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 ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

ADCARE HEALTH SYSTEMS, INC.

(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):

ý No fee required.

o 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:

(2) Aggregate number of securities to which transaction applies:

(3)

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(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

David A. Tenwick
Chairman of the Board

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ADCARE HEALTH SYSTEMS, INC.

1145 Hembree Road
Roswell, Georgia 30076

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

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

	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*.

By Order of the Board of Directors,

/s/ RONALD W. FLEMING

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

PROXY STATEMENT

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*. 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

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*.

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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

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.

An increase in the authorized number of shares of common stock could, in certain instances, have the effect of discouraging unsolicited takeover attempts or inhibiting the removal of incumbent directors and may limit the opportunity for shareholders to dispose of their shares at the higher price generally available in takeover attempts. For example, the issuance of newly authorized shares of common stock could be used to prevent or deter a change of control of the Company through dilution of stock ownership of persons seeking to take control or by rendering a transaction proposed by such persons more costly. Furthermore, the issuance of the additional shares of authorized blank check preferred stock may have a similar deterrent effect. Blank check preferred stock enables the Board of Directors to issue preferred stock, without further shareholder approval, with such preferences, limitations and relative rights as may be determined by the Board of Directors. While providing desirable flexibility in connection with possible acquisitions and other corporate purposes, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control without further action by shareholders and may adversely affect the market price of, and the voting and other rights of the holders of, the common stock. These effects might include, among other things, restricting dividends on the common stock, diluting the voting power of the common stock or impairing the liquidation rights of the common stock.

The Board of Directors is not aware of any attempts to take control of the Company and has not presented Proposal 1 with the intent that it be utilized as an anti-takeover device. We have no present intention to issue any material amount of common stock or preferred stock in connection with any exchange, merger, consolidation, acquisition or similar transaction.

Amendment of Bylaws by the Board of Directors

The Ohio Code of Regulations permits holders of a majority of the voting power of AdCare Ohio to amend the Ohio Code of Regulations at any meeting of the shareholders called for that purpose. The Ohio Code of Regulations, however, does not permit the Board of Directors to amend the Ohio Code of Regulations under any circumstances.

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 Georgia Bylaws will permit, subject to the Georgia Articles and the GBCC: (i) the Board of Directors to amend or repeal the Georgia Bylaws, or adopt new bylaws; and (ii) the shareholders to amend or repeal the Georgia Bylaws, or adopt new bylaws. Furthermore, the provisions of the Georgia Bylaws which make the "fair price requirements" and "business combinations" provisions of the GBCC applicable to AdCare Georgia may only be amended in the manner provided by the GBCC. See " Comparison of Shareholders' Rights Before and After the Reincorporation." 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.

Proposal 1, if approved, will not divest or limit the power of shareholders to amend or repeal the Georgia Bylaws, or adopt new bylaws. Under the Georgia Bylaws, shareholders will have the power to amend or repeal the Georgia Bylaws, or adopt new bylaws; however, the Board of Directors will also have such power, except in circumstances in which: (i) the Georgia Articles or the GBCC reserve such power exclusively to the shareholders in whole or in part; or (ii) if the shareholders, in amending or repealing a particular Georgia Bylaw, provide expressly that the Board of Directors may not amend or repeal such bylaw. The articles of incorporation and bylaws of many public companies authorize their board of directors to amend, repeal or adopt bylaws and do not reserve such power exclusively to the shareholders.

Giving authority to the Board of Directors to amend or repeal the Georgia Bylaws, or adopt new bylaws, would permit the Board of Directors, subject to the proper discharge of its fiduciary duties, to revise the Georgia Bylaws, as changing circumstances may necessitate, without incurring the expense and delay of holding a special meeting of shareholders and soliciting proxies and votes. The Board of Directors could exercise this authority: (i) in response to hostile takeover threats; (ii) for the purpose of updating or implementing certain corporate governance policies and procedures that require an amendment to the Georgia Bylaws; or (ii) to implement other revisions which may or may not be supported by some or all of the shareholders. With this authority, the Board of Directors could amend the Georgia Bylaws to, among other things, modify quorum requirements, alter the percentage of voting power required to call a special meeting of shareholders, proscribe procedures for the removal of directors, provide advance notice procedures for shareholders desiring to submit proposals for consideration at an annual or special meeting of shareholders, or alter the voting requirements for certain transactions.

Comparison of Shareholders' Rights Before and After the Reincorporation

Because of differences between the OGCL and the GBCC, as well as differences between the Company's governing documents before and after the Reincorporation, the Reincorporation will effect certain changes in the rights of the Company's shareholders. Summarized below are the most significant provisions of the OGCL and GBCC, along with the differences between the rights of the shareholders of the Company immediately before and immediately after the Reincorporation, that will result from the differences between the OGCL and the GBCC and differences between the existing Ohio Articles and Ohio Code of Regulations, on the one hand, and the new Georgia Articles and the Georgia Bylaws, on the other hand. The summary below is not an exhaustive list of all differences or a complete description of the differences described and is qualified in its entirety by reference to the

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OGCL, the GBCC, the existing Ohio Articles and Ohio Code of Regulations, and the new Georgia Articles and Georgia Bylaws.

Provisions Applicable to AdCare Ohio Before the Reincorporation Under the OGCL, the Ohio Articles and Ohio Code of Regulations	Provisions Applicable to the AdCare Georgia After the Reincorporation Under the GBCC, Georgia Articles and Georgia Bylaws
Number of Directors	
Under the OGCL, a corporation must have not less than three directors unless the corporation has only one or two shareholders, and the number of directors may be fixed by its articles of incorporation or code of regulations.	Under the GBCC, a corporation must have at least one director and the number of directors may be fixed by its articles of incorporation or bylaws.
Pursuant to the Ohio Code of Regulations, the Board of Directors may determine the number of directors from time to time, provided that the Board of Directors must consist of no less than three, and no more than 11, directors.	The Georgia Bylaws will provide that the Board of Directors may determine the number of directors from time to time, provided that the Board of Directors must consist of no less than three, and no more than 12, directors.
Staggered Terms of Directors	
Under the OGCL, a corporation may classify its board of directors into two or three classes of not less than three directors, each with staggered terms of office. The terms of office of the classes need not be uniform, except that no term shall exceed three years from the date of election.	Under the GBCC, the articles of incorporation or a bylaw adopted by shareholders may provide for staggering the terms of the directors into two or three classes, with each class containing one-half or one-third of the total number of directors, as near as may be. Except for the initial election of a staggered board of directors, the terms of the directors shall be two years (if there are two classes of directors) or three years (if there are three classes of directors). The GBCC does not permit unequal terms of office for the classes (after the initial election of a staggered board of directors).
The Ohio Articles provide that the Board of Directors is divided into three classes, with the members of each class serving staggered but unequal terms, with three directors serving a one-year term, three directors serving a two-year term and three directors serving a three-year term.	The Georgia Bylaws will provide that the Board of Directors is divided into three classes, with the members of each class serving staggered but equal three-year terms (after the initial election of a staggered Board of Directors).
Removal of Directors	
Under the OGCL, directors may be removed by the vote of a majority of the voting power of the corporation, provided that if a classified board of directors is implemented, removal by the shareholders may occur only for cause.	Under the GBCC, a director may be removed by the shareholders only at a meeting called for the purpose of removing such director and the meeting notice must state that the purpose, or one of the purposes, of the meeting is the removal of the director. If the directors have staggered terms, directors may be removed only for cause unless the articles of incorporation or bylaws adopted by shareholders provide otherwise.

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Provisions Applicable to AdCare Ohio Before the Reincorporation Under the OGCL, the Ohio Articles and Ohio Code of Regulations	Provisions Applicable to the AdCare Georgia After the Reincorporation Under the GBCC, Georgia Articles and Georgia Bylaws
The Ohio Code of Regulations provides that the holders of at least a majority of the voting power of the corporation may remove any director or any class of directors from office without assigning any cause, provided that no director or class of directors may be removed if there are a sufficient number of shares cast against such removal which, if cumulatively voted at an election, would be sufficient to elect at least one new director.	The Georgia Articles will provide that directors may be removed only for "cause" and only by the affirmative vote of the holders of at least a majority of all votes entitled to be cast in the election of such directors. "Cause" shall mean only: (i) conviction of a felony; (ii) declaration of unsound mind by an order of a court; (iii) gross dereliction of duty; (iv) commission of an action involving moral turpitude; or (v) commission of an action which constitutes intentional misconduct or a knowing violation of law if such action results in an improper substantial personal benefit and a material injury to the corporation. The Georgia Bylaws will provide that, in the event a director was elected by the shares of one or more classes or series of the corporation's stock that are counted together collectively, then that director may only be removed by the majority vote of such voting group.
Vacancies	
Under the OGCL, unless otherwise provided for in a corporation's articles of incorporation or code of regulations: (i) the board of directors; (ii) the shareholders; or (iii) if less than a majority of the board of directors remains in office, a vote of a majority of the remaining number, may fill any vacancy on the board of directors. Upon removal of a director, a new director may be elected by the shareholders at the same meeting for the unexpired term of the director removed. In the event the shareholders do not elect a director to fill the unexpired term, a vacancy is created, and unless the articles of incorporation or the code of regulations otherwise provide, the remaining directors may fill any such vacancy.	Under the GBCC, unless otherwise provided for in a corporation's articles of incorporation or bylaws: (i) the board of directors; (ii) the shareholders; or (iii) if less than a quorum of the board of directors remains in office, the affirmative vote of a majority of all the directors remaining in office, may fill any vacancy on the board of directors.

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Provisions Applicable to AdCare Ohio Before the Reincorporation Under the OGCL, the Ohio Articles and Ohio Code of Regulations	Provisions Applicable to the AdCare Georgia After the Reincorporation Under the GBCC, Georgia Articles and Georgia Bylaws
Under the Ohio Code of Regulations, a majority of the remaining directors may fill any vacancy on the Board of Directors for the unexpired term. Upon removal of a director, a new director may be elected by the shareholders at the same meeting for the unexpired term of the director removed.	The Georgia Bylaws will provide that any vacancy on the Board of Directors (including vacancies resulting from an increase in the number of directors) may be filled: (i) by a majority of the remaining directors; or (ii) the shareholders. In addition, the Georgia Bylaws will provide that, if a director is elected to fill a vacancy, then the director shall hold office until the next election of the class for which such director shall have been chosen, provided that any director filling a vacancy by reason of an increase in the number of directors, where such vacancy is filled by the directors, shall serve until the next annual meeting of shareholders and until the election of his successor. If the vacant office was held by a director elected by a voting group of shareholders, only the holders of shares of that voting group or the remaining directors elected by that voting may vote to fill the vacancy.
Board Action by Written Consent	
Under the OGCL, unless otherwise provided for in a corporation's articles of incorporation or code of regulations, any action authorized or taken by the board of directors may be taken without a meeting if each director consents in writing to such action to be taken and such consent is filed with the records of the corporation.	Under the GBCC, unless otherwise provided for in a corporation's articles of incorporation or bylaws, any action authorized or taken by the board of directors may be taken without a meeting if the action is taken by all members of the board and such action is filed with the records of the corporation.
Special Meetings	
Under the OGCL, special meetings of shareholders may be called by: (i) the chairperson of the board or the president (or the vice president in the case of the president's absence, death or disability); (ii) the board of directors by action at a meeting or by action of a majority of the directors without a meeting; (iii) the holders of 25% of the voting power of a corporation (unless a corporation adopts a different threshold in its articles of incorporation or code of regulations, but in no event may the threshold be higher than a majority of the voting power of the corporation); and (iv) any other officers or persons as a corporation's articles of incorporation or code of regulations specifies.	Under the GBCC, special meetings of shareholders may be called by: (i) the board of directors; (ii) by any other person authorized in the articles of incorporation or bylaws to call a special shareholder meeting; or (iii) upon the written request of shareholders holding at least 25% of the outstanding voting power of the corporation (unless a corporation adopts a different threshold in its articles of incorporation or bylaws).

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Provisions Applicable to AdCare Ohio Before the Reincorporation Under the OGCL, the Ohio Articles and Ohio Code of Regulations	Provisions Applicable to the AdCare Georgia After the Reincorporation Under the GBCC, Georgia Articles and Georgia Bylaws
The Ohio Code of Regulations provides that special meetings of shareholders may be called by: (i) the chairman or the president (or the vice president in the case of the president's absence, death or disability); (ii) by the secretary, when so requested by the Board of Directors; or (iii) upon the written request of shareholders holding at least 25% of the voting power of the corporation.	The Georgia Bylaws will provide that special meetings of shareholders may be called by: (i) the Board of Directors; (ii) the chairman of the Board of Directors; (iii) the chief executive officer; or (iv) at least 25% of the votes entitled to be cast on any issue proposed to be considered at such meeting.
Shareholder Proposals	
The Ohio Code of Regulations does not set forth procedures pursuant to which shareholders may submit business to an annual meeting or may recommend directors for nomination.	The Georgia Bylaws does not set forth procedures pursuant to which shareholders may submit business to an annual meeting or may recommend directors for nomination.
Shareholder Voting Cumulative Voting	
Under the OGCL, unless a corporation's articles of incorporation provide otherwise, a shareholder has the right of cumulative voting under certain circumstances set forth in the OGCL.	Under the GBCC, unless a corporation's articles of incorporation so provide, a shareholder has no right of cumulative voting.
The Ohio Articles provide that shareholders have no right of cumulative voting in the election of directors.	The Georgia Bylaws will provide that shareholders have no right of cumulative voting in the election of directors.
Shareholder Voting Quorum	
Under the OGCL, a majority of the voting shares present in person, by proxy or by the use of communications equipment at any meeting shall constitute a quorum unless otherwise provided for in a corporation's articles of incorporation or code of regulations.	Under the GBCC, unless a corporation's articles of incorporation or bylaws provide otherwise, a majority of the votes entitled to be cast on a matter by the voting group constitutes a quorum of that voting group for action on that matter.
The Ohio Code of Regulations provides that the presence of the holders of at least one-third of the voting power of the corporation constitutes a quorum for all shareholder meetings.	The Georgia Bylaws will provide that one-third of the votes entitled to be cast on a matter by the voting group constitutes a quorum of that voting group for action on that matter.
Shareholder Voting Action Generally	
Under the OGCL, in all matters other than the election of directors, corporate action voted on by shareholders generally is approved if the number of votes in favor exceeds the number of votes against unless the corporation's articles of incorporation requires a different proportion of votes (but in no event less than a majority).	Under the GBCC, in all matters other than the election of directors, if a quorum exists, corporate action voted on by shareholders generally is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action unless the corporation's articles of incorporation or bylaws require a greater number of affirmative votes.

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Provisions Applicable to AdCare Ohio Before the Reincorporation Under the OGCL, the Ohio Articles and Ohio Code of Regulations	Provisions Applicable to the AdCare Georgia After the Reincorporation Under the GBCC, Georgia Articles and Georgia Bylaws
The Ohio Code of Regulations provides that, unless the OGCL or the Ohio Articles provide otherwise, if a quorum exists, then corporate action voted on by shareholders generally is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action.	The Georgia Bylaws will provide that, unless the GBCC or the Georgia Articles provide otherwise, if a quorum exists, then corporate action voted on by shareholders generally is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action.
Shareholder Voting Director Elections	
Under the OGCL, unless otherwise provided in a corporation's articles of incorporation, directors are elected by a plurality of the votes cast by the shares entitled to vote in the election.	Under the GBCC, unless otherwise provided for in a corporation's articles of incorporation or unless the bylaws otherwise fix a greater voting requirement for the election of directors, which bylaws are adopted by the board of directors having shares listed on a national securities exchange (or regularly traded in a market maintained by a member of a national securities exchange), directors are elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present.
The Ohio Code of Regulations provides that directors are elected by a plurality of the votes cast by the shares entitled to vote in the election.	The Georgia Bylaws will provide that directors are elected by a plurality of the votes cast by the shares entitled to vote in the election.
Shareholder Action by Written Consent	
Under the OGCL, unless otherwise provided for in a corporation's articles of incorporation or code of regulations, any action authorized or taken by the shareholders may be taken without a meeting if all shareholders consent in writing to such action to be taken and such consent is filed with the records of the corporation.	Under the GBCC, shareholders may take action by unanimous written consent without a meeting. Additionally, if a corporation's articles of incorporation so provide, shareholder action may be taken without a meeting by persons who would be entitled to vote at a meeting having voting power to cast not less than the minimum number of votes that would be necessary to authorize or take the action at a meeting at which all shareholders entitled to vote were present and voted.
	The Georgia Bylaws will require unanimous written consent for shareholder action.

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Provisions Applicable to AdCare Ohio Before the Reincorporation Under the OGCL, the Ohio Articles and Ohio Code of Regulations	Provisions Applicable to the AdCare Georgia After the Reincorporation Under the GBCC, Georgia Articles and Georgia Bylaws
Amendment of Articles	
Under the OGCL, the articles of incorporation of a corporation may be amended by the vote of two-thirds of the voting power of the corporation unless the articles of incorporation provide for a greater or lesser proportion, but not less than a majority. In certain instances, the board of directors may amend the articles of incorporation.	Under the GBCC, a corporation may generally amend its articles of incorporation upon the approval of the shareholders by a majority of the shareholders entitled to vote on the amendment and the recommendation of the board of directors (unless the board elects to make no recommendation because of a conflict of interest or other special circumstances).
The Ohio Articles provide that a majority of the voting power of the corporation is required to amend the Ohio Articles.	
Amendment of Code of Regulations/Bylaws	
Under the OGCL, the code of regulations may be amended by the holders of a majority of the voting power of a corporation at a meeting, or by the holders of two-thirds of the voting power of the corporation by written consent, unless the articles of incorporation or regulations permit amendment by a lower proportion (but not less than a majority) or by the directors.	The GBCC permits the shareholders to amend a corporation's bylaws. The GBCC also permits the board of directors to amend the bylaws unless: (i) the articles of incorporation reserve this power exclusively to the shareholders; or (ii) the shareholders, in amending a particular bylaw, provide expressly that the board of directors may not amend or repeal such bylaw.
The Ohio Code of Regulations permits holders of a majority of the voting power of the corporation to amend the Ohio Code of Regulations at any meeting of the shareholders called for that purpose.	The Georgia Bylaws will permit, subject to the Georgia Articles and the GBCC: (i) the Board of Directors to amend or repeal the Georgia Bylaws, or adopt new bylaws; or (ii) the shareholders to amend or repeal the Georgia Bylaws, or adopt new bylaws; provided, however, that with respect to the provisions of the Georgia Bylaws in which the corporation elects to have the Georgia "fair price requirements" and "business combinations" statutes (see discussions below) apply to it, such provisions of the Georgia Bylaws may only be repealed by the affirmative vote of in accordance with the relevant provisions of the GBCC. The Georgia Articles will provide that the Board of Directors is expressly authorized to amend or repeal the Georgia Bylaws, or adopt new bylaws, except as provided in the GBCC.

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Provisions Applicable to AdCare Ohio Before the Reincorporation Under the OGCL, the Ohio Articles and Ohio Code of Regulations	Provisions Applicable to the AdCare Georgia After the Reincorporation Under the GBCC, Georgia Articles and Georgia Bylaws
Interested Party Transactions	
Under the OGCL, unless otherwise provided for in the corporation's articles of incorporation or code of regulations, a contract, action or transaction between a corporation and one or more of its directors or officers, or between the corporation and any other corporation in which one or more of its directors or officers are directors or have a financial or personal interest, will be considered valid if: (i) the material facts as to such person's relationship or interest as to the contract, action or transaction are disclosed or known to the directors or the committee and the directors or committee, in good faith reasonably justified by such facts, authorizes the contract, action or transaction by the affirmative vote of a majority of the disinterested directors (even if such disinterested directors constitute less than a quorum); (ii) the material facts as to such person's relationship or interest as to the contract, action or transaction are disclosed or known to the shareholders entitled to vote thereon and the transaction is specifically approved at a meeting of the shareholders by a majority of the voting power held by persons not interested in the contract, action or transaction; or (iii) the contract, action or transaction is fair as to the corporation as of the time it is authorized or approved by the directors, a committee of the directors, or the shareholders.	Under the GBCC: (i) if a director or a person related to such director is a party to a transaction or has a beneficial financial interest in or so closely linked to the transaction and of such financial significance to such director or such related person, whether or not brought before the board of directors of the corporation, that it would reasonably be expected to exert an influence on the director's judgment if such director were called upon to vote on the transaction; or (ii) if a transaction is brought before the board of directors of the corporation and any of the following persons is either a party to the transaction or has a beneficial interest so closely linked to the transaction and of such financial significance to such person that it would reasonably be expected to exert an influence on such director's judgment if such director were called upon to vote on the transaction: (a) an entity of which the director is a director, partner, agent or employee; (b) a person that controls one or more of such entities of which the director is a director, partner, agent or employee; or (c) an individual who is a general partner, principal or employer of the director, then such transaction shall not be enjoined so long as it was (1) approved by a majority of disinterested directors (but not less than two), (2) approved by a majority of the votes entitled to be cast by the holders of all qualified shares after appropriate disclosure to the shareholders regarding the conflicting interest transaction, or (3) fair to the corporation when judged in the circumstances at the time of commitment.

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Provisions Applicable to AdCare Ohio Before the Reincorporation Under the OGCL, the Ohio Articles and Ohio Code of Regulations	Provisions Applicable to the AdCare Georgia After the Reincorporation Under the GBCC, Georgia Articles and Georgia Bylaws
Business Combination Statutes	
Chapter 1704 of the OGCL, also known as the Merger Moratorium Statute, prohibits business combinations and certain other business transactions between a corporation and a 10% shareholder for a period of three years after the shareholder becomes a 10% shareholder unless prior to becoming a 10% shareholder: (i) the board of directors approved the acquisition that resulted in the shareholder becoming a 10% holder; or (ii) the board of directors approved the business combination or other affected transaction. After the three-year period, the transaction must be approved by two-thirds of the voting power of the corporation in the election of directors and a majority of the disinterested shares or must satisfy certain other conditions. Pursuant to the OGCL, a corporation may opt-out of coverage under the Merger Moratorium Statute.	The GBCC provides that certain business combinations with "interested shareholders" (a person who beneficially owns 10% or more of a corporation's outstanding voting shares or is an affiliate of the corporation and was the beneficial owner of 10% or more of a corporation's outstanding voting shares at any time within the prior two years) may not be effected for a period of five years after the date on which such shareholder became an interested shareholder unless: (i) a majority of the directors approve the business combination which resulted in the shareholder becoming an interested shareholder (either specifically or as a transaction that is within an approved category of transactions); (ii) in the transaction which resulted in the shareholder becoming an interested shareholder, the interested shareholder becomes the owner of 90% or more of the outstanding voting shares; or (iii) subsequent to becoming an interested shareholder, such shareholder acquired additional shares resulting in the interested shareholder being the owner of 90% or more of the outstanding voting shares. The GBCC requires an affirmative election by a corporation to have these provisions apply to it by having a specific bylaw provision. Pursuant to the GBCC, a corporation must opt-in to coverage under the business combination statute.
In the Ohio Articles, AdCare Ohio has not opted out of coverage under the Merger Moratorium Statute.	The Georgia Bylaws will have a provision in which it elects to have the corporation governed by the statute.

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Provisions Applicable to AdCare Ohio Before the Reincorporation Under the OGCL, the Ohio Articles and Ohio Code of Regulations	Provisions Applicable to the AdCare Georgia After the Reincorporation Under the GBCC, Georgia Articles and Georgia Bylaws
Other Anti-Takeover Provisions	
Chapter 1701.831 of the OGCL, also known as the Control Share Acquisition Statute, requires shareholder approval of any acquisition of shares of an Ohio public corporation that would entitle the acquiring person to exercise more than 1/5, 1/3 or 1/2 of the total voting power of the corporation in the election of directors. The required shareholder approval is a majority of the voting power of the corporation in the election of directors represented at a meeting in person or by proxy and a majority of the disinterested shares represented at the meeting in person or by proxy. Pursuant to the OGCL, a corporation may opt-out of coverage under the Control Share Acquisition Statute.	Sections 14-2-1110 through 14-2-1113 of the GBCC, also known as the Fair Price Statute, apply to any business combinations between a corporation and an interested shareholder. Under the statute, business combinations with interested shareholders must be (i) unanimously approved by the "continuing directors" who must constitute at least three members of the board of directors at the time of such approval or (ii) recommended by at least two-thirds of the continuing directors and approved by a majority of the votes entitled to be cast by shareholders, other than voting shares beneficially owned by the interested shareholder. This vote is not required if: (i) five days before the consummation of the business combination, the fair market value of the aggregate cash, securities or other consideration to be received by the shareholders is at least equal to the highest per share price paid by the interested shareholder for any shares acquired by it within the two-year period immediately prior to the announcement date or in the transaction in which it became an interested shareholder, whichever is higher; (ii) the shareholders receive cash or the same form of consideration as the interested shareholder previously paid for shares of the same class or series; (iii) after the interested shareholder has become an interested shareholder and prior to the consummation of the business combination, there are no changes with respect to dividend payments or amounts of dividends (unless approved by a majority of the continuing directors) nor increase in the interested shareholder's percentage ownership of any class or series of shares by more than 1% in any 12-month period; and (iv) the interested shareholder has not received the benefit, directly or indirectly, of any loans, advances, guarantees, pledges or other financial assistance or tax advantages provided by the corporation. Pursuant to the GBCC, a corporation must opt-in to coverage under the Fair Price Statute.
AdCare Ohio has not opted out of coverage, in either the Ohio Articles or the Ohio Code of Regulations, under the Control Share Acquisition Statute.	The Georgia Bylaws will specify that the corporation will be subject to the Fair Price Statute.

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Provisions Applicable to AdCare Ohio Before the Reincorporation Under the OGCL, the Ohio Articles and Ohio Code of Regulations	Provisions Applicable to the AdCare Georgia After the Reincorporation Under the GBCC, Georgia Articles and Georgia Bylaws
Shareholder Approval of Sale of Substantially All Assets	
The OGCL requires the approval of two-thirds of the voting power of the corporation for a sale of all or substantially all the assets of a corporation unless the articles of incorporation require a lower threshold (but not less than a majority).	The GBCC requires the approval of a majority of the voting power of the corporation for a sale of all or substantially all the assets of a corporation unless a corporation's articles of incorporation, bylaws or the board of directors require a greater vote.
The Ohio Articles require a majority of the voting power of the corporation to approve a sale of all or substantially all of the assets of the corporation.	
Personal Liability of Directors	
Under the OGCL, a director may only be held liable if the director's action or omission was undertaken with deliberate intent to cause injury to the corporation or with reckless disregard for the best interests of the corporation, unless the action or omission pertained to a transaction in which a director had a pecuniary interest or for unlawful loans, dividends or distributions. An Ohio corporation may opt out of this higher standard of culpability by adopting an appropriate provision in its articles of incorporation.	Under the GBCC, the personal liability of a director for breach of fiduciary duty as a director may be eliminated or limited and a director is not liable to the corporation or its shareholders for any action taken as a director, or any failure to take any action, if such director performed the duties of his office: (i) in a manner he believes in good faith to be in the best interests of the corporation; and (ii) with the care an ordinarily prudent person in a like position would exercise under similar circumstances. A corporation's articles of incorporation, however, may not limit or eliminate a director's personal liability: (a) for any breach of such director's duty of loyalty to the corporation or its shareholders; (b) for acts or omissions not in good faith or involving intentional misconduct; (c) for the payment of unlawful dividends, stock repurchases or redemptions; or (d) for any transaction in which the director received an improper personal benefit.
AdCare Ohio has not opted out of this higher standard.	The Georgia Articles will contain a provision limiting the liability of its directors to the fullest extent permitted by the GBCC.

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Provisions Applicable to AdCare Ohio Before the Reincorporation Under the OGCL, the Ohio Articles and Ohio Code of Regulations	Provisions Applicable to the AdCare Georgia After the Reincorporation Under the GBCC, Georgia Articles and Georgia Bylaws
Indemnification of Directors and Officers	
The OGCL provides that directors and officers may be indemnified by a corporation for expenses (including attorneys' fees) incurred by them in defending a legal action brought against them, provided that such person acted: (i) in good faith and in a manner he reasonably believed to be in the best interests of the corporation; and (ii) with respect to a criminal action, if he had no reasonable cause to believe that his or her conduct was unlawful. The OGCL also provides that a corporation must indemnify a director or officer against expenses to the extent that the director or officer is successful on the merits or otherwise in defending the action. Notwithstanding the foregoing, a corporation may not indemnify an individual: (a) on any claim, issue or matter as to which such person is adjudged to be liable for negligence or misconduct in the performance of the person's duty unless a court determines, upon application, that despite the adjudication of liability, but in view of all circumstances of the case, such person is reasonably and fairly entitled to indemnity; or (b) in any action or suit in which the only liability asserted against a director is for unlawful loans, dividends or distribution of assets.	The GBCC provides that directors and officers may be indemnified by a corporation for expenses (including attorneys' fees) incurred by them in defending a legal action brought against them, provided that such person acted: (i) in good faith and in a manner he reasonably believed to be in the best interests of the corporation (and, in those cases in which the individual was not acting in his official capacity, if such individual's conduct was not opposed to the best interests of the corporation); and (ii) with respect to a criminal action, if he had no reasonable cause to believe that his conduct was unlawful. Furthermore, the GBCC provides that a corporation must indemnify a director or officer against expenses to the extent that the director or officer is wholly successful on the merits or otherwise in defending the action. A corporation may not indemnify a director: (a) in connection with a proceeding by or in the right of the corporation, except for reasonable expenses incurred in connection with the proceeding if it is determined that such director has met the relevant standard of conduct; or (b) in connection with any proceeding with respect to conduct for which such director was adjudged liable on the basis that personal benefit was improperly received by him, whether or not involving action in his official capacity.

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Provisions Applicable to AdCare Ohio Before the Reincorporation Under the OGCL, the Ohio Articles and Ohio Code of Regulations	Provisions Applicable to the AdCare Georgia After the Reincorporation Under the GBCC, Georgia Articles and Georgia Bylaws
The Ohio Code of Regulations provides that AdCare Ohio shall indemnify any director or officer in respect of any matter as to which: (a) he was not adjudged liable for negligence nor guilty of misconduct in the performance of his duties; (b) acted in good faith in what he reasonably believed to be the best interest of the corporation; and (c) in any matter the subject of which is a criminal action, suit or proceeding, he had no reasonable cause to believe that his conduct was unlawful. Such determination in (a), (b) and (c) of the immediately preceding sentence is to be made by the Board of Directors of AdCare Ohio. In addition, the Ohio Articles provide that, in the event of a settlement, a director shall not be indemnified unless such settlement shall be found to be in the interest of the corporation by the court having jurisdiction of the action against such director or officer or of a suit involving his right to indemnification or a majority of the directors of the corporation then in office other than those involved in such matter. The Ohio Articles and Ohio Code of Regulations also provide that the indemnification provided thereby is not exclusive of any other rights to which any person seeking indemnification may be entitled.	Under the Georgia Bylaws, the corporation will indemnify an individual against liability incurred in a proceeding because such individual is a party to a proceeding due to the fact such individual is or was a director of officer of the corporation. However, a director or officer will not be indemnified for: (i) any appropriation, in violation of his duties, of any business opportunity of the corporation; (ii) acts or omissions which involve intentional misconduct or a knowing violation of law; (iii) unlawful distributions as set forth in the GBCC; or (iv) a transaction from which he received an improper personal benefit. The Georgia Bylaws also provide that a director or officer will be indemnified to the fullest extent as provided in the GBCC, and the Georgia Articles provide that a director will be indemnified to the fullest extent as provided for in the GBCC.
Advancing Defense Costs to Directors	
The OGCL requires a corporation to advance defense costs to directors unless: (i) the only allegations against the director are for loans, dividends and distributions that are contrary to law or its articles of incorporation; and (ii) its articles of incorporation or code of regulations provide, by specific reference to the OGCL, that the corporation is not required to advance defense costs.	The GBCC provides that expenses incurred by an officer or director in defending civil or criminal investigative actions, suits or proceedings may be paid by the corporation in advance of the final disposition of the action, suit or proceeding upon the receipt from such director or officer of: (i) written undertaking to repay the amount that it is ultimately determined that such officer or director is not entitled to be indemnified by the corporation; and (ii) a written affirmation of his good faith belief that he has met the relevant standard of conduct or that the proceeding involves conduct for which liability has been eliminated by the corporation's articles of incorporation.

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Provisions Applicable to AdCare Ohio Before the Reincorporation Under the OGCL, the Ohio Articles and Ohio Code of Regulations	Provisions Applicable to the AdCare Georgia After the Reincorporation Under the GBCC, Georgia Articles and Georgia Bylaws
Neither the Ohio Articles nor the Ohio Code of Regulations provides that the corporation is not required to advance defense costs to directors and officers.	The Georgia Bylaws will provide for mandatory advancement of expenses provided that a director or officer provides: (i) a written affirmation of his good faith belief that his conduct does not constitute the kind of behavior with respect to which the Georgia Bylaws will not provide indemnification; and (ii) his written undertaking to repay any funds advanced if it is ultimately determined that he is not entitled to indemnification under the Georgia Bylaws or the GBCC.
Authorized Capital Stock	
The Ohio Articles authorize 29,000,000 shares of common stock, no par value per share, and 1,000,000 shares of preferred stock, no par value per share.	The Georgia Articles will authorize 55,000,000 shares of common stock, no par value per share, and 5,000,000 shares of preferred stock, no par value per share.
Preemptive Rights	
Under the OGCL, unless as provided in a corporation's articles of incorporation, shareholders do not have preemptive rights in the issuance of additional securities.	Under the GBCC, unless as provided in a corporation's articles of incorporation, shareholders do not have preemptive rights in the issuance of additional securities.
The Ohio Code of Regulations does not provide for preemptive rights.	The Georgia Articles will not provide for preemptive rights.
Revocation of Proxies	
Under the OGCL, a proxy is revocable unless the appointment is coupled with an interest, except that proxies given in connection with the shareholder authorization of a control share acquisition are revocable at all times prior to obtaining shareholder authorization, whether or not coupled with an interest.	Under the GBCC, a proxy is revocable unless the proxy states it is irrevocable and is coupled with an interest, and a proxy is valid for 11 months after receipt of the appointment form unless the appointment form expressly provides for a longer period.

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Provisions Applicable to AdCare Ohio Before the Reincorporation Under the OGCL, the Ohio Articles and Ohio Code of Regulations	Provisions Applicable to the AdCare Georgia After the Reincorporation Under the GBCC, Georgia Articles and Georgia Bylaws
Dividends	
Under the OGCL, the directors of an Ohio corporation may declare and pay dividends on outstanding shares of the corporation in an amount that does not exceed the surplus of the corporation (the excess of its assets over the sum of its liabilities and stated capital). An Ohio corporation may not pay any dividend to the holders of shares of any class in violation of the rights of the holders of shares of any other class or when a corporation is insolvent or there is reasonable ground to believe that by such payment it would be rendered insolvent. An Ohio corporation must notify its shareholders if a dividend is paid out of surplus.	Under the GBCC, subject to restrictions in a corporation's articles of incorporation, the directors of a Georgia corporation may declare and pay dividends on outstanding shares of the corporation unless, after making such distribution: (i) the corporation would not be able to pay its debts as they become due in the normal course of business; or (ii) the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed to satisfy the preferential rights upon dissolution of the shareholders whose preferential rights are superior to those receiving the distribution.
Dissenters' Rights	
The OGCL does not provide for dissenters' rights if a corporation's shares are listed on a national securities exchange and the consideration to be received by the shareholders consists of shares or shares and cash, in lieu of fractional shares, that, immediately following the effective time of the transaction, are listed on a national securities exchange and for which no proceedings are pending to delist the shares from such exchange.	The GBCC does not provide for dissenters' rights if a corporation's shares are listed on a national securities exchange unless: (i) the articles of incorporation provide otherwise; or (ii) in a plan or merger, the shareholders are required to accept anything other than shares of the surviving corporation which is listed on a national securities exchange or held of record by more than 2,000 shareholders.

Description of Capital Stock Upon the Effectiveness of the Reincorporation

If Proposal 1 is approved and the Reincorporation becomes effective, then the Company will be incorporated and governed by the GBCC, the Georgia Articles and the Georgia Bylaws. The following is a description of the capital stock of AdCare Georgia upon the effectiveness of the Reincorporation. This description is not intended to be complete and is qualified in its entirety by reference to the GBCC and the full texts of the Georgia Articles and the Georgia Bylaws, copies of which are attached as **Exhibits A** and **B**, respectively, to the Declaration of Conversion, which is attached as **Appendix A** to this proxy statement.

General

Upon the effectiveness of the Reincorporation: (i) the authorized shares of common stock, no par value, will increase from 29,000,000 shares to 55,000,000 shares; and (ii) the authorized shares of preferred stock, no par value, will increase from 1,000,000 shares to 5,000,000 shares.

Upon effectiveness of the Reincorporation, each outstanding share of AdCare Ohio common stock and AdCare Ohio Series A Preferred Stock will continue to be an outstanding share of AdCare Georgia common stock and AdCare Georgia Series A Preferred Stock, respectively. All outstanding shares of AdCare Ohio common stock and AdCare Ohio Series A Preferred Stock are, and all outstanding shares of AdCare Georgia common stock and AdCare Georgia Series A Preferred Stock will be upon effectiveness of the Reincorporation, fully paid and non-assessable.

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Common Stock

Voting Rights. Each holder of AdCare Georgia common stock will continue to be entitled to one vote for each share of common stock held of record on the applicable record date on all matters submitted to a vote of shareholders. Except for the election of directors, which will continue to be determined by a plurality vote of the votes cast by the shares entitled to vote in the election, or as otherwise may be provided by applicable law or the rules of the NYSE MKT, a corporate action voted on by shareholders generally is approved, provided a quorum is present, if the votes cast within the voting group favoring the action exceed the votes cast opposing the action. Holders of AdCare Georgia common stock will continue not to be entitled to cumulate their votes in the election of directors.

Dividend Rights. Holders of AdCare Georgia common stock will continue to be entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board of Directors out of funds legally available for that purpose, subject to any preferential dividend rights or other preferences granted to the holders of any of the outstanding shares of AdCare Georgia preferred stock.

Rights Upon Liquidation. In the event of any liquidation, dissolution or winding up of AdCare Georgia, whether voluntary or involuntary, the holders of AdCare Georgia common stock will continue to be entitled to share ratably in all remaining assets available for distribution to shareholders after payment of, or provision for, AdCare Georgia's liabilities, subject to prior distribution rights of shares of AdCare Georgia preferred stock, if any, then outstanding.

Preemptive Rights. Holders of AdCare Georgia common stock will continue not to have any preemptive rights to purchase, subscribe for or otherwise acquire any unissued or treasury shares or other securities of the Company.

Series A Preferred Stock

Each share of AdCare Ohio Series A Preferred Stock outstanding at the effective time of the Reincorporation shall be converted into a share of AdCare Georgia Series A Preferred Stock. The shares of AdCare Georgia Series A Preferred Stock shall have the express terms set forth in the Georgia Articles, which terms are identical in all material respects to the express terms of the AdCare Ohio Series A Preferred Stock set forth in the Ohio Articles.

Dividends. Holders of AdCare Georgia Series A Preferred Stock will be entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative cash dividends at the rate of 10.875% per annum of the $25.00 per share liquidation preference, equivalent to $2.7187 per annum per share. Dividends on the AdCare Georgia Series A Preferred Stock will accrue daily and will be cumulative from, but excluding, the date of original issuance and are payable quarterly in arrears on or about the last calendar day of each March, June, September and December.

Under certain conditions relating to AdCare Georgia's non-payment of dividends on the AdCare Georgia Series A Preferred Stock, or if the AdCare Georgia Series A Preferred Stock is no longer listed on the New York Stock Exchange, the NYSE MKT or The NASDAQ Global, Global Select or Capital Market or any comparable national securities exchange or securities market (each, a "national exchange") for at least 180 consecutive days, the dividend rate on the AdCare Georgia Series A Preferred Stock will increase to 12.875% per annum (the "Penalty Rate").

Penalties as a Result of Failure to Pay Dividends. If, at any time, there is a dividend default because cash dividends on the outstanding AdCare Georgia Series A Preferred Stock are accrued but not paid in full for any four consecutive or non-consecutive quarterly periods (a "Dividend Default"), then, until AdCare Georgia has paid all accumulated and unpaid dividends on the shares of the AdCare Georgia Series A Preferred Stock in full: (i) the annual dividend rate on the AdCare Georgia

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Series A Preferred Stock will be increased to the Penalty Rate commencing on the first day after the missed fourth quarterly payment; and (ii) the holders of the AdCare Georgia Series A Preferred Stock will have the voting rights described under " Voting Rights." Once AdCare Georgia has paid all accumulated and unpaid dividends in full and has paid cash dividends at the Penalty Rate in full for an additional two consecutive quarters the dividend rate will be restored to the stated rate and the foregoing provisions will not be applicable unless it again fails to pay a quarterly dividend during any future quarter.

Penalties as a Result of Failure to Maintain a Listing on a National Exchange. If AdCare Georgia fails for 180 or more consecutive days to maintain a listing of the AdCare Georgia Series A Preferred Stock on a national exchange (a "Delisting Event"), then: (i) the annual dividend rate on the AdCare Georgia Series A Preferred Stock will be increased to the Penalty Rate on the 181st day; and (ii) the holders of the AdCare Georgia Series A Preferred Stock will have the voting rights described under " Voting Rights." Such increased dividend rate and voting rights will continue for so long the AdCare Georgia Series A Preferred Stock is not listed on a national exchange.

Special Redemption Upon Change of Control. Following a "Change of Control" of AdCare Georgia by a person or entity, AdCare Georgia (or the acquiring entity) will be required to redeem the AdCare Georgia Series A Preferred Stock, in whole but not in part, within 120 days after the date on which the Change of Control has occurred for cash, at the price of $25.00 per share, plus all accrued and unpaid dividends (whether or not earned or declared) to the redemption date.

A "Change of Control" will be deemed to occur when the following have occurred and are continuing:

- the acquisition by any person, including any syndicate or group deemed to be a "person" under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of AdCare Georgia's stock entitling that person to exercise more than 50% of the total voting power of all AdCare Georgia's stock entitled to vote generally in the election of directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and

- following the closing of any acquisition described in the bullet point above, neither AdCare Georgia nor the acquiring or surviving entity has a class of common securities (or American depositary receipts representing such securities) listed on a national exchange.

Optional Redemption. AdCare Georgia may not redeem the AdCare Georgia Series A Preferred Stock prior to December 1, 2017, except AdCare Georgia will be required to redeem the AdCare Georgia Series A Preferred Stock following a Change of Control. On and after December 1, 2017, AdCare Georgia may redeem the AdCare Georgia Series A Preferred Stock for cash at its option, from time to time, in whole or in part, at a redemption price of $25.00 per share, plus all accrued and unpaid dividends (whether or not earned or declared) to the redemption date.

Ranking. The AdCare Georgia Series A Preferred Stock will rank: (i) senior to AdCare Georgia common stock and any other shares of stock that AdCare Georgia may issue in the future, the terms of which specifically provide that such stock ranks junior to the AdCare Georgia Series A Preferred Stock, in each case with respect to payment of dividends and amounts upon liquidation, dissolution or winding up ("junior shares"); (ii) equal to any shares of stock that AdCare Georgia may issue in the future, the terms of which specifically provide that such stock ranks on parity with the AdCare Georgia Series A Preferred Stock, in each case with respect to payment of dividends and amounts upon liquidation, dissolution or winding up ("parity shares"); (iii) junior to all other shares of stock issued by AdCare

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Georgia, the terms of which specifically provide that such stock ranks senior to the AdCare Georgia Series A Preferred Stock, in each case with respect to payment of dividends and amounts upon liquidation, dissolution or winding up (any such issuance would require the affirmative vote of the holders of at least two-thirds of the outstanding shares of AdCare Georgia Series A Preferred Stock) ("senior shares"); and (iv) junior to all AdCare Georgia's existing and future indebtedness.

Liquidation Preference. If AdCare Georgia liquidates, dissolves or winds up its operations, then the holders of the AdCare Georgia Series A Preferred Stock will have the right to receive $25.00 per share, plus all accrued and unpaid dividends (whether or not earned or declared) to, but excluding, the date of payment, before any payments are made to the holders of AdCare Georgia common stock and any other junior shares, if any. The rights of the holders of the AdCare Georgia Series A Preferred Stock to receive the liquidation preference will be subject to the proportionate rights of holders of each other future series or class of parity shares and subordinate to the rights of senior shares.

Voting Rights. Holders of AdCare Georgia Series A Preferred Stock generally will not have any voting rights, except as otherwise required by law. However, if a Dividend Default or Delisting Event occurs, then the holders of the AdCare Georgia Series A Preferred Stock (voting together as a class with the holders of all other classes or series of stock AdCare Georgia may issue upon which similar voting rights have been conferred and are exercisable and which are entitled to vote as a class with the AdCare Georgia Series A Preferred Stock in the election referred to below) will be entitled to vote for the election of two additional directors to serve on the Board of Directors until a "Correction Event," as described in the Georgia Articles, occurs. In addition, the affirmative vote of the holders of at least two-thirds of the outstanding shares of AdCare Georgia Series A Preferred Stock will be required for AdCare Georgia to authorize or issue any class or series of senior shares, to amend any provisions of the Georgia Articles so as to materially and adversely affect any rights of the AdCare Georgia Series A Preferred Stock or to take certain other actions.

No Maturity. The AdCare Georgia Series A Preferred Stock will not have any stated maturity and will not be subject to any sinking fund or mandatory redemption, except following a Change of Control. Accordingly, absent a Change of Control, the shares of AdCare Georgia Series A Preferred Stock will remain outstanding indefinitely unless AdCare Georgia decides to redeem them.

No Conversion. The AdCare Georgia Series A Preferred Stock is not, pursuant to its terms, convertible into or exchangeable for any other securities or property.

Other Series of AdCare Georgia Preferred Stock

Pursuant to the Georgia Articles, the Board of Directors will continue to have the authority, without further action by shareholders, to issue one or more additional series of preferred stock. The Board of Directors may determine the preferences, limitations and relative rights of: (i) any class of shares before the issuance of any shares of that class; or (ii) one or more series within a class, and designate the number of shares within that series, before the issuance of any shares of that series. In addition, after the Board of Directors has established a series in accordance with the terms of the GBCC, the Board of Directors may increase or decrease the number of shares contained in the series, but not below the number of shares then issued, or eliminate the series where no shares have been issued. The issuance of AdCare Georgia preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of delaying, deferring or preventing a change in control without further action by shareholders and may adversely affect the market price of, and the voting and other rights of the holders of, the AdCare Georgia common stock. These effects might include, among other things, restricting dividends on the AdCare Georgia common stock, diluting the voting power of the AdCare Georgia common stock or impairing the liquidation rights of the AdCare Georgia common stock.

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Limitation of Director Liability and Indemnification

The Georgia Bylaws provide that, to the fullest extent permitted by the GBCC, AdCare Georgia shall indemnify an individual who is a party to a proceeding because he or she is or was a director or officer of AdCare Georgia, provided that this limitation of liability does not apply to any liability:

- for any transaction in which the individual appropriated a business opportunity of AdCare Georgia;
- for any acts or omissions which involve intentional misconduct or a knowing violation of law;
- under Section 14-2-832 of the GBCC (governing unlawful distributions to shareholders); or
- for any transaction from which the individual derived an improper personal benefit.

Furthermore, the GBCC currently provides that AdCare Georgia may not indemnify a director:

- in connection with a proceeding by or in the right of the corporation, except for reasonable expenses incurred in connection with the proceeding if it is determined that the director has met certain standards of conduct under the GBCC; or
- for any transaction from which the director derived an improper personal benefit.

However, in the event the GBCC is amended to authorize corporate action to provide directors greater rights to indemnification, then such rights will be expanded to the fullest extent permitted by the GBCC, as so amended. The Georgia Bylaws further provide that AdCare Georgia will indemnify each of its directors or officers to the fullest extent authorized by the GBCC and may indemnify other persons as authorized by the GBCC.

Dissenters' or Appraisal Rights

The shareholders will not be entitled to dissenters' rights or appraisal rights in connection with the Reincorporation.

Accounting Treatment of the Reincorporation

The Reincorporation has no effect from an accounting perspective because there is no change in the entity as a result of the Reincorporation. Accordingly, the historical consolidated financial statements of AdCare Ohio previously reported to the SEC as of and for all periods through the date of this proxy statement remain the consolidated financial statements of AdCare Georgia.

Material United States Federal Income Tax Consequences of the Reincorporation

The following is a discussion of the material United States federal income tax consequences of the Reincorporation that are generally applicable to holders of shares of the Company's common stock and Series A Preferred Stock. The discussion does not address all federal income tax consequences that may be important to particular holders of shares of the Company's common stock and Series A Preferred Stock in light of their individual circumstances or who are subject to special treatment under federal income tax laws (such as shareholders who are dealers in securities, banks, insurance companies, regulated investment companies, tax-exempt entities, foreign persons and shareholders that acquired their shares in connection with a stock option plan or other compensatory transaction). This discussion is based on the provisions of United States federal income tax law as of the date hereof, which are subject to change, potentially with retroactive effect, and does not address any foreign, state or local tax consequences of the Reincorporation.

The Company intends that the Reorganization of the Company from Ohio to Georgia will qualify as a tax-free "reorganization" described in Section 368(a)(1)(F) of the Internal Revenue Code.

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Assuming that the Reincorporation will qualify as a reorganization, then, provided that the shares of AdCare Ohio common stock or Series A Preferred Stock are held as capital assets on the date of the Reincorporation: (i) no gain or loss will be recognized by the Company as a result of the Reincorporation; (ii) no gain or loss will be recognized by the holders of shares of AdCare Ohio common stock or Series A Preferred Stock as a result of the Reincorporation; (iii) the aggregate tax basis of AdCare Georgia common stock or Series A Preferred Stock received by a shareholder of the Company will be the same as the shareholder's basis of the shares of AdCare Ohio common stock or Series A Preferred Stock converted therefor; and (iv) a shareholder's holding period for the shares of AdCare Georgia common stock or Series A Preferred Stock received by a shareholder of the Company will include the holding period of the shares of AdCare Ohio common stock or Series A Preferred Stock converted therefor.

The Company has not requested a ruling from the Internal Revenue Service or an opinion of counsel with respect to the federal income tax consequences of the Reincorporation. The Company's view regarding the federal income tax consequences of the Reincorporation is not binding on the Internal Revenue Service or the courts. Accordingly, shareholders should consult their own tax advisors with respect to all of the potential tax consequences of the Reincorporation.

Required Vote and the Board of Directors' Recommendation

Approval of the Reincorporation requires that the holders of at least a majority of the shares of common stock outstanding as of the record date vote "**FOR**" Proposal 1. Any shares of common stock that are not voted (wherein by abstention or otherwise) will have the effect of a vote *against* Proposal 1. Unless otherwise instructed, the proxy holders will vote the proxies held by them "**FOR**" the Reincorporation.

The Board of Directors recommends a vote "FOR" the Reincorporation of the Company from the State of Ohio to the State of Georgia.

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PROPOSAL 2:
ELECTION OF TEN DIRECTORS PURSUANT TO GEORGIA LAW AND GEORGIA GOVERNING DOCUMENTS IF PROPOSAL 1 *IS* APPROVED

(Proposal 2 Will Not be Considered if Shareholders Do Not Approve Proposal 1)

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. The Georgia Bylaws provide that the number of directors shall be no less than three and no greater than 12 as may be determined by resolution of the Board of Directors from time to time. The Board of Directors has fixed the number of directors at ten. The Georgia Articles provide that the Board of Directors shall be divided into three classes designated as Class I, Class II and Class III, each of which shall be as nearly equal in number of directors as possible. The initial terms of the Class I directors, Class II directors and Class III directors will be one year, two years and three years, respectively. After the expiration of these initial terms, successors to the directors in each of Class I, Class II and Class III will have a three-year term, with one class of directors being elected each year.

Accordingly, if Proposal 1 is approved and the Reincorporation becomes effective, then we will elect ten directors at the Annual Meeting, with four directors to serve as Class I directors, three directors to serve as Class II directors and three directors to serve as Class III directors. If Proposal 1 is approved and the Reincorporation becomes effective, then the nominees for the election of directors at the Annual Meeting are as follows:

Name	Class I (standing for election for an initial one-year term expiring at the 2014 Annual Meeting of Shareholders)	Class II (standing for election for an initial two-year term expiring at the 2015 Annual Meeting of Shareholders)	Class III (standing for election for an initial three-year term expiring at the 2016 Annual Meeting of Shareholders)
Christopher F. Brogdon			X
Michael J. Fox	X		
Boyd P. Gentry	X		
Peter J. Hackett			X
Jeffrey L. Levine		X	
Joshua J. McClellan	X		
Philip S. Radcliffe		X	
Laurence E. Sturtz			X
David A. Tenwick		X	
Gary L. Wade	X		

For additional information about the director nominees and their qualifications, see "Board Matters and Corporate Governance Members of the Board of Directors." Each director will be elected by a plurality of the votes cast and, if elected pursuant to Proposal 2, will be elected to serve a one-, two- or three-year term commencing at the Annual Meeting as described above. Any shares that are not voted (whether by abstention or otherwise) will have no impact on the outcome of the vote. Unless otherwise instructed, the proxy holders will vote the proxies held by them "**FOR**" the election to the Board of Directors of each of the nominees named above.

The Board of Directors recommends a vote "FOR" the election to the Board of Directors of each of the nominees named above.

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PROPOSAL 3:
ELECTION OF TEN DIRECTORS PURSUANT TO OHIO LAW AND OHIO GOVERNING DOCUMENTS IF PROPOSAL 1 IS *NOT* APPROVED

(Proposal 3 Will Not be Considered if Shareholders Approve Proposal 1)

If Proposal 1 is not approved, then we will remain incorporated in the State of Ohio and will continue to be governed by the OGCL, the Ohio Articles and the Ohio Code of Regulations. The Ohio Code of Regulations provides that the number of directors may be determined from time to time by the Board of Directors at not less than three and not more than 11. The Board of Directors has set the number of directors at ten. The Ohio Articles provide that the terms of the directors shall be staggered but unequal, with three directors serving a one-year term, three directors serving a two-year term and three directors serving a three-year term.

Accordingly, if Proposal 1 is not approved, then we will elect ten directors at the Annual Meeting to serve staggered but unequal terms, with: (i) three directors to serve a three-year term or until the 2016 Annual Meeting of Shareholders (the "Three-Year Class"); (ii) three directors to serve a two-year term or until the 2015 Annual Meeting of Shareholders (the "Two-Year Class"); and (iii) four directors to serve a one-year term or until the 2014 Annual Meeting of Shareholders (the "One-Year Class"). Successors to the directors in the Three-Year Class, Two-Year Class and One-Year Class will hold office for terms of three years, two years and one year, respectively. If Proposal 1 is not approved, then the nominees for the election of directors at the Annual Meeting are as follows:

Name	One-Year Class (standing for election for a one-year term expiring at the 2014 Annual Meeting of Shareholders)	Two-Year Class (standing for election for a two-year term expiring at the 2015 Annual Meeting of Shareholders)	Three-Year Class (standing for election for a three-year term expiring at the 2016 Annual Meeting of Shareholders)
Christopher F. Brogdon			X
Michael J. Fox	X		
Boyd P. Gentry	X		
Peter J. Hackett			X
Jeffrey L. Levine		X	
Joshua J. McClellan	X		
Philip S. Radcliffe		X	
Laurence E. Sturtz			X
David A. Tenwick		X	
Gary L. Wade	X		

For additional information about the director nominees and their qualifications, see "Board Matters and Corporate Governance Members of the Board of Directors." Each director will be elected by a plurality of the votes cast and, if elected pursuant to Proposal 3, will be elected to serve a one-, two- or three-year term commencing at the Annual Meeting as described above. Any shares that are not voted (whether by abstention or otherwise) will have no impact on the outcome of the vote. Unless otherwise instructed, the proxy holders will vote the proxies held by them "**FOR**" the election to the Board of Directors of each of the nominees named above.

The Board of Directors recommends a vote "FOR" the election to the Board of Directors of each of the nominees named above.

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PROPOSAL 4:
ADVISORY VOTE ON EXECUTIVE COMPENSATION

Pursuant to Section 14A of the Exchange Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), we are providing to shareholders an opportunity to cast a non-binding, advisory vote on the compensation of our named executive officers as disclosed in this proxy statement in accordance with the SEC's compensation disclosure rules. This is commonly known as a "say-on-pay" vote.

Our executive compensation programs are designed to: (i) motivate, retain and recruit the executive talent needed to drive shareholder value and help us grow our business; (ii) reward the achievement of short-term and long-term performance goals; (iii) establish an appropriate relationship between executive pay and short-term and long-term performance; (iv) balance salary and incentive compensation to encourage performance; and (v) align the interests of our named executive officers with those of our shareholders. See "Executive Compensation" for additional details about our executive compensation programs, including information about the 2012 compensation of our named executive officers.

We are asking shareholders to indicate their support for the compensation of our named executive officers as disclosed in this proxy statement. This say-on-pay vote gives shareholders the opportunity to express their views on our executive compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the compensation policies and practices described in this proxy statement. Accordingly, we will ask shareholders to vote "**FOR**" the following resolution at the Annual Meeting:

> "RESOLVED, that the shareholders of AdCare Health Systems, Inc. approve, on an advisory basis, the compensation of the Company's named executive officers as disclosed in the "Executive Compensation" section of this proxy statement pursuant to the SEC's compensation disclosure rules, which disclosure includes the compensation tables and narrative discussion."

The say-on-pay vote is advisory and, therefore, not binding on the Company, the Board of Directors or the Compensation Committee. The Board of Directors and the Compensation Committee value the opinions of our shareholders. To the extent there is a significant vote against the compensation of our named executive officers as disclosed in this proxy statement, we will consider our shareholders' concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

Approval, on an advisory basis, of the compensation of our named executed officers as disclosed above requires that the votes cast in favor of Proposal 4 exceed the votes cast against Proposal 4. Unless otherwise instructed, the proxy holders will vote proxies held by them "**FOR**" the approval of the compensation of our named executive officers as described above.

The Board of Directors recommends a vote "FOR" the approval of our executive compensation as described above.

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PROPOSAL 5:
ADVISORY VOTE ON THE FREQUENCY OF SAY-ON-PAY

Pursuant to Section 14A of the Exchange Act and the Dodd-Frank Act, we also are providing the shareholders an opportunity to cast a separate non-binding, advisory vote indicating how frequently we should seek a say-on-pay vote on executive compensation. The vote provides shareholders with four voting choices regarding the frequency of a say-on-pay vote: (i) one year; (ii) two years; (iii) three years; or (iv) abstain. Shareholders will not be voting to approve or disapprove the recommendations of the Board of Directors.

After careful consideration, the Board of Directors has determined that an advisory vote on executive compensation that occurs every three years is the most appropriate alternative for the Company and, therefore, recommends that you vote in favor of a three-year interval for the advisory vote on executive compensation.

In formulating its recommendation, the Board of Directors considered the importance of receiving regular input from shareholders on important issues, such as our compensation policies, practices and procedures. The Board of Directors recognizes, however, that well-structured executive compensation programs should include plans designed to drive the creation of shareholder value over the long term and do not simply focus on short-term gains. Accordingly, the Board of Directors believes a triennial vote would be the most appropriate option for the Company because it would provide the Company with time to assess the effectiveness of our executive compensation programs over the long term and to thoughtfully respond to shareholder concerns and evaluate whether any actions are necessary to address those concerns.

The vote on the preferred frequency of the say-on-pay vote is advisory and, therefore, not binding on the Company, the Board of Directors or the Compensation Committee. Although the vote is non-binding, the Board of Directors and the Compensation Committee will consider the results of the vote, as well as other communications from shareholders, in determining the frequency of future say-on-pay votes. The Board of Directors may decide that it is in the best interests of our shareholders and the Company to hold an advisory vote on executive compensation more or less frequently than the non-binding option recommended by our shareholders.

Unless otherwise instructed, the proxy holders will vote proxies held by them in favor of a "**THREE YEAR**" frequency on the say-on-pay vote as described above.

The Board of Directors recommends a vote for the option of once every "THREE YEARS" as the preferred frequency of say-on-pay.

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PROPOSAL 6:
RATIFICATION OF THE APPOINTMENT OF KPMG LLP
AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has authority to retain and terminate the Company's independent registered public accounting firm. The Audit Committee has appointed KPMG as the independent registered public accounting firm to audit the consolidated financial statements of the Company and its subsidiaries for the year ending December 31, 2013. Although shareholder ratification of the appointment of KPMG is not required, the Board of Directors believes that submitting the appointment to the shareholders for ratification is a matter of good corporate governance. If the shareholders should not ratify the appointment of KPMG, then the Audit Committee will reconsider the appointment. For a description of the fees paid to KPMG, see "Audit Committee Matters Fees and Services of Independent Registered Accounting Firms."

One or more representatives of KPMG are expected to be present at the Annual Meeting. The representatives will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate shareholder questions.

Ratification of the appointment of KPMG as our independent registered public accounting firm for the year ending December 31, 2013, requires that the votes cast in favor of Proposal 6 exceed the votes cast against Proposal 6. Any shares that are not voted (whether by abstention or otherwise) will have no impact on the outcome of the vote. Unless otherwise instructed, the proxy holders will vote the proxies held by them "**FOR"** the ratification of the appointment of KPMG.

The Board of Directors recommends a vote "FOR" the ratification of KPMG as our independent registered public accounting firm for the year ending December 31, 2013.

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PROPOSAL 7:
ADJOURNMENT OF THE ANNUAL MEETING IN ORDER TO SOLICIT ADDITIONAL PROXIES IN FAVOR OF PROPOSAL 1

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 permit the solicitation of additional proxies in favor of Proposal 1. Under Ohio law, the holders of a majority of voting shares present in person or represented by valid proxy at a meeting (whether or not a quorum is present) may adjourn such meeting. Furthermore, upon an adjournment, no notice of an adjournment need be given to you if the time and place and means by which shareholders can be present and vote at the adjourned meeting are fixed and announced at the Annual Meeting, and no new record date is fixed for the adjourned meeting unless the directors decide to fix a new record date.

In order to permit proxies that have been received by us at the time of the Annual Meeting to be voted for an adjournment of the Annual Meeting to solicit additional votes in favor of Proposal 1, if necessary, we are submitting Proposal 7 to you as a separate matter for your consideration.

In Proposal 7, we are asking you to authorize the proxy holders to vote in favor of adjourning the Annual Meeting, and any later adjournments, in order to solicit additional proxies in favor of Proposal 1, if necessary. If Proposal 7 is approved, then we could adjourn the Annual Meeting, and any adjourned session of the Annual Meeting, to use the additional time to solicit additional proxies in favor of Proposal 1, including the solicitation of proxies from the shareholders that have previously voted against Proposal 1. As a result, even if proxies representing a sufficient number of votes against Proposal 1 have been received, we could adjourn the Annual Meeting without a vote on Proposal 1 and seek to convince the holders of those shares of common stock to change their votes to vote in favor of Proposal 1.

The Board of Directors believes that if the number of shares of common stock present in person or represented by proxy at the Annual Meeting and voting in favor of Proposal 1 is not sufficient to approve Proposal 1, then it is in the best interests of the shareholders to enable the Board of Directors, for a limited period of time, to continue to seek to obtain a sufficient number of additional votes to approve Proposal 1.

Authorization of the proxy holders to vote in favor of adjourning the Annual Meeting to solicit additional proxies in favor of Proposal 1, if necessary, requires that the votes cast in favor of Proposal 7 exceed the votes cast against Proposal 7. Any shares that are not voted (whether by abstention or otherwise) will have no impact on the outcome of the vote. Unless otherwise instructed, the proxy holders will vote the proxies held by them "**FOR**" the approval of the adjournment of the Annual Meeting in order to solicit additional proxies in favor of Proposal 1, if necessary.

The Board of Directors recommends a vote "FOR" the adjournment of the Annual Meeting in order to solicit additional proxies in favor of Proposal 1, if necessary.

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BOARD MATTERS AND CORPORATE GOVERNANCE

Members of the Board of Directors

The Board of Directors currently consists of ten directors. Set forth below is, as of October 18, 2013, certain biographical information for each of our directors, as well as a description of the experiences, qualifications, attributes or skills that caused the Nominating and Corporate Governance Committee and the Board of Directors to determine that each individual should serve as one of our directors.

David A. Tenwick. Mr. Tenwick, age 75, is our founder and has served as our Chairman and as a director since our organization was founded in August 1991. Prior to founding our Company, Mr. Tenwick was an independent business consultant from 1982 to 1990. In this capacity, he has served as a director and an officer of several businesses, including Douglass Financial Corporation, a surety company; AmeriCare Health & Retirement, Inc., a long-term care management company; and Circle K Corporation, a convenience store chain. From 1967 until 1982, Mr. Tenwick was a director and an officer of Nucorp Energy, Inc., a company which he co-founded. Nucorp Energy was a public company that invested in oil and gas properties and commercial and residential real estate. Prior to founding Nucorp Energy, Mr. Tenwick was an enforcement attorney for the SEC. Mr. Tenwick is a member of the Ohio State Bar Association and was a founding member of the Ohio Assisted Living Association, an association that promotes high quality assisted living throughout the State of Ohio. Mr. Tenwick earned his Bachelor of Business Administration (B.A.) and Juris Doctor (J.D.) degrees from the University of Cincinnati in 1960 and 1962, respectively. Mr. Tenwick's tenure with the Company and legal and business background provide experience that the Nominating and Corporate Governance Committee and the Board of Directors consider valuable.

Christopher Brogdon. Mr. Brogdon, age 64, has served as a director since September 2009. Mr. Brogdon currently serves as the Company's Vice-Chairman and a consultant to the Company. Previously, Mr. Brogdon served as the Company's Chief Acquisition Officer from September 2009 through December 2012. Mr. Brogdon has been primarily responsible for directing the Company's acquisition strategy. Mr. Brogdon brings to AdCare more than 20 years of experience in the nursing home, assisted living and retirement community. Since 1998, Mr. Brogdon has owned and operated Brogdon Family LLC which owns and operates nursing homes, assisted living facilities and restaurants. Mr. Brogdon previously served as Chairman of the Board of NYSE-listed Retirement Care Associates and Chairman of the Board of NASDQ-listed Contour Medical. Mr. Brogdon's extensive background with public companies and his experience in nursing home development, acquisitions and mergers as well as his experience in financing those activities provides experience that the Nominating and Corporate Governance Committee and the Board of Directors consider valuable.

Michael J. Fox. Mr. Fox, age 36, has served as a director since October 2013. Mr. Fox is the Chief Executive Officer of Park City Capital, LLC ("Park City"), an equity hedge fund he founded in June 2008. From 2000 to 2008, Mr. Fox worked at J.P. Morgan Securities, where he finally served as a Senior Analyst and Vice President. In this position, Mr. Fox served as the head of JPMorgan's Business Services Equity Research Group that covered 16 companies, including commercial real estate services, construction services, uniform rental services and staffing services. Mr. Fox received his Bachelor of Business Administration (B.B.A.) degree from Texas Christian University. Mr. Fox's expertise and background in the financial and equity markets and his involvement in researching the commercial real estate industry provide experience that the Board of Directors considers valuable.

Boyd P. Gentry. Mr. Gentry, age 54, has served as a director since December 2009 and became Co-Chief Executive Officer of the Company in January 2011 and President and Chief Executive Officer in June 2011. Mr. Gentry was employed by Mariner Health Care, Inc., a former NYSE publicly held long-term health care provider, from 1995 to 2007, and promoted to Chief Financial Officer subsequent

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to its 2004 going private transaction sponsored by National Senior Care. He transitioned to an ongoing consulting role for Mariner in September 2007 when he was recruited to Millennium Pharmacy Systems, Inc. to serve as Chief Financial Officer. He remained with Millennium until 2009 and rejoined Mariner Health Care, Inc. as its President in April of 2010. From 1982 until 1995, Mr. Gentry was employed with Bank of America and its predecessors with various financial responsibilities as Senior Vice President. Mr. Gentry received his Bachelor of Arts (B.A.) degree in Economics from Knox College in Galesburg, Illinois and his Master of Business Administration (M.B.A.) degree in Finance and Accounting from Southern Methodist University in Dallas, Texas. Mr. Gentry's expertise and background in the healthcare industry provides experience that the Nominating and Corporate Governance Committee and the Board of Directors consider valuable, especially as the Company expands its operations and adds to the number of nursing home beds that it owns or leases.

Peter J. Hackett. Mr. Hackett, age 75, has served as a director since May 2005. Mr. Hackett is a certified public accountant who received his Bachelor of Arts (B.A.) degree from the University of Notre Dame and his Master of Arts (M.A.) degree from The Ohio State University in 1959 and 1965, respectively. Mr. Hackett worked as an auditor and was a stockholder in the accounting firm of Clark, Schaefer, & Hackett & Co. from 1962 to 2003. Mr. Hackett served as the Chief Executive Officer of Clark, Schaefer, & Hackett & Co. from 1991 to 1999 and was Chairman from 1999 to 2003. Since 2003 until present, Mr. Hackett has acted as a consultant for Clark, Schaefer, & Hackett & Co. Mr. Hackett is a member of the American Institute of Certified Public Accountants and the Ohio Society of Certified Public Accountants. Mr. Hackett was a member of the board of directors of Mercy Medical Center from 1972 to 1995. Mr. Hackett is also involved in numerous civic and charitable affiliations in the Springfield, Ohio area. Mr. Hackett's extensive financial and auditing background provides experience that the Nominating and Corporate Governance Committee and the Board of Directors consider valuable.

Jeffrey L. Levine. Mr. Levine, age 62, has served as a director since December 2005. He also served as a director of the Company from its organization in 1991 until 2003. Mr. Levine received his Bachelor of Science (B.S.) degree in Business from Miami University in 1973 and his Juris Doctor (J.D.) degree from Capital University Law School in 1976. He has worked as an industrial and commercial real estate broker from 1975 to present. He is the President of the Levine Real Estate Company and the Senior Vice President of Cassidy Turley. He is the past President of Larry Stein Realty. Mr. Levine has extensive experience in negotiating and appraising commercial and investment real estate. Mr. Levine has served as an officer and director on several private and public real estate companies and financial institutions. He is a member of the National Association of Realtors, the Ohio State Bar Association and the Florida State Bar Association. Mr. Levine's extensive real estate background provides experience that the Nominating and Corporate Governance Committee and the Board of Directors consider valuable.

Joshua J. McClellan. Mr. McClellan, age 42, has served as a director since December 2009. From 1996 to 2006, Mr. McClellan served as the Founder and President of McClellan Health Systems, Inc., a long-term health care provider located in northwest Ohio. Through acquisitions and development, he grew his company from a single, skilled nursing facility to a large regional healthcare provider which he sold in June 2006. In 2011, he co-founded Azura Living, Inc., a rehabilitation facility located in Denver, Colorado which has the capacity to provide rehabilitation and other medical services to approximately 100 residents. Mr. McClellan received his Bachelor of Science (B.S.) degree from Ohio State University and his Master of Business Administration (M.B.A.) degree from the University of Findlay in Findlay, Ohio. Mr. McClellan was also a member of the Young Presidents Organization for several years. Mr. McClellan's expertise and background in the healthcare and nursing home industries provides experience that the Nominating and Corporate Governance Committee and the Board of Directors consider valuable.

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Philip S. Radcliffe. Mr. Radcliffe, age 76, has served as a director since our organization was founded in August 1991. Mr. Radcliffe has spent his career in the industrial computer industry. Through the 1960s, Mr. Radcliffe was employed by IBM and then The Westinghouse Electric Company in their Computer and Instruments Division. Mr. Radcliffe next became an entrepreneur and participated in the startup of an industrial systems integration supplier. Mr. Radcliffe served as the Chief Financial Officer of this company and led the effort in the company becoming public and directed all SEC reporting requirements. In 1980, Mr. Radcliffe started his own virtual company in the Washington, DC area providing turnkey data acquisition and control systems to industry and the government. Since 1992, Mr. Radcliffe has assisted several early-stage high-tech companies in developing their business plan, locating funds and providing oversight and mentoring. Since 1970, Mr. Radcliffe has served on the boards of directors of several private and public companies. Mr. Radcliffe has served as a mentor for the Dingman School of Entrepreneurship, affiliated with the University of Maryland School of Business. Mr. Radcliffe received his Bachelor's Degree from Baldwin Wallace College in 1959. Mr. Radcliffe's expertise and background in founding and advising start-up companies and helping them transition to public SEC reporting companies provides experience that the Nominating and Corporate Governance Committee and the Board of Directors consider valuable. In addition, his expertise in information technology is valuable as the Company continues to acquire long-term care facilities.

Laurence E. Sturtz. Mr. Sturtz, age 70, has served as a director since June 2005. Mr. Sturtz is a retired attorney at law. He received his Bachelor of Arts (B.A.) degree in Economics and his Juris Doctor (J.D.) degree from The Ohio State University in 1964 and 1967, respectively. Mr. Sturtz was a prominent trial lawyer in Columbus, Ohio and also specialized in representing companies of all sizes until his retirement in 2002. Mr. Sturtz left the private practice of law for six years, from 1982 to 1988, during which time he served as Vice President and General Counsel, and then President and Chief Executive Officer, of Strata Corporation, a public company based in Columbus, Ohio. In 1988, Mr. Sturtz returned to the private practice of law and became the senior litigator with the firm of Carlile Patchen & Murphy LLP. Mr. Sturtz was admitted to practice before the United States Supreme Court and had five cases before the Court during the course of his career. Mr. Sturtz has served as a director of Advanced Biological Marketing, Inc. since 2005, and was Chairman of the Board of The Language Access Network from March 2006 until December 2007. Mr. Sturtz currently works as a mediator and arbitrator in Florida and Ohio. Mr. Sturtz's extensive legal experience, management background and experience with public companies provides experience that the Nominating and Corporate Governance Committee and the Board of Directors consider valuable.

Gary L. Wade. Mr. Wade, age 76, has served as our President and as a director since 1995 and became Chief Executive Officer in 1998. Mr. Wade became Co-Chief Executive Officer (with Mr. Gentry) in January 2011 and retired as Chief Executive Officer and President in June 2011. In 1988, Mr. Wade was a co-founder of AdCare Health Systems, Inc., whose assets we acquired in 1995. From 2011 until 2012, Mr. Wade also served as a Vice President for Dayfield Senior Solutions, LLC, a manager of operations and financials for assisted living and skilled nursing facilities. Prior to that, he served as the Chief Executive Officer and President of St. John's Mercy from 1980 to 1989 and was responsible for the development and operation of Oakwood Village Retirement Community in 1987, a continuing care retirement community, and the operation of St. John's Center, a sub-acute long-term care facility. His extensive experience in health care also includes work with chemical abuse treatment programming and care for Alzheimer's patients. Mr. Wade earned his undergraduate degree at Ohio University and his Master of Business Administration (M.B.A.) degree from Xavier University, where he specialized in hospital and health care administration. He is a past Chairman of the Ohio Assisted Living Association and served on the Government Relations and Health Care committees of the Association of Ohio Philanthropic Homes. Mr. Wade's tenure with the Company and healthcare business background provides experience that the Nominating and Corporate Governance Committee and the Board of Directors consider valuable.

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Arrangements with Directors Regarding Election/Appointment

On October 1, 2013, we entered into a letter agreement (the "Fox Agreement") with Park City and Mr. Fox. Pursuant to the Fox Agreement, effective October 1, 2013, the Board of Directors increased the size of the Board of Directors from nine to ten members and appointed Mr. Fox as a director of the Company to fill the vacancy created thereby for a term that expires at the Annual Meeting. We also agreed: (i) to include Mr. Fox in our slate of nominees for election as a Class I director at the Annual Meeting to hold office until the 2014 Annual Meeting of Shareholders; and (ii) to use our reasonable best efforts to cause the re-election of Mr. Fox to the Board of Directors as a Class I director at the Annual Meeting.

Pursuant to the Fox Agreement, for so long as Mr. Fox serves on the Board of Directors as a nominee of the Board of Directors, Park City shall take such action as may be required so that all of the capital stock of the Company which is entitled to vote generally in the election of directors (the "Voting Securities") and is beneficially owned by Park City, or any person who, within the meaning of Rule 12b-2 under the Exchange Act, is "controlling," "controlled by" or "under common control with" Park City (the "Park City Group"), is voted in favor of each of the Board of Directors' nominees to the Board of Directors at any and all meetings of our shareholders or at any adjournment or postponement thereof or in any other circumstance in connection with which a vote, consent or other approval of holders of Voting Securities is sought with respect to the election of any nominee to the Board of Directors.

In addition, for so long as Mr. Fox serves on the Board of Directors as a nominee of the Board of Directors, Park City will not do or agree or commit to do (or encourage any other person to do or agree or commit to do) and will not permit any member of the Park City Group or any affiliate or associate thereof to do or agree or commit to do (or encourage any other person to do or agree or commit to do) any of the following:

(i) solicit proxies or written consents of shareholders with respect to any Voting Securities, or make, or in any way participate in, any solicitation of any proxy to vote any Voting Securities (other than as conducted by us), or become a participant in any election contest with respect to us;

(ii) seek to call, or request the call of, a special meeting of shareholders or seek to make, or make, any shareholder proposal at any meeting of shareholders that has not first been approved in writing by the Board of Directors;

(iii) make any request or seek to obtain, in any fashion that would require public disclosure by us, Park City or their respective affiliates, any waiver or amendment of any provision of the Fox Agreement or take any action restricted thereby; and

(vi) except as permitted by the Fox Agreement, make or cause to be made any statement or announcement that constitutes an ad hominem attack on us or our officers or directors in any document or report filed with or furnished to the SEC or any other governmental agency or in any press release or other publicly available format.

Furthermore, pursuant to the Fox Agreement, for so long as Mr. Fox serves on the Board of Directors as a nominee of the Board of Directors, Mr. Fox agrees to comply with all applicable policies and guidelines of the Company and, consistent with his fiduciary duties and his obligations of confidentiality as a member of the Board of Directors, to refrain from communicating to anyone any nonpublic information about us that he learns in his capacity as a member of the Board of Directors (which agreement shall remain in effect after Mr. Fox leaves the Board of Directors). Notwithstanding the foregoing, Mr. Fox may communicate such information to any member of the Park City Group who agrees to be bound by the same confidentiality restrictions applicable to Mr. Fox, provided that Mr. Fox shall be liable for any breach of such confidentiality by any such member. In addition, Mr. Fox has confirmed that each of the other members of the Park City Group has agreed not to trade in any

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of our securities while in possession of any nonpublic material information about us if and to the extent doing so would be in violation of applicable law or, without the prior written approval of the Board of Directors, to trade in any of our securities during any blackout period imposed by us.

Director Independence

Each of Messrs. Fox, Hackett, Levine, Radcliffe, Sturtz and McClellan is "independent" under the listing standards of the NYSE MKT. For a director to be considered independent, the Board of Directors must affirmatively determine that the director does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In making this determination, the Board of Directors considers all relevant factors and circumstances, including any transactions or relationships between the director and the Company or its subsidiaries.

Committees of the Board of Directors

The Board of Directors has four standing committees that assist it in carrying out its duties the Audit Committee, the Executive Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Each member of the Audit Committee, the Executive Committee, the Compensation Committee and the Nominating and Corporate Governance Committee is "independent" under the listing standards of the NYSE MKT. The charters of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee are available on the Investors page of our website at *www.adcarehealth.com* and may also be obtained, without charge, by contacting the Corporate Secretary, AdCare Health Systems, Inc., 1145 Hembree Road, Roswell, Georgia 30076. The following chart shows the membership of our standing committees as of October 18, 2013, except as otherwise indicated.

Name	**Audit Committee**	**Executive Committee**	**Compensation Committee**	**Nominating and Corporate Governance Committee(1)**
David A. Tenwick		Chair		
Christopher F. Brogdon		ü		
Michael J. Fox				
Boyd P. Gentry		ü		
Peter J. Hackett	Chair	ü		ü
Jeffrey L. Levine	ü		ü	
Joshua J. McClellan			ü	
Philip S. Radcliffe	ü		Chair	ü
Laurence E. Sturtz	ü			Chair
Gary L. Wade				

(1) The Nominating and Corporate Governance Committee was established in September 2013.

Audit Committee. The Audit Committee was established in 1995 in accordance with Section 3(e)(58)(A) of the Exchange Act. The Audit Committee has the responsibility of reviewing our financial statements, evaluating internal accounting controls, reviewing reports of regulatory authorities and determining that all audits and examinations required by law are performed. The Audit Committee also approves the appointment of the independent auditors for the next fiscal year, approves the services to be provided by the independent auditors and the fees for such services, reviews and approves the auditor's audit plans, reviews and reports upon various matters affecting the independence of the independent auditors and reviews with the independent auditors the results of the audit and management's responses. The Board of Directors has determined that Mr. Hackett, the Audit

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Committee Chair, qualifies as an "audit committee financial expert" as that term is defined in Item 407(d)(5) of Regulation S-K of the Exchange Act.

Compensation Committee. The Compensation Committee was established in 1995 and it is responsible for establishing our compensation plans. The Compensation Committee's duties include the development with management of benefit plans for our employees and the formulation of bonus plans and incentive compensation packages. The Compensation Committee approves the compensation of each senior executive and each member of the Board of Directors. In approving the compensation of each senior executive (other than the Chief Executive Officer), the Compensation Committee may consider recommendations made by the Chief Executive Officer. The Compensation Committee is also charged with the oversight of compensation plans and practices for all employees of the Company. The Compensation Committee relies upon data made available for the purpose of providing information on organizations of similar or larger scale engaged in similar activities. The purpose of the Compensation Committee's activity is to assure that our resources are used appropriately to recruit and maintain competent and talented executives and employees able to operate and grow the Company successfully.

Executive Committee. The Executive Committee was established in 1991 in order to take actions necessary between the meetings of the Board of Directors. Pursuant to Ohio law, the Executive Committee is authorized to exercise all the powers of the Board of Directors and the management and business affairs of the Company, other than: (i) filling vacancies on the Board of Directors or any committee of the Board of Directors; and (ii) adopting, amending or repealing any provision of the Ohio Code of Regulations.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee was established in September 2013 and it is responsible for evaluating and recommending to the Board of Directors qualified nominees for election as directors and qualified directors for committee membership, establishing evaluation procedures and conducting an annual evaluation of the performance of the Board of Directors, developing corporate governance principles, recommending those principles to the Board of Directors and considering other matters pertaining to the size and composition of the Board of Directors.

Prior to September 2013, the Company did not have a standing Nominating and Corporate Governance Committee and the independent directors on the Board of Directors selected nominees for election as directors by majority vote. In selecting such nominees, the independent directors did not operate pursuant to a charter.

Director Attendance at Board, Committee and Annual Meetings

During 2012, the Board held eight meetings and the Audit Committee, Executive Committee and Compensation Committee held eight, four and five meetings, respectively. Each director attended at least 75%, collectively, of the meetings of the Board of Directors and its committees on which he served during 2012, except for Mr. McClellan. In addition, each director attended the 2012 Annual Meeting of Shareholders. Directors are expected to make reasonable efforts to attend our Annual Meetings of Shareholders.

Board Leadership

The Board of Directors does not have a policy as to whether the roles of Chairman of the Board and Chief Executive Officer should be separate or combined or whether the Chairman of the Board should be a management or non-management director. This approach allows the Board of Directors to elect the most qualified director to serve as Chairman, while preserving the flexibility to separate the Chairman and Chief Executive Officer roles when necessary. Currently, the Board of Directors has determined that David A. Tenwick and Boyd P. Gentry are the most qualified persons to serve as

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Chairman of the Board and Chief Executive Officer, respectively. The Board of Directors recognizes the importance of regularly evaluating our particular circumstances to determine if our leadership structure continues to serve the best interests of the Company and its shareholders. To this end, the Board of Directors from time to time has assessed, and will continue to assess, whether its leadership structure remains the most appropriate for our organization.

Identifying and Evaluating Director Nominees

With respect to the nomination process, the Nominating and Corporate Governance Committee responsibilities include reviewing the size and overall composition of the Board of Directors; developing criteria for identifying and selecting qualified individuals who may be nominated for election to the Board of Directors; making recommendations to the Board of Directors with respect to retirement arrangements or policies for Board members; monitoring and reviewing any issues relating to the independence of directors; considering director candidates recommended by shareholders; developing processes and procedures for evaluating Board nominees recommended by shareholders; and recommending to the Board of Directors the slate of nominees of directors to be elected by the shareholders and any directors to be elected by the Board of Directors to fill vacancies.

The Nominating and Corporate Governance Committee has not established specific minimum age, education, years of business experience or specific types of skills for potential director candidates but, in general, expects qualified candidates will have ample experience and a proven record of business success and leadership. Director candidates will be evaluated based on their financial literacy, business acumen and experience, independence for purposes of compliance with SEC rules and the NYSE MKT listing standards and their willingness, ability and availability for service, as well as other criteria established by the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee believes that continuity in leadership and tenure maximizes the Board of Directors' ability to exercise meaningful oversight. Because qualified incumbent directors are generally uniquely positioned to provide shareholders the benefit of continuity of leadership and seasoned judgment gained through experience as a director, the Nominating and Corporate Governance Committee will generally consider as potential candidates those incumbent directors interested in standing for re-election who they believe have satisfied director performance expectations, including regular attendance at, preparation for and meaningful participation in meetings of the Board of Directors and its committees.

The Nominating and Corporate Governance Committee will consider the recommendations of shareholders regarding potential director candidates. In order for shareholder recommendations regarding potential director candidates to be considered by the Nominating and Corporate Governance Committee, such recommendation should be delivered to the Nominating and Corporate Governance Committee as provided in " Communication with the Board of Directors and its Committees" and must include a description of the qualifications, skills, attributes or other qualities of the recommended director candidate. There are no differences in the manner in which the Nominating and Corporate Governance Committee considers or evaluates director candidates it identifies and director candidates who are recommended by shareholders.

The Nominating and Corporate Governance Committee has not adopted a formal policy with regard to the consideration of diversity in identifying director nominees. In determining whether to recommend a director nominee, the members of the Nominating and Corporate Governance Committee will consider and discuss diversity, among other factors, with a view toward the role and needs of the Board of Directors as a whole. When identifying and recommending director nominees, the members of the Nominating and Corporate Governance Committee generally will view diversity expansively to include, without limitation, concepts such as race, gender, national origin, differences of viewpoint and perspective, professional experience, education, skill and other qualities or attributes that together contribute to the functioning of the Board of Directors. The Nominating and Corporate

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Governance Committee believes that the inclusion of diversity as one of many factors considered in selecting director nominees is consistent with the goal of creating a Board of Directors that best serves the needs of the Company and its shareholders.

Risk Oversight

The Board of Directors oversees an enterprise-wide approach to risk management, designed to support the achievement of organizational objectives, including strategic objectives, to improve long-term organizational performance and enhance shareholder value. A fundamental part of risk management is not only understanding the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the Company. The involvement of the full Board of Directors in setting our business strategy is a key part of the Board of Directors' risk oversight and method for determining what constitutes an appropriate level of risk for us. Risk is assessed throughout the business, focusing on three primary areas of risk: financial risk, legal/compliance risk and operational/strategic risk.

While the Board of Directors has the ultimate oversight responsibility for the risk management process, various committees of the Board of Directors also have responsibility for risk management. In particular, the Audit Committee focuses on financial risk, including internal controls, and receives an annual risk assessment report from an outside consultant. The Nominating and Corporate Governance Committee's risk oversight responsibilities include selecting qualified nominees to be elected to the Board of Directors by our shareholders, reviewing and assessing periodically our policies and practices on corporate governance, and overseeing an annual evaluation of the Board of Directors. In addition, in setting compensation, the Compensation Committee strives to create a combination of short-term and longer-term incentives that encourage a level of risk-taking behavior consistent with our business strategy.

Code of Ethics

We have adopted a written code of conduct, our Code of Business Conduct and Ethics, which is applicable to all our directors, officers and employees (including our principal executive officer, principal financial officer, principal accounting officer or controller, and any person performing similar functions). Our Code of Business Conduct and Ethics is available in the corporate governance subsection of the Investors page of our website at *www.adcarehealth.com* and also may be obtained, without charge, by contacting the Corporate Secretary, AdCare Health Systems, Inc., 1145 Hembree Road, Roswell, Georgia 30076.

Communication with the Board of Directors and its Committees

The Board of Directors welcomes communications from shareholders. Shareholders may send communications to the Board of Directors, any of its committees or one or more individual directors, in care of the Corporate Secretary, AdCare Health Systems, Inc., 1145 Hembree Road, Roswell, Georgia 30076. Any correspondence addressed to the Board of Directors, any of its committees or to any one of our directors in care of our offices will be forwarded to the addressee without review by management.

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DIRECTOR COMPENSATION

Non-Employee Director Compensation and Reimbursement Arrangements

Prior to July 1, 2012, directors who are not employed by us were paid $4,500 per month plus an additional $1,100 per month if serving as a chairperson of one of the committees of the Board of Directors, as well as $1,000 for each meeting attended in person and $500 for each meeting attended by conference call. Effective July 1, 2012, directors who are not employed by us were paid $6,000 per month plus an additional $1,500 per month if serving as a chairperson of one of the committees of the Board of Directors and an additional $500 per month if serving on more than one committee.

Non-employee directors are reimbursed for travel and other out-of-pocket expenses for travel in connection with their duties as directors.

Director Compensation Table

The following table sets forth information regarding compensation paid to our non-employee directors. Directors who are employed by us do not receive any compensation for their activities related to serving on the Board of Directors.

Name (a)(1)	Fees earned or paid in cash (b)	Stock awards (c)(3)	Option awards (d)(4)	Non-equity incentive plan compensation (e)	Change in pension value and non-qualified deferred compensation earnings (f)	All other compensation (g)	Total
Michael J. Fox(2)							
Peter J. Hackett	$ 89,600	$ 100,800					$ 190,400
Jeffrey Levine	$ 74,000	$ 100,800					$ 174,800
Joshua J. McClellan	$ 67,000	$ 100,800					$ 167,800
Philip S. Radcliffe	$ 90,100	$ 100,800					$ 190,900
Laurence E. Sturtz	$ 68,500	$ 100,800					$ 169,300
Gary L. Wade(5)	$ 66,000	$ 100,800				$ 225,000	$ 391,800

(1) Messrs. Gentry and Brogdon are employees of the Company, as well as named executive officers, and do not receive any director compensation. In addition, Mr. Tenwick is a named executive officer and his director compensation is shown in the "Executive Compensation Executive Compensation Tables Summary Compensation Table."

(2) Mr. Fox was appointed to serve as a director effective October 1, 2013. Accordingly, he did not serve as a director in 2012 and did not receive any director compensation for 2012.

(3) The amounts set forth in Column (c) reflect the full aggregate grant date fair value of the awards. See Note 11 to our consolidated financial statements included in the 2012 Annual Report for a description of the assumptions used to determine fair value. Represents for each director (except Mr. Fox) an award of 30,000 shares of restricted common stock granted on June 1, 2012, which vests three years after the date of grant. The award was adjusted to represent 31,500 shares of common stock as a result of a 5% stock dividend paid in 2012.

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(4)

The number of outstanding exercisable and unexercisable options and warrants, and the number of unvested shares of restricted stock held by each of our non-employee directors as of December 31, 2012 are shown below:

Director	Number of Shares Subject to Outstanding Options or Warrants as of December 31, 2012		Number of Shares of Unvested Restricted Stock as of December 31, 2012
	Exercisable	**Unexercisable**	
Michael J. Fox(2)			
Peter J. Hackett	14,204		31,500
Jeffrey Levine	28,326		31,500
Joshua J. McClellan	10,500		31,500
Philip S. Radcliffe	35,967		31,500
Laurence E. Sturtz	55,961		31,500
Gary L. Wade	246,035		31,500

(5)

Mr. Wade received payments of $225,000 under a separation agreement for salary continuation and expense allowance. See " Separation Agreements and Continuation Arrangements."

Separation Agreements and Continuation Arrangements

In July 2011, we entered into a separation agreement with Mr. Wade pursuant to which we agreed to pay certain compensation to him in connection with his ceasing to serve as Co-Chief Executive Officer of the Company on July 1, 2011. Pursuant to such agreement, Mr. Wade became entitled to receive salary continuation, expense allowance and employee benefits (including health, life, accident and other benefits as the Company was historically provided) for twenty-four months after such date. The salary continuation and expense allowance amounts total $190,000 and $35,000, respectively, per year.

In August 2011, we determined to pay certain compensation to Mr. Tenwick for his continuing to serve as the Chairman of the Board of Directors. Pursuant to this arrangement, Mr. Tenwick was entitled to receive: (i) two years of salary and expense allowance; and (ii) $11,000 per month for director fees. See "Executive Compensation Executive Compensation Tables Summary Compensation Table."

Deferred Compensation Plan

We maintain a non-qualified deferred compensation plan previously available to a select group of management or highly compensated employees. Contributions to the plan were made by the participants. We do not provide any matching contributions. The benefits of the plan are payable upon the employee's separation of employment from us. Messrs. Tenwick and Wade participated in the plan in prior years and, pursuant to the plan, received in 2012 $179,970 and $43,856, respectively. These amounts were earned by Messrs. Tenwick and Wade prior to 2012 and reported as earned by them in our proxy statements filed with the SEC in prior years. Accordingly, these amounts are not included in the Summary Compensation Table (with respect to Mr. Tenwick) or the Director Compensation Table (with respect to Mr. Wade) included in this proxy statement.

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EXECUTIVE COMPENSATION

Executive Officers

The following table sets forth certain information with respect to our current executive officers as of October 18, 2013. Our executive officers serve at the discretion of the Board of Directors, subject to applicable employment agreements. See "Executive Compensation Employment, Consulting and Separation Agreements."

Name	Age	Position
David A. Tenwick	75	Chairman of the Board
Boyd P. Gentry	54	President, Chief Executive Officer and Director
Ronald W. Fleming	55	Senior Vice President, Chief Financial Officer and Corporate Secretary
David Rubenstein	46	Chief Operating Officer

Biographical information for Messrs. Fleming and Rubenstein is set forth below. For biographical information for Messrs. Gentry and Tenwick, see "Board Matters and Corporate Governance Members of the Board of Directors."

Ronald W. Fleming. Mr. Fleming has more than 25 years of experience in finance and was appointed to serve as our Senior Vice President and Chief Financial Officer in May 2013. From 2001 until May 2013, Mr. Fleming served as Chief Financial Officer of Georgia Cancer Specialists I, P.C., where he was responsible for the financial reporting and oversight of the privately-held healthcare services company. Mr. Fleming was employed by Mariner Post-Acute Network, Inc., a publicly held long-term health care services provider from 1989 to 2000 and served as its Vice President, Controller and Chief Accounting Officer from 1996-2000. Mr. Fleming holds a Bachelor of Science (B.S.) degree in Accounting from Ball State University and is a Certified Public Accountant.

David Rubenstein. Mr. Rubenstein has more than 23 years of experience in long-term care facility management and was appointed to serve as our Executive Vice President and Chief Operating Officer in December 2011. From March 2010 until December 2011, Mr. Rubenstein served as Chief Executive Officer of LaVie Management Services, where he was responsible for the management of operations of the skilled nursing facility company. From January 2009 to March 2010, Mr. Rubenstein was the Chief Executive Officer of Coastal Administrative Services as well as the Executive Vice President of Strategy and Support for Genoa Healthcare, where he was responsible for oversight of information technology, accounting and reimbursement issues for the skilled nursing facility companies. From January 2006 to December 2008, Mr. Rubenstein served as the Chief Development Officer for Genoa Healthcare Consulting, where he oversaw the acquisition and divestiture of skilled nursing facilities. Mr. Rubenstein holds a Bachelor of Science (B.S.) degree in Accounting from the University of Rhode Island.

Executive Compensation Tables

Summary Compensation Table. The following table sets forth the compensation paid to, earned by or accrued for our principal executive officer and our other most highly compensated executive officers

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whose total compensation exceeded $100,000 for the year ended December 31, 2012 (collectively, our "named executive officers"):