued under the Plan, decrease the minimum exercise price of any Award, or to make any other amendment that would require stockholder approval under Financial Industry Regulatory Authority (FINRA) rules and regulations or the rules of any exchange or system on which the Company's securities are listed or traded at the request of the Company. Notwithstanding anything herein to the contrary, the Board may amend the Plan or any Award Agreement at any time without a Participant's consent to comply with applicable law including Section 409A of the Code.

The Committee may amend the terms of any Award theretofore granted, prospectively or retroactively, but, subject to Article IV or as otherwise specifically provided herein, no such amendment or other action by the Committee shall impair the rights of any holder without the holder's consent.

## **Article XIII**

### **UNFUNDED STATUS OF PLAN**

The Plan is intended to constitute an unfunded plan for incentive and deferred compensation. With respect to any payment as to which a Participant has a fixed and vested interest but which are not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any right that is greater than those of a general unsecured creditor of the Company.

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**Article XIV**

**GENERAL PROVISIONS**

**14.1 Legend.** The Committee may require each Person receiving shares of Common Stock pursuant to a Stock Option or other Award under the Plan to represent to and agree with the Company in writing that the Participant is acquiring the shares without a view to distribution thereof. In addition to any legend required by the Plan, the certificates for such shares may include any legend that the Committee deems appropriate to reflect any restrictions on Transfer. All certificates for shares of Common Stock delivered under the Plan shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed or any national securities exchange system upon whose system the Common Stock is then quoted, any applicable federal or state securities law, and any applicable corporate law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

**14.2 Other Plans.** Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required, and such arrangements may be either generally applicable or applicable only in specific cases.

**14.3 No Right to Employment/Directorship/Consultancy.** Neither the Plan nor the grant of any Option or other Award hereunder shall give any Participant or other employee, Consultant or Non-Employee Director any right with respect to continuance of employment, consultancy or directorship by the Company or any Affiliate, nor shall there be a limitation in any way on the right of the Company or any Affiliate by which an employee is employed or a Consultant or Non-Employee Director is retained to terminate such employment, consultancy or directorship at any time.

**14.4 Withholding of Taxes.** The Company shall have the right to deduct from any payment to be made pursuant to the Plan, or to otherwise require, prior to the issuance or delivery of shares of Common Stock or the payment of any cash hereunder, payment by the Participant of, any federal, state or local taxes required by law to be withheld. Upon the vesting of Restricted Stock (or other Award that is taxable upon vesting), or upon making an election under Section 83(b) of the Code, a Participant shall pay all required withholding to the Company. Any statutorily required withholding obligation with regard to any Participant may be satisfied, subject to the consent of the Committee, by reducing the number of shares of Common Stock otherwise deliverable or by delivering shares of Common Stock already owned. Any fraction of a share of Common Stock required to satisfy such tax obligations shall be disregarded and the amount due shall be paid instead in cash by the Participant.

**14.5 No Assignment of Benefits.** No Award or other benefit payable under the Plan shall, except as otherwise specifically provided by law or permitted by the Committee, be Transferable in any manner, and any attempt to Transfer any such benefit shall be void, and any such benefit shall not in any manner be liable for or subject to the debts, contracts, liabilities, engagements or torts of any Person who shall be entitled to such benefit, nor shall it be subject to attachment or legal process for or against such Person.

**14.6 Listing and Other Conditions.**

(a) Unless otherwise determined by the Committee, as long as the Common Stock is listed on a national securities exchange or system sponsored by a national securities association, the issuance of shares of Common Stock pursuant to an Award shall be conditioned upon such shares being listed on such exchange or system. The Company shall have no obligation to issue such shares unless and until such shares are so listed, and the right to exercise any Option or other Award with respect to such shares shall be suspended until such listing has been effected.

(b) If at any time counsel to the Company shall be of the opinion that any sale or delivery of shares of Common Stock pursuant to an Option or other Award is or may in the circumstances be unlawful or result in the imposition of excise taxes on the Company under the statutes, rules or regulations of any applicable jurisdiction, the Company shall have no obligation to make such sale or delivery, or to make any application or to effect or to maintain any qualification or registration under the Securities Act or otherwise, with respect to shares of Common Stock or Awards, and the right to exercise any Option or other Award shall be suspended until, in the opinion of said counsel, such sale or delivery shall be lawful or will not result in the imposition of excise taxes on the Company.

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(c) Upon termination of any period of suspension under this Section 14.6, any Award affected by such suspension which shall not then have expired or terminated shall be reinstated as to all shares available before such suspension and as to shares which would otherwise have become available during the period of such suspension, but no such suspension shall extend the term of any Award.

(d) A Participant shall be required to supply the Company with certificates, representations and information that the Company requests and otherwise cooperate with the Company in obtaining any listing, registration, qualification, exemption, consent or approval the Company deems necessary or appropriate.

**14.7 Stockholders Agreement and Other Requirements.** Notwithstanding anything herein to the contrary, as a condition to the receipt of shares of Common Stock pursuant to an Award under the Plan, to the extent required by the Committee, the Participant shall execute and deliver a stockholder's agreement or such other documentation that shall set forth certain restrictions on transferability of the shares of Common Stock acquired upon exercise or purchase, and such other terms as the Board or Committee shall from time to time establish. Such stockholder's agreement or other documentation shall apply to the Common Stock acquired under the Plan and covered by such stockholder's agreement or other documentation. The Company may require, as a condition of exercise, the Participant to become a party to any other existing stockholder agreement (or other agreement).

**14.8 Governing Law.** The Plan and actions taken in connection herewith shall be governed and construed in accordance with the laws of the State of Delaware (regardless of the law that might otherwise govern under applicable Delaware principles of conflict of laws).

**14.9 Jurisdiction; Waiver of Jury Trial.** Any suit, action or proceeding with respect to the Plan or any Award Agreement, or any judgment entered by any court of competent jurisdiction in respect of any thereof, shall be resolved only in the courts of the State of Delaware or the United States District Court for the District of Delaware and the appellate courts having jurisdiction of appeals in such courts. In that context, and without limiting the generality of the foregoing, the Company and each Participant shall irrevocably and unconditionally (a) submit in any proceeding relating to the Plan or any Award Agreement, or for the recognition and enforcement of any judgment in respect thereof (a Proceeding), to the exclusive jurisdiction of the courts of the State of Delaware, the court of the United States of America for the District of Delaware, and appellate courts having jurisdiction of appeals from any of the foregoing, and agree that all claims in respect of any such Proceeding shall be heard and determined in such Delaware State court or, to the extent permitted by law, in such federal court, (b) consent that any such Proceeding may and shall be brought in such courts and waives any objection that the Company and each Participant may now or thereafter have to the venue or jurisdiction of any such Proceeding in any such court or that such Proceeding was brought in an inconvenient court and agree not to plead or claim the same, (c) waive all right to trial by jury in any Proceeding (whether based on contract, tort or otherwise) arising out of or relating to the Plan or any Award Agreement, (d) agree that service of process in any such Proceeding may be effected by mailing a copy of such process by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such party, in the case of a Participant, at the Participant's address shown in the books and records of the Company or, in the case of the Company, at the Company's principal offices, attention General Counsel, and (e) agree that nothing in the Plan shall affect the right to effect service of process in any other manner permitted by the laws of the State of Delaware.

**14.10 Construction.** Wherever any words are used in the Plan in the masculine gender they shall be construed as though they were also used in the feminine gender in all cases where they would so apply, and wherever words are used herein in the singular form they shall be construed as though they were also used in the plural form in all cases where they would so apply.

**14.11 Other Benefits.** No Award granted or paid out under the Plan shall be deemed compensation for purposes of computing benefits under any retirement plan of the Company or its Affiliates nor affect any benefit under any other benefit plan now or subsequently in effect under which the availability or amount of benefits is related to the level of compensation.

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**14.12 Costs.** The Company shall bear all expenses associated with administering the Plan, including expenses of issuing Common Stock pursuant to Awards hereunder.

**14.13 No Right to Same Benefits.** The provisions of Awards need not be the same with respect to each Participant, and such Awards to individual Participants need not be the same in subsequent years.

**14.14 Death/Disability.** The Committee may in its discretion require the transferee of a Participant to supply it with written notice of the Participant's death or Disability and to supply it with a copy of the will (in the case of the Participant's death) or such other evidence as the Committee deems necessary to establish the validity of the transfer of an Award. The Committee may also require that the agreement of the transferee to be bound by all of the terms and conditions of the Plan.

**14.15 Section 16(b) of the Exchange Act.** All elections and transactions under the Plan by Persons subject to Section 16 of the Exchange Act involving shares of Common Stock are intended to comply with any applicable exemptive condition under Rule 16b-3. The Committee may establish and adopt written administrative guidelines, designed to facilitate compliance with Section 16(b) of the Exchange Act, as it may deem necessary or proper for the administration and operation of the Plan and the transaction of business thereunder.

**14.16 Section 409A of the Code.** The Plan is intended to comply with the applicable requirements of Section 409A of the Code and shall be limited, construed and interpreted in accordance with such intent. To the extent that any Award is subject to Section 409A of the Code, it shall be paid in a manner that will comply with Section 409A of the Code, including proposed, temporary or final regulations or any other guidance issued by the Secretary of the Treasury and the Internal Revenue Service with respect thereto. Notwithstanding anything herein to the contrary, any provision in the Plan that is inconsistent with Section 409A of the Code shall be deemed to be amended to comply with Section 409A of the Code and to the extent such provision cannot be amended to comply therewith, such provision shall be null and void. The Company shall have no liability to a Participant, or any other party, if an Award that is intended to be exempt from, or compliant with, Section 409A of the Code is not so exempt or compliant or for any action taken by the Committee or the Company and, in the event that any amount or benefit under the Plan becomes subject to penalties under Section 409A of the Code, responsibility for payment of such penalties shall rest solely with the affected Participants and not with the Company. Notwithstanding any contrary provision in the Plan or Award Agreement, any payment(s) of nonqualified deferred compensation (within the meaning of Section 409A of the Code) that are otherwise required to be made under the Plan to a specified employee (as defined under Section 409A of the Code) as a result of such employee's separation from service (other than a payment that is not subject to Section 409A of the Code) shall be delayed for the first six (6) months following such separation from service (or, if earlier, the date of death of the specified employee) and shall instead be paid (in a manner set forth in the Award Agreement) upon expiration of such delay period.

**14.17 Successor and Assigns.** The Plan shall be binding on all successors and permitted assigns of a Participant, including, without limitation, the estate of such Participant and the executor, administrator or trustee of such estate.

**14.18 Severability of Provisions.** If any provision of the Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and the Plan shall be construed and enforced as if such provisions had not been included.

**14.19 Payments to Minors, Etc.** Any benefit payable to or for the benefit of a minor, an incompetent person or other person incapable of receipt thereof shall be deemed paid when paid to such person's guardian or to the party providing or reasonably appearing to provide for the care of such person, and such payment shall fully discharge the Committee, the Board, the Company, its Affiliates and their employees, agents and representatives with respect thereto.

**14.20 Agreement.** As a condition to the grant of an Award, if requested by the Company and the lead underwriter of any public offering of the Common Stock (the Lead Underwriter), a Participant shall irrevocably agree not to sell, contract to sell, grant any option to purchase, transfer the economic risk of ownership in, make any short sale of, pledge or otherwise transfer or dispose of, any interest in any Common Stock or any securities

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convertible into, derivative of, or exchangeable or exercisable for, or any other rights to purchase or acquire Common Stock (except Common Stock included in such public offering or acquired on the public market after such offering) during such period of time following the effective date of a registration statement of the Company filed under the Securities Act that the Lead Underwriter shall specify (the Lock-Up Period ). The Participant shall further agree to sign such documents as may be requested by the Lead Underwriter to effect the foregoing and agree that the Company may impose stop-transfer instructions with respect to Common Stock acquired pursuant to an Award until the end of such Lock-Up Period.

**14.21 Headings and Captions.** The headings and captions herein are provided for reference and convenience only, shall not be considered part of the Plan, and shall not be employed in the construction of the Plan.

**14.22 Section 162(m) of the Code.** Notwithstanding any other provision of the Plan to the contrary, (i) prior to the Registration Date and during the Transition Period, the provisions of the Plan requiring compliance with Section 162(m) of the Code for Awards intended to qualify as performance-based compensation shall only apply to the extent required by Section 162(m) of the Code, and (ii) the provisions of the Plan requiring compliance with Section 162(m) of the Code shall not apply to Awards granted under the Plan that are not intended to qualify as performance-based compensation under Section 162(m) of the Code.

**14.23 Post-Transition Period.** Following the Transition Period, any Award granted under the Plan that is intended to be performance-based compensation under Section 162(m) of the Code, shall be subject to the approval of the material terms of the Plan by a majority of the stockholders of the Company in accordance with Section 162(m) of the Code and the treasury regulations promulgated thereunder.

**14.24 Company Recoupment of Awards.** A Participant's rights with respect to any Award hereunder shall in all events be subject to (i) any right that the Company may have under any Company recoupment policy or other agreement or arrangement with a Participant, or (ii) any right or obligation that the Company may have regarding the clawback of incentive-based compensation under Section 10D of the Exchange Act and any applicable rules and regulations promulgated thereunder from time to time by the U.S. Securities and Exchange Commission.

## **Article XV**

### **EFFECTIVE DATE OF PLAN**

The Plan originally became effective on September 7, 2011, which is the date of its adoption by the Board, subject to the approval of the Plan by the stockholders of the Company in accordance with the requirements of the laws of the State of Delaware. Following its adoption by the Committee, this amendment and restatement of the Plan shall become effective as of May 23, 2013 upon receipt of the requisite approval of the stockholders of the Company at the 2013 Annual Meeting of Stockholders. In the absence of such stockholder approval, any outstanding Awards for which the terms have been established under this amended and restated Plan and subject to such stockholder approval shall be null and void.

## **Article XVI**

### **TERM OF PLAN**

No Award shall be granted pursuant to the Plan on or after the tenth anniversary of the earlier of the date that this amended and restated Plan is adopted or the date of stockholder approval, but Awards granted prior to such tenth anniversary may extend beyond that date; provided that no Award (other than a Stock Option or Stock Appreciation Right) that is intended to be performance-based compensation under Section 162(m) of the Code shall be granted on or after the fifth anniversary of the stockholder approval of the Plan unless the Performance Goals are re-approved (or other designated Performance Goals are approved) by the stockholders no later than the first stockholder meeting that occurs in the fifth year following the year in which stockholders approve the Performance Goals.

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**EXHIBIT A**

**PERFORMANCE GOALS**

To the extent permitted under Section 162(m) of the Code, performance goals established for purposes of Awards intended to be performance-based compensation under Section 162(m) of the Code, shall be based on the attainment of certain target levels of, or a specified increase or decrease (as applicable) in one or more of the following performance goals:

earnings per share;  
operating income;  
gross income;  
net income (before or after taxes);  
cash flow;  
gross profit;  
gross profit return on investment;  
gross margin return on investment;  
gross margin;  
operating margin;  
working capital;  
earnings before interest and taxes;  
earnings before interest, tax, depreciation and amortization;  
return on equity;  
return on assets;  
return on capital;  
return on invested capital;  
net revenues;  
gross revenues;  
revenue growth, as to either gross or net revenues;  
annual recurring net or gross revenues;  
recurring net or gross revenues;  
license revenues;  
sales or market share;  
total stockholder return;  
economic value added;  
specified objectives with regard to limiting the level of increase in all or a portion of the Company's bank debt or other long-term or short-term public or private debt or other similar financial obligations of the Company, which may be calculated net of cash balances and/or other offsets and adjustments as may be established by the Committee;  
the fair market value of a share of Common Stock;  
the growth in the value of an investment in the Common Stock assuming the reinvestment of dividends;  
reduction in operating expenses; or  
other objective criteria determined by the Committee.

With respect to Awards that are intended to qualify as performance-based compensation under Section 162(m) of the Code, to the extent permitted under Section 162(m) of the Code, the Committee may, in its sole discretion, also exclude, or adjust to reflect, the impact of an event or occurrence that the Committee determines should be appropriately excluded or adjusted, including:

- (a) restructurings, discontinued operations, extraordinary items or events, and other unusual or non-recurring charges as described in Accounting Standards Codification 225-20, Extraordinary and Unusual Items, and/or management's discussion and analysis of financial condition and results of operations appearing or incorporated by reference in the Company's Form 10-K for the applicable year;
- (b) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management;  
or

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- (c) a change in tax law or accounting standards required by generally accepted accounting principles.

Performance goals may also be based upon individual participant performance goals, as determined by the Committee. In addition, Awards that are not intended to qualify as performance-based compensation under Section 162(m) of the Code may be based on the performance goals set forth herein or on such other performance goals as determined by the Committee in its sole discretion.

In addition, such performance goals may be based upon the attainment of specified levels of Company (or subsidiary, division, other operational unit, administrative department or product category of the Company) performance under one or more of the measures described above relative to the performance of other corporations. With respect to Awards that are intended to qualify as performance-based compensation under Section 162(m) of the Code, to the extent permitted under Section 162(m) of the Code, but only to the extent permitted under Section 162(m) of the Code (including, without limitation, compliance with any requirements for stockholder approval), the Committee may also:

- (a) designate additional business criteria on which the performance goals may be based; or
- (b) adjust, modify or amend the aforementioned business criteria.





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**The Board of Directors recommends you vote 3 YEARS on the following proposal:**

4. Advisory vote on the frequency of the advisory vote on the compensation of the Company's named executive officers.

**“ 3 YEARS**

**“ 2 YEARS**

**“ 1 YEAR**

**“ ABSTAIN**

**The Board of Directors recommends you vote FOR the following proposal:**

5. Ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2013.

**“ FOR**

**“ AGAINST**

**“ ABSTAIN**

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting or any adjournment thereof.

MARK HERE FOR ADDRESS CHANGE AND NOTE AT LEFT “

MARK HERE IF YOU PLAN TO ATTEND THE MEETING “

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

**IMPORTANT**

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.