

ADCARE HEALTH SYSTEMS, INC
Form DEF 14A
October 26, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement CONFIDENTIAL, FOR USE OF THE
COMMISSION ONLY (AS PERMITTED BY RULE 14A-6(E)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 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):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) 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:

 Fee paid previously with preliminary materials.

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:

ADCARE HEALTH SYSTEMS, INC.

1145 Hembree Road
Roswell, Georgia 30076
October 26, 2015

Dear AdCare Shareholders:

It is my pleasure to invite you to attend this year's Annual Meeting of Shareholders, which will be held on Thursday, December 10, 2015, at our corporate office located at 1145 Hembree Road, Roswell, Georgia, at 10:00 a.m., local time. We look forward to personally seeing as many of our shareholders as possible.

The Notice of 2015 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 business 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 be represented and voted at the Annual Meeting. Whether or not you plan to attend, you can be sure your shares are represented at the Annual Meeting 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,
William McBride, III
Chairman of the Board and
Chief Executive Officer

ADCARE HEALTH SYSTEMS, INC.

1145 Hembree Road
Roswell, Georgia 30076

NOTICE OF 2015 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON DECEMBER 10, 2015

DATE AND TIME

Thursday, December 10, 2015, at 10:00 a.m. local time

PLACE

Our corporate office located at 1145 Hembree Road, Roswell, Georgia

- To elect the five director nominees named in the accompanying proxy statement to serve the terms described therein (Proposal 1);
- To amend our Articles of Incorporation and Bylaws to declassify the Board of Directors (Proposal 2);
- To amend our Articles of Incorporation to impose ownership and transfer restrictions with respect to our stock (Proposal 3);
- To ratify the appointment of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2015 (Proposal 4);
- To approve the adjournment or postponement of the Annual Meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Annual Meeting to approve Proposal 2 or Proposal 3 (Proposal 5); and
- To transact such other business as may properly come before the Annual Meeting and any adjournments and postponements thereof.

ITEMS OF BUSINESS

RECORD DATE

October 19, 2015. Only shareholders of record at the close of business on the record date are entitled to receive notice of, and to vote as described in the accompanying proxy statement 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, 2014, accompanies the proxy statement.

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

PROXY VOTING

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 2015 Annual Meeting to be Held on Thursday, December 10, 2015: This notice, the accompanying proxy statement, the forms of proxy card and the Company's Annual Report on Form 10-K for the year ended December 31, 2014, are available free of charge at www.cstproxy.com/adcarehealth/2015.

By Order of the Board of Directors,
Allan J. Rimland
Corporate Secretary
Roswell, Georgia
October 26, 2015

TABLE OF CONTENTS

	Page
QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING.....	1
PROPOSAL 1: ELECTION OF DIRECTORS.....	8
PROPOSAL 2: AMENDMENTS TO OUR ARTICLES OF INCORPORATION AND BYLAWS TO DECLASSIFY THE BOARD.....	10
PROPOSAL 3: AMENDMENT TO OUR ARTICLES OF INCORPORATION TO IMPOSE OWNERSHIP AND TRANSFER RESTRICTIONS WITH RESPECT TO OUR STOCK.....	12
PROPOSAL 4: RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.....	19
PROPOSAL 5: ADJOURNMENT OR POSTPONEMENT OF THE ANNUAL MEETING, IF NECESSARY OR APPROPRIATE.....	20
GOVERNANCE	
Board Structure.....	21
Independence of Directors and Director Nominees.....	22
Director Nomination Process.....	22
Board Diversity.....	23
Risk Oversight.....	23
Code of Ethics.....	24
Communication With The Board and its Committees.....	24
Role of Compensation Consultant.....	24
BOARD OF DIRECTORS	
Directors and Director Nominees.....	25
Arrangements with Directors Regarding Election/Appointment.....	26
Committees of the Board.....	28
Director Attendance at Board, Committee and Annual Shareholder Meetings.....	29
DIRECTOR COMPENSATION	
Director Compensation and Reimbursement Arrangements.....	30
Director Compensation Table.....	30
EXECUTIVE COMPENSATION	
Executive Officers.....	32
Executive Compensation Tables.....	32
Employment Agreements With Current Officers.....	35
Employment and Separation Agreements With Former Officers.....	37
Stock Incentive Plan.....	38
Retirement Programs.....	39
Frequency of Say-On-Pay.....	39

AUDIT COMMITTEE MATTERS

Audit Committee Report..... 40

	Page
Fees and Services of Our Independent Registered Public Accounting Firm.....	41
Pre-Approval Policy.....	41
 CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS	
Related Party Transactions.....	41
Approval of Related Party Transactions.....	47
 STOCK OWNERSHIP	
Ownership of the Common Stock.....	48
Section 16(a) Beneficial Ownership Reporting Compliance.....	50
 ADDITIONAL INFORMATION	
Other Business for Presentation at the Annual Meeting.....	51
2014 Annual Report.....	51
Shareholder Proposals for Inclusion in the 2016 Proxy Statement.....	51
Procedures for Business Matters and Director Nominations for Consideration at the 2016 Annual Meeting.....	51
 APPENDIX A: Amendment to Our Articles of Incorporation to Declassify the Board	
APPENDIX B: Amendment to Our Bylaws to Declassify the Board	
APPENDIX C: Amendment to Our Articles of Incorporation to Impose Ownership and Transfer Restrictions With Respect to Our Stock	

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” or the “Board”) of proxies for our 2015 Annual Meeting of Shareholders and any adjournments and postponements thereof (the “Annual Meeting”) for the purposes set forth in the accompanying Notice of 2015 Annual Meeting of Shareholders. The Annual Meeting will be held on Thursday, December 10, 2015, at our corporate office located at 1145 Hembree Road, Roswell, Georgia, at 10:00 a.m., local time. Shareholders are invited to attend the Annual Meeting and are requested to vote on the proposals as described in this proxy statement.

Proxies are solicited by the Board 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. William McBride, III, our Chairman of the Board and Chief Executive Officer, and Allan J. Rimland, our President and Chief Financial 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 2015 Annual Meeting of Shareholders, this proxy statement, the forms of proxy card and our Annual Report on Form 10-K for the year ended December 31, 2014 (the “2014 Annual Report”) are available free of charge at www.cstproxy.com/adcarehealth/2015. We expect to mail this proxy statement and accompanying forms of proxy card to shareholders of record beginning on October 30, 2015.

Unless the context otherwise requires, all references in this proxy statement to (i) “AdCare” refer to AdCare Health Systems, Inc.; and (ii) the “Company,” “we,” “us,” and “our” refer to AdCare and its consolidated subsidiaries.

Who is entitled to vote at the Annual Meeting?

You are entitled to vote if you were a holder of record of AdCare’s common stock (the “common stock”) or AdCare’s 10.875% Series A Cumulative Redeemable Preferred Shares (the “Series A Preferred Stock”) at the close of business on October 19, 2015 (the “record date”). Holders of record of the common stock are entitled to vote on all matters coming before the Annual Meeting. Holders of record of the Series A Preferred Stock are entitled to vote only on the proposals to: (i) amend our Articles of Incorporation to impose ownership and transfer

restrictions with respect to our stock (Proposal 3); and (ii) adjourn or postpone the Annual Meeting, if necessary or appropriate, to solicit additional proxies (Proposal 5).

Your shares can be voted at the Annual Meeting only if you are present in person or represented by a valid proxy.

What proposals will require my vote?

Holders of the common stock are being asked to vote on the following proposals:

• Election of the five director nominees named this proxy statement to serve the terms described herein (Proposal 1);

• Amendments to our Articles of Incorporation and Bylaws to declassify the Board (Proposal 2);

• Amendment to our Articles of Incorporation to impose ownership and transfer restrictions with respect to our stock (Proposal 3);

• Ratification of the appointment of KPMG LLP (“KPMG”) as our independent registered public accounting firm for the year ending December 31, 2015 (Proposal 4);

• Approval of the adjournment or postponement of the Annual Meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Annual Meeting to approve Proposal 2 or Proposal 3 (Proposal 5); and

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

Holders of the Series A Preferred Stock are being asked to vote on each of Proposals 3 and 5.

For all holders, your proxy will give the Proxy Holders the authority to vote on any other business on which you are entitled to vote and which properly comes before the Annual Meeting and all adjournments or postponements thereof.

How many votes am I entitled to for each share I hold?

Each share of common stock is entitled to one vote on each of the director nominees and one vote on each other matter presented at the Annual Meeting. Each share of Series A Preferred Stock is entitled to one vote on each of Proposals 3 and 5.

What constitutes a quorum for the Annual Meeting?

A quorum necessary to take action at the Annual Meeting on each of Proposals 1, 2 and 4 requires the presence at the Annual Meeting, either in person or represented by valid proxy, of at least a majority of the shares of common stock outstanding at the close of business on the record date.

A quorum necessary to take action at the Annual Meeting on Proposal 3 requires the presence at the Annual Meeting, either in person or represented by valid proxy, of at least: (i) a majority of the shares of common stock outstanding at the close of business on the record date; and (ii) a majority of the shares of Series A Preferred Stock outstanding at the close of business on the record date.

A quorum necessary to take action at the Annual Meeting on Proposal 5 requires the presence at the Annual Meeting, either in person or represented by valid proxy, of at least a majority of the shares of common stock and Series A Preferred Stock, as one group, outstanding at the close of business on the record date.

At the close of business on the record date, there were issued and outstanding 19,879,417 shares of common stock and 2,203,371 shares of Series A Preferred Stock. Shares represented by valid proxies received but marked as abstentions or as withholding voting authority, and shares 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.

What if a quorum is not present at the Annual Meeting?

If a quorum is not present at the scheduled time of the Annual Meeting, then we may adjourn or postpone the Annual Meeting until a quorum is present. Any adjournment or postponement of the Annual Meeting may be made from time to time if by the affirmative vote of a majority of the voting shares represented at the Annual Meeting. Any adjournment or postponement of the Annual Meeting because of the absence of a quorum will be voted upon pursuant to the discretionary authority granted by the proxy card. The time and place of the adjourned or postponed Annual Meeting will be announced at the time the adjournment is taken, and, unless such adjournment or postponement is for more than 120 days or the Board fixes a new record date for the adjourned or postponed Annual Meeting, no other notice will be given. An adjournment or postponement will have no effect on the business that may be conducted at the Annual Meeting.

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

Proposal 1: Election of the five director nominees named in this proxy statement for the terms described herein
The five director nominees receiving the highest number of votes cast by holders of common stock at the Annual Meeting will be elected. This number is called a “plurality.” 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.

Proposal 2: Amendments to our Articles of Incorporation and Bylaws to declassify the Board

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 3: Amendment to our Articles of Incorporation to impose ownership and transfer restrictions with respect to our stock

Approval of this proposal requires: (i) approval by the holders of at least a majority of the shares of common stock outstanding as of the close of business on the record date; and (ii) approval by the holders of at least a majority of the shares of Series A Preferred Stock outstanding as of the close of business on the record date, voting as a separate class. Any shares of common stock or Series A Preferred Stock that are not voted (whether by abstention or otherwise) will have the effect of a vote against this proposal.

Proposal 4: Ratification of the Appointment of KPMG as Our Independent Registered Public Accounting Firm
Approval of this proposal requires that the votes cast by the holders of the shares of common stock outstanding as of the close of business on the record date in favor of this proposal exceed the votes cast by such holders 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 5: Approval of the adjournment or postponement of the Annual Meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Annual Meeting to approve Proposal 2 or Proposal 3

Approval of this proposal requires approval by the holders of at least a majority of the voting shares represented at the Annual Meeting. Any shares 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.

How will a proposal or other matter that was not included 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 proxies in their discretion. At the time this proxy statement was printed, management was unaware of any other matters that might be properly brought for shareholder action at the Annual Meeting.

How does the Board recommend that I vote?

The Board recommends that holders of the common stock vote:

•“FOR” election of the five director nominees named in this proxy statement for the terms described herein (Proposal 1);

•“FOR” approval of the amendments to our Articles of Incorporation and Bylaws to declassify the Board (Proposal 2);

•“FOR” approval of the amendment to our Articles of Incorporation to impose ownership and transfer restrictions with respect to our stock (Proposal 3);

•“FOR” ratification of the appointment of KPMG as our independent registered public accounting firm for the year ending December 31, 2015 (Proposal 4); and

•“FOR” approval of adjournment or postponement of the Annual Meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Annual Meeting to approve Proposal 2 or Proposal 3 (Proposal 5).

In addition, the Board recommends that holders of the Series A Preferred Stock vote “FOR” each of Proposals 3 and 5.

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

If your shares are registered directly in your name with our transfer agent, Continental Stock Transfer & Trust Company (“Continental Stock”), 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 are held in “street name” through a broker, bank or other nominee, then you are the “beneficial holder” of the shares held for you. Beneficial holders of shares should refer to the instructions provided by their broker, bank or other nominee regarding how to vote their shares 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 a beneficial holder of shares, you have the right to direct how your broker, bank or other nominee votes your shares.

If your shares are held in street name, through a broker, bank or other nominee, then to be able to vote your shares in person at the Annual Meeting you must obtain a legal proxy from your bank, broker or nominee that specifies the number of shares you owned at the close of business on the record date and bring the legal proxy with you to the Annual Meeting.

How do I vote?

If you are a shareholder of record, meaning that your shares are registered directly in your name and are not held through a broker, bank or other nominee, 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 of our stock, meaning that your shares are held through a broker, bank or other nominee, then please refer to the instructions provided by your broker, bank or other nominee regarding how to vote.

If you have questions regarding how to vote, call Georgeson Inc., the proxy solicitor for the Annual Meeting, at (877) 278-4774.

I am a beneficial holder. What happens if I do not return 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 Annual Meeting.

Proposal 4 is considered a routine matter; however, Proposals 1, 2, 3 and 5 are considered non-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 provide voting instructions to your brokerage firm if you want your shares to be voted at the Annual Meeting on a non-routine matter.

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

If you 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" election of the five director nominees named in this proxy statement for the terms described herein (Proposal 1);

• "FOR" approval of the amendments to our Articles of Incorporation and Bylaws to declassify the Board (Proposal 2);

• “FOR” approval of the amendment to our Articles of Incorporation to impose ownership and transfer restrictions with respect to our stock (Proposal 3);

• “FOR” ratification of the appointment of KPMG as our independent registered public accounting firm for the year ending December 31, 2015 (Proposal 4); and

• “FOR” approval of the adjournment or postponement of the Annual Meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the Annual Meeting to approve Proposal 2 or Proposal 3 (Proposal 5).

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, by executing and returning a later dated proxy or by 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 5 discusses the possible adjournment of the Annual Meeting. Why could the Annual Meeting be adjourned in connection with this proposal?

Although it is not currently expected, the Annual Meeting may be adjourned or postponed, if necessary or appropriate, for the purpose of soliciting additional proxies if there are not sufficient votes at the time of the Annual Meeting to approve Proposal 2 or Proposal 3. Any adjournment or postponement of the Annual Meeting may be made from time to time by the affirmative vote of at least a majority of the voting shares represented at the Annual Meeting. The time and place of the adjourned or postponed Annual Meeting will be announced at the time the adjournment is taken, and, unless such adjournment or postponement is for more than 120 days or the Board fixes a new record date for the adjourned or postponed Annual Meeting, no other notice will be given.

Any adjournment or postponement of the Annual Meeting for the purpose of soliciting additional proxies will allow shareholders who have already sent in their proxies to revoke them at any time prior to their use at the Annual Meeting as adjourned or postponed.

Proposal 5 relates only to an adjournment or postponement of the Annual Meeting occurring for purposes of soliciting additional proxies for the approval of Proposal 2 or Proposal 3. The Board retains full authority to adjourn or postpone the Annual Meeting for any other purpose, including the absence of a quorum, or to postpone the Annual Meeting before it is convened, without the consent or approval of any shareholders.

Who will count the votes?

A representative of Continental Stock 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 or Series A Preferred Stock with brokers, banks, other nominees or Continental Stock. 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 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 as of the record date to gain admission to the Annual Meeting. We reserve the right to limit the number of named representatives who may attend the Annual Meeting.

Who is soliciting proxies and what is the cost?

The Board 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 \$12,500 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 shares 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 directors, 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?

We are sending only one 2014 Annual Report and one proxy statement to shareholders who share a single address.

This is known as "householding." However, if a shareholder of record residing at such an address wishes to receive a separate 2014 Annual Report or this proxy statement, he or she may contact Continental Stock by phone at (917) 262-2373, by e-mail at www.proxy@continentalstock.com or by mail at the following address: 17 Battery Place, New York, New York 10004. Shareholders of record who receive multiple copies of the 2014 Annual Report or this proxy statement may request householding by contacting Continental Stock using the preceding options. Beneficial holders who own shares through a broker, bank or other nominee may request householding by contacting the holder of record.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on December 10, 2015: This Proxy Statement, the forms of proxy card and the 2014 Annual Report are available free of charge at www.cstproxy.com/adcarehealth/2015.

PROPOSAL 1:

ELECTION OF DIRECTORS

Current Board Composition

Our 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 from time to time. By resolution the Board has fixed the number of directors at eight until the Annual Meeting, at which time the number of directors will be reduced to six. Our Articles of Incorporation and Bylaws currently provide that the Board 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 members of each Class are elected for a term of office to expire at the third succeeding Annual Meeting of Shareholders following their election and until their successors are duly elected and qualified, or until their earlier death, resignation or removal.

Currently, the composition of the Board is as follows:

Class

Class I Directors

(serving until the 2017 Annual Meeting of Shareholders)

Directors

William McBride, III
Christopher F. Brogdon
Michael J. Fox

Class II Directors

(serving until the Annual Meeting)

Thomas W. Knaup
Philip S. Radcliffe
David A. Tenwick

Class III Directors

(serving until the 2016 Annual Meeting of Shareholders)

Brent Morrison