

ADCARE HEALTH SYSTEMS, INC  
Form DEF 14A  
October 29, 2013

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

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 under §240.14a-12

**ADCARE HEALTH SYSTEMS, INC.**

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
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- (4) Proposed maximum aggregate value of transaction:
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      - (1) Amount Previously Paid:
      - (2) Form, Schedule or Registration Statement No.:
      - (3) Filing Party:
      - (4) Date Filed:
-

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**ADCARE HEALTH SYSTEMS, INC.**

**1145 Hembree Road  
Roswell, Georgia 30076**

Dear AdCare Shareholders:

It is my pleasure to invite you to this year's Annual Meeting of Shareholders, which will be held on Thursday, December 12, 2013, at The Westin Buckhead Atlanta, 3391 Peachtree Road, N.E., Atlanta, Georgia, at 9:00 a.m., local time. We look forward to personally seeing as many of our shareholders as possible.

The Notice of 2013 Annual Meeting of Shareholders and the accompanying proxy statement provide information concerning matters to be considered and voted on at the Annual Meeting. At the Annual Meeting, we also will report on our operations and other matters of current interest to our shareholders and respond to appropriate questions.

I understand that most of our shareholders are unable to attend the Annual Meeting in person. However, it is important that your shares of common stock be represented and voted at the Annual Meeting. Whether or not you plan to attend, you can be sure your shares of common stock are represented by promptly voting and submitting your proxy by phone, by Internet or by completing, signing, dating and returning your proxy card in the enclosed postage-paid envelope.

Thank you for your continued interest in AdCare.

Sincerely,

/s/ DAVID A. TENWICK

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David A. Tenwick  
*Chairman of the Board*

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**ADCARE HEALTH SYSTEMS, INC.**

**1145 Hembree Road  
Roswell, Georgia 30076**

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**NOTICE OF 2013 ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON DECEMBER 12, 2013**

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**DATE AND TIME**

Thursday, December 12, 2013, at 9:00 a.m. local time

**PLACE**

The Westin Buckhead Atlanta, 3391 Peachtree Road, N.E., Atlanta, Georgia

**ITEMS OF BUSINESS**

To approve the reincorporation of the Company from the State of Ohio to the State of Georgia (Proposal 1);

To elect ten directors pursuant to Georgia law and Georgia governing documents if Proposal 1 is approved (Proposal 2);

To elect ten directors pursuant to Ohio law and Ohio governing documents if Proposal 1 is not approved (Proposal 3);

To consider an advisory vote on executive compensation ("say-on-pay") (Proposal 4);

To consider an advisory vote to determine shareholder preference on the frequency of say-on-pay (Proposal 5);

To ratify the appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2013 (Proposal 6);

To approve the adjournment of the Annual Meeting in order to solicit additional proxies in favor of Proposal 1, if necessary (Proposal 7); and

To transact such other business as may properly come before the Annual Meeting and any adjournments and postponements thereof.

**RECORD DATE**

October 18, 2013. Under Ohio law, all shareholders are entitled to receive notice of the Annual

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Meeting, whether or not they are entitled to vote at the Annual Meeting. Only shareholders of record of the common stock as of the record date are entitled to vote at the Annual Meeting and any adjournments or postponements thereof.

### **ANNUAL REPORT**

Our Annual Report on Form 10-K for the year ended December 31, 2012 accompanies the proxy statement.

### **PROXY VOTING**

Even if you plan to attend the Annual Meeting in person, please promptly vote in one of the following ways so that your shares of common stock may be represented and voted at the Annual Meeting:

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1. Call the toll-free telephone number shown on the enclosed proxy card;
2. Vote via the Internet on the website shown on the enclosed proxy card; or
3. Mark, sign, date and return the enclosed proxy card in the postage-paid envelope.

**Important Notice Regarding the Availability of Proxy Materials for the 2013 Annual Meeting to be Held on December 12, 2013:** This notice, the accompanying proxy statement, a form of proxy card and the Company's Annual Report on Form 10-K for the year ended December 31, 2012 are available free of charge at [www.cstproxy.com/adcarehealth/2013](http://www.cstproxy.com/adcarehealth/2013).

By Order of the Board of Directors,

/s/ RONALD W. FLEMING

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Ronald W. Fleming  
*Corporate Secretary*  
*Roswell, Georgia*

Roswell, Georgia  
October 29, 2013

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**ADCARE HEALTH SYSTEMS, INC.**

1145 Hembree Road  
Roswell, Georgia 30076

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**PROXY STATEMENT**

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**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING**

**Why am I receiving these materials?**

AdCare Health Systems, Inc. is furnishing this proxy statement in connection with the solicitation by its Board of Directors (the "Board of Directors") of proxies for our 2013 Annual Meeting of Shareholders and any adjournments and postponements thereof (the "Annual Meeting") for the purposes set forth in the accompanying Notice of 2013 Annual Meeting of Shareholders. The Annual Meeting will be held on Thursday, December 12, 2013, at The Westin Buckhead Atlanta, 3391 Peachtree Road, N.W., Atlanta, Georgia, at 9:00 a.m., local time. Shareholders are invited to attend the Annual Meeting and are requested to vote on the proposals described in this proxy statement.

Proxies are solicited by the Board of Directors to give all shareholders of record and entitled to vote at the Annual Meeting an opportunity to vote on the proposals to be presented at the Annual Meeting, even if they cannot attend the Annual Meeting in person. David A. Tenwick, our Chairman of the Board, and Boyd P. Gentry, our Chief Executive Officer (hereafter the "proxy holders"), will vote the shares represented by proxies at the Annual Meeting in the manner indicated by the proxies.

As permitted by the rules of the Securities and Exchange Commission ("SEC"), we have elected to send you this full set of proxy materials, including a proxy card, and additionally to notify you of the availability of these proxy materials on the Internet. The Notice of 2013 Annual Meeting of Shareholders, this proxy statement, a form of proxy card and our Annual Report on Form 10-K for the year ended December 31, 2012 (the "2012 Annual Report") are available free of charge at [www.cstproxy.com/adcarehealth/2013](http://www.cstproxy.com/adcarehealth/2013). We expect to mail this proxy statement and accompanying form of proxy card to shareholders of record beginning on October 31, 2013.

*Unless the context otherwise requires, all references in this proxy statement to "AdCare," the "Company," "we," "us," and "our" refer to AdCare Health Systems, Inc. and its consolidated subsidiaries.*

**Who is entitled to vote on the proposals discussed in this proxy statement?**

You are entitled to vote if you were a shareholder of record of AdCare's common stock (the "common stock") as of the close of business on October 18, 2013 (the "record date"). Your shares of common stock can be voted at the Annual Meeting only if you are present in person or represented by a valid proxy.

Although shareholders of AdCare's 10.875% Series A Cumulative Redeemable Preferred Shares (the "Series A Preferred Stock") are entitled to notice of the Annual Meeting under Ohio law, they are not entitled to vote on the proposals described in this proxy statement.

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**What constitutes a quorum for the Annual Meeting?**

The holders of one-third of the outstanding shares of common stock as of the close of business on the record date must be present, either in person or represented by valid proxy, to constitute a quorum necessary to conduct the Annual Meeting. On the record date, there were issued and outstanding 15,453,478 shares of common stock. Shares of common stock represented by valid proxies received but marked as abstentions or as withholding voting authority, and shares of common stock represented by valid proxies received but reflecting broker non-votes, will be counted as present at the Annual Meeting for purposes of establishing a quorum.

**How many votes am I entitled to for each share of the common stock I hold?**

Each share of common stock represented at the Annual Meeting is entitled to one vote.

**What proposals will require my vote?**

You are being asked to vote on the following proposals:

Reincorporation of the Company from the State of Ohio to the State of Georgia (Proposal 1);

Election of ten directors pursuant to Georgia law and Georgia governing documents if Proposal 1 is approved (Proposal 2);

Election of ten directors pursuant to Ohio law and Ohio governing documents if Proposal 1 is not approved (Proposal 3);

Advisory vote on executive compensation ("say-on-pay") (Proposal 4);

Advisory vote on the frequency of say-on-pay (Proposal 5);

Ratification of the appointment of KPMG LLP ("KPMG") as our independent registered public accounting firm for the year ending December 31, 2013 (Proposal 6);

Approval of the adjournment of the Annual Meeting in order to solicit additional proxies in favor of Proposal 1, if necessary (Proposal 7); and

The transaction of any other business that may properly come before the Annual Meeting and all adjournments or postponements thereof.

Your proxy will give the proxy holders the authority to vote on any other business properly coming before the Annual Meeting and all adjournments or postponements thereof.

**What vote is required to approve each proposal, and how will my vote be counted?**

***Proposal 1: Reincorporation of the Company From the State of Ohio to the State of Georgia***

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Approval of this proposal requires approval by the holders of at least a majority of the shares of common stock outstanding as of close of business on the record date. Any shares of common stock that are not voted (whether by abstention or otherwise) will have the effect of a vote against this proposal.

### ***Proposal 2: Election of Ten Directors Under Georgia Law and Georgia Governing Documents if Proposal 1 is Approved***

If Proposal 1 is approved and Proposal 2 is voted on at the Annual Meeting in lieu of Proposal 3, then the ten nominees who receive the highest number of duly cast votes will be elected under Georgia law and Georgia governing documents to serve the terms described in this proxy statement. Any shares of common stock that are not voted (whether by abstention or otherwise) will have no impact in determining the outcome of the vote with respect to this proposal.

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***Proposal 3: Election of Ten Directors Under Ohio Law and Ohio Governing Documents if Proposal 1 is not Approved***

If Proposal 1 is not approved and Proposal 3 is voted upon at the Annual Meeting in lieu of Proposal 2, then the ten nominees who receive the highest number of properly cast votes will be elected under Ohio law and Ohio governing documents to serve the terms described in this proxy statement. Any shares of common stock that are not voted (whether by abstention or otherwise) will have no impact on the outcome of the vote with respect to this proposal.

***Proposal 4: Advisory Vote on Executive Compensation***

Approval of this proposal, on an advisory basis, requires that the votes cast in favor of this proposal exceed the votes cast against this proposal. Any shares that are not voted (whether by abstention or otherwise) will have no impact on the outcome of the vote with respect to this proposal. This is an advisory vote and, therefore, is not binding.

***Proposal 5: Advisory Vote on the Frequency of Say-on-Pay***

There will be no approval or adoption of a resolution relating to this matter. Rather, the Board of Directors will consider the results of the vote and other relevant information in establishing the Company's policy on the frequency of future advisory votes on say-on-pay.

***Proposal 6: Ratification of the Appointment of KPMG as our Independent Registered Public Accounting Firm***

Approval of this proposal requires that the votes cast in favor of this proposal exceed the votes cast against this proposal. Any shares of common stock that are not voted (whether by abstention or otherwise) will have no impact on the outcome of the vote with respect to this proposal.

***Proposal 7: Adjournment of the Annual Meeting in Order to Solicit Additional Votes in Favor of Proposal 1, if Necessary***

Approval of this proposal requires that the votes cast in favor of this proposal exceed the votes cast against this proposal. Any shares of common stock that are not voted (whether by abstention or otherwise) will have no impact on the outcome of the vote with respect to this proposal.

**How does the Board of Directors recommend that I vote?**

The Board of Directors recommends that you vote:

"**FOR**" approval of the reincorporation of the Company from the State of Ohio to the State of Georgia (Proposal 1);

"**FOR**" election of each of the ten director nominees pursuant to Georgia law and Georgia governing documents if Proposal 1 is approved (Proposal 2);

"**FOR**" election of each of the ten director nominees pursuant to Ohio law and Ohio governing documents if Proposal 1 is not approved (Proposal 3);

"**FOR**" approval, on an advisory basis, of our executive compensation (Proposal 4);

In favor, on an advisory basis, of the option that calls for future say-on-pay votes to be held every "**THREE YEARS**" (Proposal 5);

"**FOR**" ratification of the appointment of KPMG as our independent registered public accounting firm for the year ending December 31, 2013 (Proposal 6); and



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"FOR" the approval of the adjournment of the Annual Meeting in order to solicit additional proxies in favor of Proposal 1, if necessary (Proposal 7).

**How do I vote?**

If you are a shareholder of the common stock of record, meaning that your shares of common stock are registered in your name and are not held through a broker, then you have four voting options. You may vote your shares in any one of the following ways:

Call the toll-free number shown on the proxy card;

Vote on the Internet on the website shown on the proxy card;

Mark, sign, date and return the enclosed proxy card in the postage-paid envelope; or

Vote in person at the Annual Meeting.

Even if you plan to attend the Annual Meeting in person, we encourage you to vote your shares as soon as possible by proxy.

If you are a beneficial holder, meaning that your shares are held through a broker, then please refer to the instructions provided by your broker, bank or other nominee regarding how to vote.

**What is the difference between a shareholder of record and a beneficial holder of shares?**

If your shares of common stock are registered directly in your name with our transfer agent, Continental Stock Transfer & Trust Company ("Continental"), then you are considered a shareholder of record with respect to those shares. Shareholders of record will receive proxy materials, including a proxy card, by mail.

If your shares of common stock are held in street name through a broker, bank or other nominee, then you are the beneficial holder of the shares held in "street name." Beneficial holders of shares should refer to the instructions provided by their broker, bank or other nominee regarding how to vote or to revoke voting instructions. The availability of Internet and telephone voting depends on the voting processes of the broker, bank or other nominee. As the beneficial holder, you have the right to direct how your broker, bank or other nominee votes your shares. Beneficial holders may vote in person only if they have a legal proxy to vote their shares as described below.

**I am a beneficial holder. How are my shares voted if I do not return voting instructions?**

Your shares of common stock may be voted if they are held in the name of a brokerage firm, even if you do not provide the brokerage firm with voting instructions. Brokerage firms have the authority, under the rules of the New York Stock Exchange, to vote shares on certain routine matters for which their customers do not provide voting instructions by the tenth day before the meeting. The proposal ratifying the appointment of KPMG as our independent registered public accounting firm for the year ending December 31, 2013 is considered a routine matter. The proposals addressing the reincorporation, election of directors, the advisory votes on matters relating to executive compensation and the adjournment of the Annual Meeting in order to solicit additional proxies in favor of Proposal 1 are not considered routine matters. When a proposal is not a routine matter and the brokerage firm has not received voting instructions from the beneficial holder of the shares with respect to that proposal, the brokerage firm CANNOT vote the shares on that proposal. This is called a broker non-vote. In tabulating the voting result for any particular proposal, shares that are subject to broker non-votes with respect to that proposal will not be considered votes either for or against the proposal. It is very important that you cast your vote if you want your shares to be represented at the Annual Meeting.

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**What if I return my proxy card or vote by Internet or phone but do not specify how I want to vote?**

If you are a shareholder of record and sign and return your proxy card or complete the Internet or telephone voting procedure, but do not specify how you want to vote your shares, we will vote them as follows:

"**FOR**" the reincorporation of the Company from the State of Ohio to the State of Georgia;

"**FOR**" the election of each of the director nominees;

"**FOR**" the approval, on an advisory basis, of our executive compensation;

In favor, on an advisory basis, of the option that calls for future say-on-pay votes to be held every "**THREE YEARS**";

"**FOR**" the ratification of the appointment of KPMG as our independent registered public accounting firm for the year ending December 31, 2013; and

"**FOR**" the approval of the adjournment of the Annual Meeting in order to solicit additional proxies in favor of Proposal 1, if necessary.

**Can I change my vote or revoke my proxy?**

If you are a shareholder of record, then you can change your vote within the regular voting deadlines by voting again by telephone or on the Internet, executing and returning a later dated proxy or attending the Annual Meeting and voting in person. If you are a shareholder of record, then you can revoke your proxy by delivering a written notice of your revocation to the Corporate Secretary at AdCare Health Systems, Inc., 1145 Hembree Road, Roswell, Georgia 30076.

**Proposal 1 and Proposal 7 discuss the adjournment of the Annual Meeting. Why will, or could, the Annual Meeting be adjourned in connection with these proposals?**

If there are not sufficient votes at the time of the Annual Meeting to approve Proposal 1, then management may propose to adjourn the Annual Meeting to a later date or dates in order to solicit additional proxies in favor of Proposal 1. In this case, if Proposal 7 is approved, then the proxy holders would vote the proxies held by them in favor of such adjournment.

If Proposal 1 is approved at the Annual Meeting, then management will propose to adjourn the Annual Meeting before the consideration of Proposal 2 in order to make the necessary filings with the Secretary of States of the States of Ohio and Georgia to effectuate the reincorporation. The proxy holders will use the discretionary voting authority provided by valid proxies to vote the proxies for such adjournment. Upon such adjournment, the Annual Meeting will reconvene on December 13, 2013, at our executive offices at Two Buckhead Plaza, 3050 Peachtree Road, N.W., Suite 355, Atlanta, Georgia, at 4:00 p.m., local time, and Proposal 2 will be considered and voted on by the shareholders. If, however, at the time of the reconvened Annual Meeting the necessary filings have not been accepted by the Secretary of States of the States of Ohio and Georgia, then at the reconvened Annual Meeting we will seek to further adjourn the Annual Meeting until such acceptance has occurred.

**How will a proposal or other matter that was not described in this proxy statement be handled for voting purposes if it is raised at the Annual Meeting?**

If any matter that is not described in this proxy statement should properly come before the Annual Meeting, then the proxy holders will vote the shares represented by valid proxy cards in accordance with their best judgment. Notwithstanding the foregoing, the proxy holders will not

use their discretionary voting authority with respect to any validly conducted solicitation in opposition of the recommendations of the Board of Directors. At the time this proxy statement was printed, management



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did not know of any other matters that might be presented for shareholder action at the Annual Meeting.

**Who will count the votes?**

A representative of Continental will act as the inspector of elections and count the votes.

**What does it mean if I receive more than one set of proxy materials?**

If you receive more than one set of proxy materials, it means that you have multiple accounts holding shares of common stock with brokers or our transfer agent. You will need to vote separately with respect to each set of proxy materials that you receive. Please vote all of the shares you own.

**What do I need to do if I want to attend the Annual Meeting?**

You do not need to make a reservation to attend the Annual Meeting. However, attendance at the Annual Meeting is limited to shareholders of the common stock or their designated representatives. If your shares are held by a bank or broker, then please bring your bank or broker statement evidencing your beneficial ownership of common stock as of the record date to gain admission to the Annual Meeting. We reserve the right to limit the number of representatives who may attend the Annual Meeting.

**Who is soliciting proxies and what is the cost?**

The Board of Directors is soliciting your proxy. The expense of preparing and printing and mailing this proxy statement and the proxies solicited hereby will be borne by us. We have engaged Georgeson Inc. to assist with the solicitation of proxies. We expect to pay Georgeson Inc. an estimated \$8,000 in fees plus expenses and disbursements.

Solicitation will be made principally by mail. In addition to soliciting shareholders by mail, we will request banks, brokers, and other custodians, nominees, and fiduciaries to forward solicitation materials or send a voting instruction form to the beneficial owners of the common stock held of record by such persons, and we will reimburse them for their reasonable out-of-pocket expenses incurred in doing so. We may use the services of our officers and other Company employees, who will receive no compensation for their services, other than their regular compensation, to solicit proxies personally, by telephone or by facsimile transmission.

**Are you "householding" for shareholders sharing the same address?**

The SEC's rules permit us to deliver a single copy of this proxy statement and the 2012 Annual Report to an address shared by two or more shareholders. This method of delivery is referred to as "householding" and can significantly reduce our printing and mailing costs. It also reduces the volume of mail you receive. We will deliver only one proxy statement and 2012 Annual Report to multiple registered shareholders sharing an address unless we receive instructions to the contrary from one or more of the shareholders. We will still send each shareholder an individual proxy card.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on December 12, 2013: The proxy statement and the 2012 Annual Report are available free of charge at [www.cstproxy.com/adcarehealth/2013](http://www.cstproxy.com/adcarehealth/2013).**

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**PROPOSAL 1:  
REINCORPORATION OF THE COMPANY  
FROM THE STATE OF OHIO  
TO THE STATE OF GEORGIA**

The Board of Directors has approved and recommends to the shareholders this Proposal 1 to change the Company's state of incorporation from the State of Ohio to the State of Georgia (the "Reincorporation"). If the shareholders approve Proposal 1, then we will accomplish the Reincorporation by domesticating in Georgia as permitted by the Ohio General Corporation Law (the "OGCL") and the Georgia Business Corporation Code (the "GBCC").

*In this section of the proxy statement, we sometimes refer to the Company (an Ohio corporation) before the Reincorporation as "AdCare Ohio" and the Company (a Georgia corporation) after the Reincorporation as "AdCare Georgia."*

**Summary**

If Proposal 1 is approved and the Reincorporation becomes effective, then:

The affairs of the Company will cease to be governed by the OGCL, the affairs of the Company will become subject to the GBCC, and the Company's current Articles of Incorporation and current Code of Regulations will be replaced by new Articles of Incorporation and new Bylaws, as more fully described below;

AdCare Georgia will: (i) be deemed to be the same entity as AdCare Ohio for all purposes under the laws of Georgia, (ii) continue to have all of the rights, privileges, immunities, franchises and powers of AdCare Ohio, except for such changes that result from being subject to Georgia law and becoming subject to new Articles of Incorporation and new Bylaws, (iii) continue to possess all of the properties of AdCare Ohio, and (iv) continue to have all of the liabilities and obligations of AdCare Ohio;

Each share of AdCare Ohio common stock and AdCare Ohio Series A Preferred Stock outstanding at the effective time of the Reincorporation will continue to be an outstanding share of AdCare Georgia common stock and AdCare Georgia Series A Preferred Stock, respectively, after the Reincorporation;

Each option, warrant or other right to acquire shares of AdCare Ohio common stock outstanding (including the convertible promissory notes issued by AdCare Ohio) will continue to be, after the Reincorporation, an outstanding option, warrant or other right to acquire shares of AdCare Georgia common stock;

Each employee benefit plan, incentive compensation plan or other similar plan of AdCare Ohio will continue to be, after the Reincorporation, an employee benefit plan, incentive compensation plan or other similar plan of AdCare Georgia; and

Each director or officer of AdCare Ohio will continue to hold, after the Reincorporation, his or her respective office with AdCare Georgia until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal.

**General Information**

The Board of Directors has adopted a declaration of conversion in the form attached as **Appendix A** to this proxy statement (the "Declaration of Conversion") to accomplish the Reincorporation.



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If Proposal 1 is approved and the Reincorporation becomes effective, then the Company intends to file with the Secretary of State of the State of Ohio (the "Ohio Secretary of State") a certificate of conversion (the "Ohio Conversion Certificate") and intends to file with the Secretary of State of the State of Georgia (the "Georgia Secretary of State"): (i) a certificate of conversion (the "Georgia Conversion Certificate"), and (ii) articles of incorporation, which will govern the Company as a Georgia corporation, substantially in the form attached as **Exhibit A** to the Declaration of Conversion (the "Georgia Articles"). In addition, if the shareholders approve Proposal 1 and the Reincorporation becomes effective, then the Bylaws substantially in the form attached as **Exhibit B** to the Declaration of Conversion will be the Bylaws for AdCare Georgia (the "Georgia Bylaws").

Approval of Proposal 1 will constitute approval of the Reincorporation and the Declaration of Conversion (including the Georgia Articles and the Georgia Bylaws). Upon approval of the Reincorporation and the filing of the appropriate documents with the Ohio Secretary of State and the Georgia Secretary of State, the Company will be a Georgia corporation governed by the GBCC, the Georgia Articles and the Georgia Bylaws.

After the Reincorporation, the shares of the common stock and Series A Preferred Stock will continue to trade on the NYSE MKT under the same symbols, "ADK" and "ADK.PRA", respectively, subject to approval of additional listing by the NYSE MKT. We do not intend to complete the Reincorporation unless such approval has been obtained.

AdCare Georgia will continue to file periodic reports and other documents as and to the extent required by the rules and regulations of the SEC. Shareholders who own shares of AdCare Ohio common stock and AdCare Ohio Series A Preferred Stock that are freely tradable prior to the Reincorporation will continue to have freely tradable shares in AdCare Georgia after the Reincorporation, and shareholders holding restricted shares of AdCare Ohio common stock or AdCare Ohio Series A Preferred Stock prior to the Reincorporation will continue to hold such shares in AdCare Georgia after the Reincorporation subject to the same restrictions on transfer. In summary, the Reincorporation will not change the respective positions under federal securities laws or stock exchange rules of the Company or its shareholders.

**Reasons for the Reincorporation**

The Company was incorporated in Ohio in 1991, and our headquarters were located in Ohio for more than two decades. During 2012, however, we relocated our executive offices and accounting operations to Georgia. As a result of our acquisition activity during recent years, the geographic footprint of our facilities has also relocated, with a majority of our skilled nursing facilities now being located in the southeastern United States. Consequently, the Board of Directors believes that reincorporating in Georgia will better align the legal structure of our business and operations in a manner that is more consistent with our physical presence.

In addition, Ohio requires corporations incorporated in Ohio to pay a "shares fee" calculated based upon the number of a corporation's authorized shares. Under the shares fee, if we increase our authorized shares by 30,000,000 shares (as contemplated by the Georgia Articles), then we would be required to pay a shares fee of approximately \$75,000. Georgia, however, does not impose a shares fee but instead requires corporations incorporated in Georgia to pay a net worth tax. Net worth consists of total capital stock (including treasury stock), paid in capital and retained earnings. The minimum tax is \$10 and the maximum tax is \$5,000, which is reached when a corporation's net worth exceeds \$22 million.

**Manner of Effecting the Reincorporation**

The Reincorporation will be effected pursuant to the Declaration of Conversion to be adopted by AdCare Ohio. The Declaration of Conversion provides that AdCare Ohio will convert into a Georgia

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corporation and will be subject to all of the provisions of the GBCC. By virtue of the conversion, all of the rights, privileges, immunities, franchises and powers of AdCare Ohio, all property owned by AdCare Ohio, all debts and obligations due to AdCare Ohio, and all causes of action and other interests belonging to or due to AdCare Ohio immediately prior to the conversion will remain vested in AdCare Georgia following the conversion. In addition, by virtue of the conversion, all liabilities and obligations of AdCare Ohio immediately prior to the conversion will remain attached to AdCare Georgia following the conversion. Each director and officer of AdCare Ohio will continue to hold his or her respective office with AdCare Georgia until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal.

If Proposal 1 is approved, then the Reincorporation would become effective upon the date and time specified in the Ohio Conversion Certificate and the Georgia Conversion Certificate (which date we anticipate will be the date the shareholders approve Proposal 1). If Proposal 1 is approved at the Annual Meeting, then management will propose to adjourn the Annual Meeting before the consideration of Proposal 2 in order to make the necessary filings with the Ohio Secretary of State and the Georgia Secretary of State. The proxy holders will use the discretionary voting authority provided by valid proxies to vote the proxies for such adjournment. Upon such adjournment, the Annual Meeting will reconvene on December 13, 2013, at our executive offices at Two Buckhead Plaza, 3050 Peachtree Road, N.W., Suite 355, Atlanta, Georgia, at 4:00 p.m., local time, and Proposal 2 will be considered and voted on by the shareholders. If, however, at the time of the reconvened Annual Meeting the necessary filings have not been accepted by the Ohio Secretary of State and Georgia Secretary of State, then at the reconvened Annual Meeting we will seek to further adjourn the Annual Meeting until such acceptance has occurred.

Notwithstanding the foregoing, the Reincorporation may be delayed by the Board of Directors, or the Declaration of Conversion may be terminated and abandoned by action of the Board of Directors, at any time prior to the effective time of the Reincorporation, whether before or after approval by shareholders, if the Board of Directors determines for any reason that such delay or termination would be in the best interests of the Company and its shareholders.

Shareholders will not be required to exchange their AdCare Ohio stock certificates for new AdCare Georgia stock certificates. Following the effective time of the Reincorporation, any AdCare Ohio stock certificates submitted to the Company for transfer, whether pursuant to a sale or otherwise, will automatically be exchanged for AdCare Georgia stock certificates. AdCare shareholders should not destroy any stock certificate(s) and should not submit any certificate(s) to the Company unless and until requested to do so.

**Effect of Not Obtaining the Required Vote for Approval**

If Proposal 1 is not approved at the Annual Meeting or any adjournment or postponement thereof, then the Reincorporation will not be consummated and the Company will continue to be incorporated in Ohio and governed by the OGCL, the Ohio Articles and the Ohio Code of Regulations.

**Effects of the Reincorporation**

***General***

If Proposal 1 is approved and the Reincorporation becomes effective, then the Company will be incorporated in Georgia and governed by the GBCC, the Georgia Articles and the Georgia Bylaws. The Reincorporation will change the legal domicile of the Company from the State of Ohio to the State of Georgia and will effect other changes of a legal nature, as described in " Comparison of Shareholders' Rights Before and After the Reincorporation." The Reincorporation is not expected to affect any of AdCare Ohio's material contracts with any third parties, and AdCare Ohio's rights and obligations under such material contracts will continue as rights and obligations of AdCare Georgia.

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The Reincorporation itself will not result in any change in the Company's business, jobs, management, number of employees, assets, liabilities or net worth (other than transaction costs incident to the Reincorporation). Further, the directors and officers of AdCare Ohio immediately prior to the Reincorporation will continue to be the directors and officers of AdCare Georgia immediately after the Reincorporation, and the subsidiaries of AdCare Ohio immediately prior to the Reincorporation will continue to be the subsidiaries of AdCare Georgia immediately after the Reincorporation.

The Georgia Articles and the Georgia Bylaws in effect after the Reincorporation will be substantially similar to the Ohio Articles and the Ohio Code of Regulations in effect before the Reincorporation, except for changes necessary to conform to Georgia law and the following:

The Georgia Articles will permit us to issue 26,000,000 additional shares of common stock and 4,000,000 additional shares of preferred stock; and

The Georgia Bylaws will permit, subject to the GBCC and the Georgia Articles, both the Board of Directors and the shareholders to amend or repeal the Georgia Bylaws, or adopt new bylaws. The Georgia Articles will expressly authorize the Board of Directors to amend or repeal the Georgia Bylaws, or adopt new bylaws, except as prohibited by the GBCC.

***Increase in Authorized Shares***

The Ohio Articles provide that the numbers of shares we are authorized to have outstanding is 30,000,000, divided into two classes consisting of: (i) 29,000,000 shares, no par value, common; and (ii) 1,000,000 shares, no par value, serial preferred. Of the authorized AdCare Ohio preferred stock, 950,000 shares have been designated as AdCare Ohio Series A Preferred Stock. As of the record date, AdCare Ohio had outstanding 15,453,478 shares of AdCare Ohio common stock and 450,000 shares of AdCare Ohio Series A Preferred Stock.

If Proposal 1 is approved and the Reincorporation becomes effective, then we will be incorporated in Georgia and governed by the GBCC, the Georgia Articles and the Georgia Bylaws. Each share of AdCare Ohio common stock and AdCare Ohio Series A Preferred Stock outstanding at the effective time of the Reincorporation will continue to be outstanding immediately after the Reincorporation as a share of AdCare Georgia common stock or AdCare Georgia Series A Preferred Stock, respectively. The Reincorporation will have the effect of increasing the number of shares of common stock and preferred stock that we are authorized to issue because the Georgia Articles will authorize us to issue: (i) 55,000,000 shares of AdCare Georgia common stock, no par value; and (ii) 5,000,000 shares of AdCare Georgia preferred stock, no par value. The AdCare Georgia preferred stock to be authorized, and the AdCare Ohio preferred stock currently authorized, is commonly referred to as "blank check" preferred stock because the Board of Directors has broad authority to determine the preferences, limitations and relative rights with respect to such stock.

*Current Use of Shares.* As of the record date, there: (i) were 15,453,478 shares of AdCare Ohio common stock and 450,000 shares of AdCare Ohio Series A Preferred Stock outstanding; (ii) 1,357,253 shares of AdCare Ohio common stock issuable upon exercise of outstanding options, with a current weighted-average exercise price of \$4.73 per share; (iii) 3,779,715 shares of AdCare Ohio common stock issuable upon exercise of outstanding warrants, with a current weighted-average exercise price of \$3.47 per share; (iv) 2,863,433 shares of AdCare Ohio common stock issuable upon conversion of our 10% convertible promissory notes, with a current conversion price of \$3.73 per share; (v) 1,114,675 shares of AdCare Ohio common stock issuable upon conversion of our 10% convertible promissory notes, with a current conversion price of \$4.80 per share; (vi) 2,267,003 shares of AdCare Ohio common stock issuable upon conversion of our 8% convertible promissory notes, with a current conversion price of \$3.97 per share; and (vii) 774,279 shares of AdCare Ohio common stock reserved for issuance under existing equity incentive plans. Accordingly, as of the record date, AdCare Ohio had 1,390,164 shares of AdCare Ohio common stock, 500,000 shares of AdCare Ohio Series A Preferred

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Stock and 50,000 shares of undesignated preferred stock not reserved for other purposes and available for issuance.

*Reasons for the Increase in Authorized Shares.* The Board of Directors believes that an increase in the number of shares of our authorized common stock and authorized preferred stock is desirable and in the best interest of our shareholders because it would provide us with the ability to support our present capital needs and future anticipated growth and would provide us with the flexibility to consider and respond to future business opportunities and needs as they arise, including equity offerings, acquisitions, stock dividends, issuances under stock incentive plans and other corporate purposes. The availability of additional shares of stock would permit us to undertake certain of the foregoing actions without the delay and expense associated with holding a special meeting of shareholders to obtain shareholder approval each time such an opportunity arises that would require the issuance of shares of common stock or preferred stock.

*Effect of Increase in Authorized Shares.* If Proposal 1 is approved and the Reincorporation becomes effective, then the additional shares of common stock and preferred stock authorized by the Georgia Articles may be issued from time to time upon authorization of the Board of Directors, without further approval by shareholders, unless otherwise required by applicable law, and for the consideration that the Board of Directors may determine is appropriate and as may be permitted by applicable law. The additional shares of AdCare Georgia common stock and AdCare Georgia preferred stock that we will be authorized to issue under the Georgia Articles would not have any immediately dilutive effect on the proportionate voting power or other rights of existing shareholders. To the extent that the additional authorized shares of AdCare Georgia common stock or AdCare Georgia preferred stock are issued in the future, however, they may decrease the existing shareholders' percentage equity ownership and, depending on the price at which they are issued, could be dilutive to existing shareholders.