

ADCARE HEALTH SYSTEMS INC  
Form DEF 14A  
April 10, 2012

[QuickLinks](#) -- Click here to rapidly navigate through this document

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

**SCHEDULE 14A**

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**ADCARE HEALTH SYSTEMS, INC.**

---

(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)(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:

Edgar Filing: ADCARE HEALTH SYSTEMS INC - Form DEF 14A

- 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:
-

**ADCARE HEALTH SYSTEMS, INC.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
to be held  
June 1, 2012  
and  
PROXY STATEMENT**

---

**IMPORTANT**

**Please mark, sign and date your proxy  
and promptly return it in the enclosed envelope.**

---

---

**ADCARE HEALTH SYSTEMS, INC.**

5057 Troy Road  
Springfield, Ohio 45502-9032  
(937) 964-8974

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON JUNE 1, 2012**

April 17, 2012

To Our Shareholders:

The Annual Meeting of Shareholders of AdCare Health Systems, Inc. (the "Company") will be held at the Hilton Columbus at Easton, 3900 Chagrin Drive, Columbus, Ohio 43219, on June 1, 2012, at 10:00 a.m. local time, for the following purposes:

1. To elect three (3) directors of the Company each to serve a three (3) year term expiring at the Annual Meeting of Shareholders to be held in 2015;
2. To amend the Company's Articles of Incorporation to increase the number of authorized shares of Company stock from 30,000,000 presently authorized to 60,000,000 shares;
3. To amend the Company's 2011 Stock Incentive Plan to increase the maximum number of shares of Company stock that may be issued under such Plan from the current maximum of 1,000,000 to an aggregate of 2,000,000 shares.
4. To transact any other business which may properly come before the meeting or any adjournment thereof.

Accompanying this Notice of Annual Meeting is a form of a Proxy, Proxy Statement, and a copy of the Company's Form 10-K Annual Report for the year ended December 31, 2011, all to be mailed on or about April 17, 2012.

Our Board of Directors has fixed April 4, 2012, as the record date for the determination of shareholders entitled to notice and to vote at the annual meeting and any adjournment thereof. A list of shareholders will be available for examination by any shareholder at the annual meeting and for a period of 10 days before the annual meeting at our executive offices.

You will be most welcome at the annual meeting and we hope you can attend. Our directors and officers are expected to be present to answer your questions and to discuss the Company's business.

We urge you to execute and return the enclosed proxy as soon as possible so that your shares may be voted in accordance with your wishes. If you attend the annual meeting, you may cast your vote in person and your proxy will not be used. If your shares are held in an account at a brokerage firm or bank, you must instruct them on how to vote your shares.

By Order of the Board of Directors,

Carol Groeber  
*Secretary*

PLEASE SIGN AND MAIL THE ENCLOSED PROXY  
IN THE ACCOMPANYING ENVELOPE  
NO POSTAGE NECESSARY IF MAILED IN THE UNITED STATES

---

**ADCARE HEALTH SYSTEMS, INC.**

5057 Troy Road  
Springfield, Ohio 45502-9032

---

***PROXY STATEMENT***

---

**ANNUAL MEETING OF SHAREHOLDERS**

**June 1, 2012**

---

This proxy statement is furnished to the shareholders of AdCare Health Systems, Inc., an Ohio corporation (the "Company"), in connection with the solicitation of proxies to be used in voting at the Annual Meeting of Shareholders to be held at the Hilton Columbus at Easton, 3900 Chagrin Drive, Columbus, Ohio 43219 on June 1, 2012 at 10:00 a.m., and at any adjournment or postponement thereof (the "Annual Meeting"). The enclosed proxy is being solicited by our Board of Directors. This proxy statement and the enclosed proxy will be first sent or given to our shareholders on approximately April 17, 2012.

We will bear the cost of the solicitation of proxies, including the charges and expenses of brokerage firms and others for forwarding solicitation material to beneficial owners of stock. Representatives of the Company may solicit proxies by mail, telegram, telephone, fax, or personal interview.

The shares represented by the accompanying proxy will be voted as directed if the proxy is properly signed and received by us prior to the Annual Meeting. If no directions are made to the contrary, the proxy will be voted **FOR** the election of Jeffrey L. Levine, David A. Tenwick and Gary L. Wade as directors of the Company for three (3) year terms expiring at the Annual Meeting in 2015 and **FOR** the amendment to the Company's Articles of Incorporation to increase the number of authorized shares of common stock, no par value, from 29,000,000 shares presently authorized to 55,000,000 shares and to increase the number of authorized shares of preferred stock from 1,000,000 to 5,000,000 and **FOR** the amendment to the Company's 2011 Stock Incentive Plan to increase the maximum number of shares of Company stock that may be issued under the Plan from the current maximum of 1,000,000 to an aggregate of 2,000,000 shares and to transact such other business as may properly come before the meeting or any adjournment thereof. Any shareholder voting the accompanying proxy has the power to revoke it at any time before its exercise by giving notice of revocation to us, by duly executing and delivering to us a proxy card bearing a later date, or by voting in person at the annual meeting. The officers, directors, and nominees for directors of the Company are the beneficial owners of 24% of the Company's issued and outstanding shares. The officers, directors and nominees for directors of the Company have indicated that they will vote for each nominee for director, for the amendment to the Articles of Incorporation, and for the increase in shares to the 2011 Stock Incentive Plan.

Only holders of record of our common stock at the close of business on April 4, 2012 will be entitled to vote at the Annual Meeting. At that time, we had 13,307,555 shares of common stock outstanding and entitled to vote. Each share of our common stock outstanding on the record date entitles the holder to one vote on each matter submitted at the Annual Meeting.

## Edgar Filing: ADCARE HEALTH SYSTEMS INC - Form DEF 14A

The presence, in person or by proxy, of one-third of the outstanding shares of our common stock is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and non-votes will be counted for purposes of determining the presence or absence of a quorum. Non-votes occur when shares are voted on some matters, but not others. The election of the director nominees requires the favorable vote of a plurality of all votes cast by the holders of our common stock at a meeting at which a quorum is present. The amendment to the Articles of Incorporation and the increase in shares available under the 2011 Stock Incentive Plan requires that the affirmative vote of a majority of common stock present and entitled to vote on this matter. All votes will be tabulated by the inspector of elections for the Annual Meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

### **No Dissenters' Rights**

The proposals described in this Proxy Statement will not afford shareholders the opportunity to dissent from the actions described herein or to receive an agreed or judicially appraised value for their shares.

## **ELECTION OF DIRECTORS**

Our Articles of Incorporation, as amended, provide that the number of directors shall be fixed at nine (9) with three (3) directors to be elected each year to serve a three (3) year term. At the 2010 Annual Shareholder Meeting, Christopher Brogdon, Peter J. Hackett and Laurence E. Sturtz were elected as directors for three (3) year terms expiring in 2013, Jeffrey L. Levine was elected as director for a two (2) year term expiring in 2012, and Joshua J. McClellan and Boyd P. Gentry, were each elected as directors for one (1) year terms expiring in 2011. At the 2011 meeting of shareholders, directors, Philip S. Radcliffe, Joshua J. McClellan and Boyd P. Gentry, were elected for three (3) year terms expiring in 2014. At the 2012 meeting of shareholders, Jeffrey L. Levine, David A. Tenwick and Gary L. Wade, have been nominated for three (3) year terms expiring in 2015.

It is intended that, unless otherwise directed, the shares represented by the enclosed proxy will be voted **FOR** the election of Jeffrey L. Levine, David A. Tenwick and Gary L. Wade as directors of the Company for three (3) year terms expiring at the Annual Meeting in 2015.

**THE BOARD UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" THIS PROPOSAL TO ELECT THE FOLLOWING NOMINEES FOR DIRECTOR.**

The following table sets forth each nominee's name, age, and his position with the Company:

<b>Name</b>	<b>Age</b>	<b>Position Held</b>	<b>Term Expiring</b>
Jeffrey L. Levine	60	Director	2015
David A. Tenwick	74	Director	2015
Gary L. Wade	75	Director	2015

*Jeffrey L. Levine.* Mr. Levine was elected to the Board of Directors at the December 2005 annual shareholders' meeting. He also served as a director of the Company from its organization in 1991 until 2003. Mr. Levine received his Bachelor of Science (BS) in business from Miami University in 1973 and his Juris Doctor 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 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

## Edgar Filing: ADCARE HEALTH SYSTEMS INC - Form DEF 14A

State Bar Association and the Florida State Bar Association. Mr. Levine's extensive real estate background provides experience the Board considers valuable.

*David A. Tenwick.* Mr. Tenwick, our founder, 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. Through this capacity, he has served as a director and an officer of several businesses, including Douglass Financial Corporation, a surety company, and AmeriCare Health & Retirement, Inc., a long-term care management company. 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 which invested in oil and gas properties and commercial and residential real estate. Prior to founding Nucorp, he 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 (BBA) and Juris Doctor (JD) degrees from the University of Cincinnati in 1960 and 1962, respectively. Mr. Tenwick's tenure with the Company and legal and business background provides experience the Board considers valuable.

*Gary L. Wade.* Mr. Wade 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 Boyd Gentry) on January 10, 2011 and retired as Chief Executive Officer and President on June 30, 2011. In 1988 Mr. Wade was a co-founder of AdCare Health Systems, Inc., whose assets we acquired in 1995. 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 230-unit 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 the care for Alzheimer's patients. Mr. Wade earned his undergraduate degree at Ohio University and his Master of Business Administration (MBA) 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 the Board considers valuable.

### **INFORMATION CONCERNING THE BOARD OF DIRECTORS, EXECUTIVE OFFICERS AND PRINCIPAL SHAREHOLDERS**

#### ***Board Leadership, Diversity and Structure***

Our Board has no formal policy on whether the same person should simultaneously serve as Chairman of the Board and Chief Executive Officer. This approach allows the Board 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 has determined that David A. Tenwick and Boyd P. Gentry are the most qualified persons to serve as Chairman of the Board and Chief Executive Officer, respectively.

Our Board of Directors believes that the purpose of corporate governance is to ensure that we maximize shareholder value in a manner consistent with legal requirements and the highest standards of integrity. The Board has adopted and adheres to corporate governance practices which the Board and senior management believe promote our corporate purposes, are sound and represent best practices. We strive for diversity on our Board and seek to nominate persons whose collective background and experience are relevant to the Company's operation and strategy. We continually review these governance practices to make sure we comply with state and Federal laws.

## Edgar Filing: ADCARE HEALTH SYSTEMS INC - Form DEF 14A

Our Board of Directors oversees all business, property and affairs of the Company. Our officers keep the members of the Board informed of our business through discussions at Board meetings and by providing them with reports and other materials.

### ***Risk Oversight***

Our 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 the Company's business strategy is a key part of its assessment of management's appetite for risk and also a determination of what constitutes an appropriate level of risk for the Company. 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 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. In addition, in setting compensation, the Compensation Committee strives to create a combination of near term and is working on longer term incentives that encourage a level of risk-taking behavior consistent with the Company's business strategy.

### ***Meetings and Compensation of the Board of Directors***

It is the Company's policy that directors will attend all board meetings in addition to the meetings of the committees on which they serve. If a director cannot attend in person it is expected that they attend by teleconference when possible. If a director is unable to attend in person or by teleconference, prior notice is to be provided.

Our Board of Directors had a total of seven (7) meetings, our Audit Committee had a total of four (4) meetings and our Compensation Committee had a total of two (2) meetings during the year ended December 31, 2011. All but three (3) directors attended all of the meetings they were responsible for attending. One director, Mr. McClellan, missed two telephonic Board meetings and one Committee meeting and two (2) directors missed one quarterly meeting. During the first calendar quarter of 2012, our Board of Directors had a total of two (2) meetings, our Audit Committee had two (2) meetings and our Compensation Committee had one (1) meeting. All directors attended all meetings.

Directors who are not employed by the Company receive a retainer of \$4,500 per month plus \$1,000 for each meeting attended in person and \$500 for each meeting attended via conference call. Committee chairs receive an additional \$1,100 per month as a retainer.

### ***Shareholder Communication***

Our Board of Directors welcomes communications from shareholders. Shareholders may send communications to the Board of Directors or to any director in particular, c/o Carol Groeber, AdCare Health Systems, Inc., 5057 Troy Road, Springfield, Ohio 45502-9032. Any correspondence addressed to the Board of Directors or to any one of our directors in care of our offices (or by email to carolg@adcarehealth.com) will be forwarded to the addressee without review by management.

We make our proxy solicitation materials on Schedule 14A, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act available free of charge on our



website at [www.adcarehealth.com](http://www.adcarehealth.com) as soon as reasonably practicable after we electronically file such material with the SEC.

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

We have an Audit Committee, a Compensation Committee and an Executive Committee.

The Audit Committee was established 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, review and reports upon various matters affecting the independence of the independent auditors and review with the independent auditors the results of the audit and management's responses.

The Audit Committee was established in 1995, and its charter was adopted in December, 2005. The charter can be found on our website at [www.adcarehealth.com](http://www.adcarehealth.com). The current Audit Committee is composed of Messrs. Hackett, Levine, Radcliffe and Sturtz. During 2011, all of the members of the Audit Committee were considered "independent," as independence for Audit Committee members is defined in applicable rules of the NYSE Amex listing standards and the rules of the SEC. The Board of Directors has designated Peter J. Hackett as Chairman of the Audit Committee and as "audit committee financial expert" as defined by Item 407 of Regulations S-K of the Exchange Act.

The Compensation Committee was established in 1995, and its charter was adopted in December, 2005. The charter can be found on our website at [www.adcarehealth.com](http://www.adcarehealth.com). During 2011 the Compensation Committee was comprised of Messrs. Radcliffe, Levine and McClellan. Our Compensation Committee is responsible for establishing our compensation plans. Its duties include the development with management of benefit plans for our employees and the formulation of bonus plans and incentive compensation packages. The Board of Directors has designated Philip S. Radcliffe as Chairman of the Compensation Committee.

The Executive Committee was established in 1991 in order to take actions necessary between the meetings of the Board of Directors. 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 that of filling vacancies among the Directors or any Committee of the Board of Directors. At the beginning of 2011, the Executive Committee was comprised of Messrs. Tenwick, Wade, Hackett and Brogdon. In mid 2011, Mr. Gentry was added to the Executive Committee in replacement of Mr. Wade.

The Board of Directors has no standing nominating committee. We believe that, as a result of the role of the independent directors, as described below, it is not necessary to have a separate nominating committee at this time. Five of our nine current Directors, Messrs. Hackett, Levine, Radcliffe, Sturtz, and McClellan were independent in 2011 as determined utilizing the standards for director "independence" set forth in applicable rules of the NYSE Amex listing standards. The independent members of the Board select nominees for election as Directors by majority vote. In selecting nominees for Director, the Board does not operate pursuant to a charter.

In selecting Director nominees, the Board of Directors considers, among other factors, the existing composition of the Board of Directors and the mix of its members appropriate for the perceived needs of AdCare. The Board of Directors 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 Board of Directors will generally consider as potential candidates those incumbent Directors interested in standing for re-election who

## Edgar Filing: ADCARE HEALTH SYSTEMS INC - Form DEF 14A

they believe has satisfied Director performance expectations, including regular attendance at, preparation for and meaningful participation in meetings of the Board of Directors and committee thereof. While the Board does not have a formal policy on diversity, it seeks nominees with a broad diversity of experiences, professions, skills and backgrounds. Nominees are not discriminated against on the basis of race, religion, national origin, sexual orientation, disability or any other basis proscribed by law.

### *Compensation Committee Interlocks and Insider Participation*

During 2011, the Compensation Committee was comprised of Messrs. Levine, Radcliffe and McClellan. None of the members of the Compensation Committee is a former or current officer or employee of the Company or any of its subsidiaries.

None of our executive officers has served:

as a member of the compensation committee of another entity which has had an executive officer who has served on our compensation committee;

as a director of another entity which has had an executive officer who has served on our compensation committee; or

as a member of the compensation committee of another entity which has had an executive officer who has served as one of our directors.

The Board of Directors will consider the recommendations of shareholders regarding potential director candidates. In order for shareholder recommendations regarding possible director candidates to be considered by the Board of Directors:

such recommendations must be provided to the Board of Directors c/o AdCare Health Systems, Inc., 5057 Troy Road, Springfield, Ohio 45502-9032, in writing at least 120 days prior to the date of the next scheduled annual meeting;

the nominating shareholder must meet the eligibility requirements to submit a valid shareholder proposal under Rule 14a-8 of the Securities Exchange Act of 1934, as amended; and

the shareholder must describe the qualifications, attributes, skills or other qualities of the recommended director candidate.

### *Purpose of the Compensation Committee of the Board of Directors and Committee Report*

The Compensation Committee advises the Board of Directors with respect to the compensation of each senior executive and each member of the Board of Directors. The 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 the Company's resources are used appropriately to recruit and maintain competent and talented executives and employees able to operate and grow the Company successfully.

Based upon its review and the discussions referred to herein the Committee has further recommended to the Board of Directors that the disclosure of compensation paid or awarded to executive officers and directors as required by Item 402 of Regulation S-K be disclosed pursuant to the filing of this proxy statement.

Philip S. Radcliffe Chairman

Joshua J. McClellan

Jeffrey Levine

6

---

***Indemnification of Directors and Officers***

Our Articles of Incorporation and Code of Regulations limit the liability of officers and directors to the extent currently permitted by the Ohio Revised Code.

While indemnification for liabilities under the Securities Act of 1933 is permitted to our directors, officers, and controlling people, we have been advised that, in the opinion of the Securities and Exchange Commission, indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim of indemnification against such liabilities (other than our payment of expenses incurred or paid by one of our directors, officers, or controlling people in a successful defense of any action, suit, or proceeding) is asserted by such director, officer, or controlling person in connection with our securities, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, ask a court of appropriate jurisdiction to decide whether or not such indemnification is against public policy as expressed in the Act. We will be governed by the final adjudication of the issue.

***Code of Ethics***

We have a Business Conduct Policy applicable to all employees of the Company. Additionally, the Chief Executive Officer and all senior financial officers, including the principal financial officer, the principal accounting officer or controller, or any person performing a similar function are bound by the provisions of our code of ethics relating to ethical conduct, conflicts of interest, and compliance with the law. Our code of Business Conduct and Ethics can be found on our website at [www.adcarehealth.com](http://www.adcarehealth.com).

*Report of Audit Committee of the Board of Directors*

The Audit Committee consults with our Chief Financial Officer and other key members of our management and with our independent auditors with regard to the plan of audit; reviews, in consultation with the independent auditors, their report of audit, or proposed report of audit and the accompanying management letter, if any; and consults with our Chief Financial Officer and other key members of our management and with our independent auditors with respect to the adequacy of the internal accounting controls.

In fulfilling its responsibilities, the Audit Committee selected Battelle & Battelle LLP as our independent accountants for purposes of auditing our financial statements for 2011. The Audit Committee has reviewed and discussed with management and the independent auditors our audited financial statements; discussed with the independent auditors the matters required to be disclosed by Codification of Statements on Auditing Standards No. 61, as amended; received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1; and discussed with the independent accountants their independence from our Company.

Based on the reviews and discussions with management and Battelle & Battelle LLP, the Audit Committee recommended to the Board of Directors that our audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission.

The Board of Directors evaluated the independence of each member of the Audit Committee. As part of its evaluation, the Board of Directors determined, in the exercise of its business judgment, that Messrs. Hackett, Levine, Radcliffe and Sturtz are independent under NYSE Amex standards and is financially literate each in his own capacity.

Based upon the work and the information received in the inquiries outlined above, the Audit Committee is satisfied that its responsibilities for the period ended December 31, 2011, were met and that our financial reporting and audit processes are functioning effectively.

Submitted by the Audit Committee  
of the Board of Directors

Peter J. Hackett  
Jeffrey L. Levine  
Philip S. Radcliffe  
Laurence E. Sturtz

## MANAGEMENT

## Executive Officers and Directors

The following table sets forth certain information with respect to our executive officers and directors. *We have historically separated the function of Chairman of the Board and Chief Executive Officer as we believe that the Company is better served by these functions being performed by separate individuals.*

Name	Age	Position	Expiration of Term
David A. Tenwick(1)	74	Director, Chairman of the Board	2012
Christopher Brogdon(1)	63	Director, Vice-Chairman, Chief Acquisitions Officer	2013
Boyd P. Gentry(1)	53	Director, President, CEO	2014
Gary L. Wade	75	Director	2012
Peter J. Hackett(1)	74	Director	2013
Jeffrey Levine	60	Director	2012
Joshua J. McClellan	40	Director	2014
Philip S. Radcliffe	74	Director	2014
Laurence E. Sturtz	69	Director	2013
Martin D. Brew	51	Chief Financial Officer, Treasurer	
David Rubenstein	45	Chief Operations Officer	

(1) Members of the Executive Committee.

Directors are elected at the annual meeting of shareholders and hold office for a term of three (3) years or until their successors are elected and have qualified. All officers serve at the discretion of the Board of Directors. The Board has a four-person Executive Committee. At the beginning of 2011 the Executive Committee was comprised of David A. Tenwick, Christopher Brogdon, Gary L. Wade, and Peter J. Hackett. In mid 2011, Mr. Gentry was added to the committee in replacement of Mr. Wade. The Executive Committee is elected by the whole Board of Directors and meets in between regularly-scheduled Board meetings in order to take needed actions.

*Christopher Brogdon.* Mr. Brogdon was appointed as a director by existing members of the Board in September 2009 and was elected by the shareholders in 2010. Mr. Brogdon currently serves as the Company's Vice-Chairman and Chief Acquisition Officer. 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 (RCA) and NASDAQ-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 the Board considers valuable.

*Boyd P. Gentry.* Mr. Gentry was appointed as a director by existing members of the Board of Directors in December 2009 and became Co-Chief Executive Officer of the Company on January 10, 2011 and President and Chief Executive Officer on June 30, 2011. Mr. Gentry was employed by Mariner Health Care, Inc., a former NYSE publicly held long-term health care provider, from 1995 to

## Edgar Filing: ADCARE HEALTH SYSTEMS INC - Form DEF 14A

2007, and promoted to Chief Financial Officer subsequent 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 Millenium Pharmacy Systems, Inc. to serve as Chief Financial Officer. He remained with Millenium 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 (BA) in Economics from Knox College in Galesburg, Illinois and his Master of Business Administration (MBA) in Finance and Accounting from Southern Methodist University in Dallas, Texas. Mr. Gentry's expertise and background in the healthcare industry provides experience the Board considers valuable especially as the Company expands its operations and adds to the number of nursing home beds that it owns or leases.

*Joshua J. McClellan.* Mr. McClellan was appointed as a director by existing members of the Board of Directors in December 2009 and was elected by the shareholders in 2010. From 1996 to 2006, Mr. McClellan served as Founder and President of McClellan Health Systems, Inc., located in northwest Ohio. Through acquisitions and development, he grew his company from a single, skilled nursing facility to a large regional healthcare provider for over 650 residents which he sold in June, 2006 for \$53M. In 2011, he developed and opened a large rehab facility in Denman, Colorado which has the capacity to provide rehabilitation and other medical services to approximately 100 residents. Mr. McClellan received his Bachelor of Science (BS) from Ohio State University and his Master of Business Administration (MBA) from the University of Findlay in Findlay, Ohio. Mr. McClellan is also a member of the Young Presidents Organization. Mr. McClellan's expertise and background in the healthcare industry (particularly nursing homes) provides experience the Board considers valuable.

*Peter J. Hackett.* Mr. Hackett was appointed as a director by existing members of the Board of Directors in May 2005 and he was elected by the shareholders in June 2007. Mr. Hackett is a certified public accountant who received his BA degree from the University of Notre Dame and his Masters of Arts 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 a Chief Executive Officer of Clark, Schaefer, & Hackett & Co. from 1991 to 1999 and was Chairman from 1999 to 2003. Mr. Hackett currently acts 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 the Board of Directors considers valuable.

*Philip S. Radcliffe.* Mr. Radcliffe has served as a director since our organization was founded in August 1991. Mr. Radcliffe 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 start up 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 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 a public SEC reporting companies provides experience the Board considers valuable.

## Edgar Filing: ADCARE HEALTH SYSTEMS INC - Form DEF 14A

In addition, his expertise in information technology is valuable as the Company continues to acquire long-term care facilities.

*Laurence E. Sturtz.* Mr. Sturtz was appointed as a director by existing members of the Board of Directors in June 2005 and was elected by the shareholders at the December 2005 annual meeting. Mr. Sturtz is a retired attorney at law. He received his BA in Economics, and his JD degree from The Ohio State University, graduating 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 (1982-1988) and 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 2007 and was Chairman of the Board of The Language Access Network ("TLAN") from March, 2006 until December 2007. Mr. Sturtz currently works as a mediator and arbitrator in Florida and Ohio. Mr. Sturtz' extensive legal experience, management background and experience with public companies provides experience the Board considers valuable.

Other than Messrs. Tenwick, Brogdon and Gentry who are also directors, the following persons serve as executive officers of the Company:

*Martin D. Brew.* Mr. Brew was appointed as Chief Financial Officer and Treasurer of the Company in June 2011. Mr. Brew brings to AdCare extensive financial management experience in the senior housing, hospitality, real estate industries. Mr. Brew is a seasoned finance and healthcare industry executive who brings more than thirty years of experience and from 2007 to 2010 served as Vice President of Finance of, and provided consulting services to, Formation Capital, a private equity firm with expertise in the senior housing industry. While at Formation, Mr. Brew played key roles in the company's mergers and acquisitions, due diligence and financial modeling and analysis processes, which processes included the post-acquisition integration and oversight of Genesis Health Care, a \$2 billion former public company that owns and operates more than 200 nursing facilities, and at Tandem Health Care, an owner of more than 70 nursing facilities. Prior to 2007, Mr. Brew served as Treasurer and Chief Accounting Officer at Jameson Inns, a publicly traded owner and operator of hotels. Mr. Brew received his Bachelor of Science (BS) in Business from Indiana 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 the Company's Executive Vice President and Chief Operating Officer in December 2011. From March 2010 until December 18, 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 (BS) in Accounting from the University of Rhode Island.

Edgar Filing: ADCARE HEALTH SYSTEMS INC - Form DEF 14A

*Ownership of Common Stock by Directors and Executive Officers*

The following table sets forth, as of March 16, 2012, the beneficial ownership of our common stock by each of our directors, each executive officer named in the Summary Compensation Table, and by all directors and executive officers as a group.

Names and Address	Number( )	Percent of Total( )
David A. Tenwick 8503 Misty Woods Circle Powell, OH 43065	800,772(1)	6.3%
Christopher Brogdon  345 Heards Ferry Road N.W. Atlanta, GA 30328	1,366,763(2)	10.9%
Gary L. Wade  4714 Merrimont Springfield, OH 45503	452,687(3)	3.6%
Boyd P. Gentry  84 Palisades Road Atlanta, GA 30309	220,088(4)	1.8%
Peter J. Hackett  505 West Home Road Springfield, OH 45504	38,578(5)	*
Jeffrey Levine  3720 Ridgeleigh Rd. #D Kettering, OH 45429	61,590(6)	*
Joshua J. McClellan  8442 Strawberry Lane Niwot, CO 80305	126,611(7)	1.0%
Philip S. Radcliffe  106 Burnham Williamsburg, VA 23188	60,512(8)	*
Laurence E. Sturtz  3421 Pointe Creek Court, Apt #106 Bonita Springs, FL 34134	112,999(9)	*
Martin D. Brew  6838 South Bluff Ct Gainesville, GA 30506	0(10)	*
David Rubenstein  5605 Millwick Drive Alpharetta, GA 30005	0(11)	*
All Directors and Officers as a Group	3,240,600	24.0%

\*  
Less than 1%

( )  
Except as otherwise specified, each individual has sole and direct beneficial voting and investment power with respect to shares of our common stock indicated.

( )



Percentage is calculated based on 12,202,042 shares of our common stock outstanding as of March 16, 2012.

## Edgar Filing: ADCARE HEALTH SYSTEMS INC - Form DEF 14A

- (1) Includes 104,260 warrants at \$1.11 per share, 104,260 warrants at \$2.05 per share, 104,260 warrants at \$2.73 per share and 104,260 warrants at \$3.63.
- (2) Includes 855,254 shares held directly by Connie B. Brogdon (his spouse), 180,759 shares held by Christopher Brogdon, 110,250 warrants which are currently exercisable by Christopher Brogdon at \$2.72 per share, 110,250 warrants which are currently exercisable by Christopher Brogdon at \$3.63 per share, 110,250 warrants which are currently exercisable by Christopher Brogdon at \$4.53.
- (3) Includes 56,079 warrants at \$1.11 per share, 56,079 warrants at \$2.05 per share, 56,079 warrants at \$2.73 per share, 56,079 warrants at \$3.63 per share, 8,820 options at \$1.36 per share and 10,000 options at \$4.32 per share.
- (4) Includes 175,000 warrants at \$3.93 per share.
- (5) Includes 7,720 options at \$1.36 per share, 10,000 options at \$4.32 per share, 882 warrants at \$1.11 per share, 882 warrants at \$2.05 per share, 882 warrants at \$2.73 per share and 882 warrants at \$3.63 per share.
- (6) Includes 7,720 options at \$1.36 per share, 10,000 options at \$4.32 per share, 3,087 warrants at \$1.11 per share, 3,087 warrants at \$2.05 per share, 3,087 warrants at \$2.73 per share and 3,087 warrants at \$3.63 per share.
- (7) Includes 10,000 options at \$4.32 per share
- (8) Includes 441 options which are exercisable at \$2.27 per share, 7,720 options at \$1.36 per share, 10,000 options at \$4.32 per share, 4,907 warrants at \$1.11 per share, 4,907 warrants at \$2.05 per share, 4,907 warrants at \$2.73 per share and 4,907 warrants at \$3.63 per share.
- (9) Includes 7,720 options at \$1.36 per share, 10,000 options at \$4.32 per share, 9,667 warrants at \$1.11 per share, 9,667 warrants at \$2.05 per share, 9,667 warrants at \$2.73 per share and 9,667 warrants at \$3.63 per share.
- (10) Has been awarded 52,500 options at \$5.48 which are currently non-vested.
- (11) Has been awarded 100,000 warrants at \$4.13 and 100,000 warrants at \$4.97 which are currently non-vested.

### *Ownership of Common Stock by Principal Shareholders*

The following table sets forth information as of March 16, 2012, relating to the beneficial ownership of common stock by each person known by us to beneficially own more than 5% of our outstanding shares of common stock.

Names and Address	Number( )	Percent of Total( )
Connie B. Brogdon 345 Heards Ferry Road N.W. Atlanta, GA 30328	1,366,763(1)	10.9%
AQR Capital Management, LLC	1,138,011(2)	9.9%
Two Greenwich Plaza, 3 <sup>rd</sup> Floor Greenwich, CT 06830		

- ( ) Except as otherwise specified, each individual has sole and direct beneficial voting and investment power with respect to shares of our common stock indicated.

- ( ) Percentage is calculated based on 12,202,042 shares of our common stock outstanding as of March 16, 2012.
- (1) Includes 180,759 shares held by Christopher Brogdon (her spouse), 110,250 warrants which are currently exercisable by Christopher Brogdon at \$2.72 per share, 110,250 warrants which are currently exercisable by Christopher Brogdon at \$3.63 per share, 110,250 warrants which are currently exercisable by Christopher Brogdon at \$4.53.
- (2) Includes debt securities that are convertible into 1,138,011 shares of common stock.

## EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth the amount accrued by us during fiscal year 2011 for services rendered by our named executive officers. This includes all compensation awarded to, earned by or accrued for the executive officers listed below during the periods in question:

## SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary	Bonus	Stock awards	Option(4) awards	Non-equity incentive		Total
						plan compensation(1)	All other compensation(1)	
David A. Tenwick, Chairman (PEO)	2011	\$ 221,333				\$	\$ 47,072	\$ 268,405
	2010	\$ 165,476	\$ 100,000			\$	\$ 41,540	\$ 307,016
Christopher Brogdon, Vice-Chairman and Chief Acquisitions Officer	2011				\$ 177,023	\$	\$ 25,000	\$ 202,023
	2010	\$	\$ 100,000	\$	\$	\$	\$	\$ 100,000
Gary L. Wade(2), President, Co-Chief Executive Officer	2011	\$ 105,097			\$ 14,925	\$	\$ 137,697	\$ 257,719
	2010	\$ 159,965	\$ 100,000			\$	\$ 36,541	\$ 296,506
Boyd Gentry President, Chief Executive Officer	2011	\$ 279,629			\$ 679,982	\$	\$ 35,918	\$ 995,529
Scott Cunningham(3), Chief Financial Officer (PFO)	2011	\$ 87,437	\$			\$	\$ 11,126	\$ 98,563
	2010	\$ 132,401	\$ 75,000			\$	\$ 15,270	\$ 222,671
Martin D. Brew, Chief Financial Officer (PFO)	2011	\$ 103,333	\$		\$ 158,979	\$	\$ 8,089	\$ 270,401
David Rubenstein, Chief Operating Officer	2011	\$	\$ 150,000		\$ 350,068	\$	\$	\$ 500,068

- (1) Includes annual expense allowances for Mr. Tenwick in the amount of \$40,000, for Mr. Wade in the amount of \$35,000, for Mr. Gentry in the amount of \$30,000, for Mr. Cunningham in the amount of \$15,000 and for Mr. Brew in the amount of \$15,000. Represents for Mr. Brogdon a guarantee fee paid to him in connection with his personal guarantee of our obligations under the lease with respect to the Red Rose facility.
- (2) Mr. Wade's salary is included in this table for the first six months of the year. He retired on June 30, 2011. He was paid additional compensation in the last six months of the year totaling \$106,661 under a retirement agreement and \$10,000 in director compensation which is reflected in all other compensation. Mr. Wade also received 10,000 options valued at \$14.925 along with the other directors.
- (3) Mr. Cunningham is included in this table for the first six months of the year. He left AdCare's employment on June 30, 2011. He was paid additional compensation in the last six months of the year totaling \$105,884 under a severance agreement.
- (4) Assumptions utilized by us in valuing stock based compensation are discussed in Note 10 to our consolidated Financial Statements included in our Annual Report.

*Employment Agreements*

We entered into an employment agreement with Mr. Gentry effective January 10, 2011 (the "Gentry Agreement"). The terms of the Gentry Agreement include an annual salary of \$300,000 per year, an annual performance bonus of up to 100% of the annual salary based on standards to be established by the Compensation Committee of the Board of Directors and participation in the Company's Executive Expense Allowance program to the extent of \$30,000 per year. Pursuant to the Gentry Agreement, Mr. Gentry also received equity compensation in the form of a warrant to purchase 250,000 shares of the Company's common stock with an exercise price per share equal to \$4.13 per share. The warrant vested as to one-third of the underlying shares on each of January 10, 2011 and January 9, 2012 and the warrant will vest as to one-third of the underlying shares on January 9, 2013. In the event Mr. Gentry resigns for "good reason", is terminated for "cause", or a "change in control" occurs while he is employed by the Company, the warrant immediately become 100% vested. If Mr. Gentry resigns his employment for "good reason" or the Company terminates Mr. Gentry's employment without "cause", Mr. Gentry or his successors and assigns, shall be entitled to severance pay in an amount equal to two (2) times the sum of his annual salary plus target bonus, payable in substantially equal installments at least monthly for twenty-four (24) months after the termination date, plus if such termination occurs within three (3) months before or twenty-four (24) months after the occurrence of a "change in control" the Mr. Gentry is entitled to an additional payment equal tith sum of annual salary plus target bonus, payable at least monthly in substantially equal installments over a period not to exceed twelve (12) months which period shall begin immediately after the expiration of the Gentry Initial Severance Period. For the period for which severance pay is paid, i.e., twenty-four (24) or thirty-six (36) months following termination of employment, Mr. Gentry within three (3) months before or twenty-four (24) months after the occurrence of a change in control of the Company (the "Gentry Severance Period"), Mr. Gentry and his family are entitled to continue to be covered under all employee benefit plans of the Company under which executive officers of the Company are covered and at the same cost and under the same terms and conditions as apply to executive officers, provided, however, that if the Company is unable under applicable law or the insurer will not permit the Mr. Gentry to be covered under any such plan, the Company is required to pay Mr. Gentry an amount each month during the Gentry Severance Period equal to the Company's cost of coverage for similarly situated executive officers.

We entered into an employment agreement with Mr. Rubenstein effective December 19, 2011 (the "Rubenstein Agreement"). The terms of the Rubenstein Agreement include an annual salary of \$300,000 per year to be increased to \$325,000 by June 30, 2012, an annual performance bonus of up to 75% of the annual salary based on standards to be established by the Compensation Committee of the Board of Directors and a one-time signing bonus of \$150,000. On December 19, 2011, Mr. Rubenstein also received equity compensation in the form of (i) a warrant to purchase 100,000 shares of the Company's common stock with an exercise price equal to \$4.13 per share, which warrant vests as to one-third of the underlying shares on each of the three subsequent anniversaries of the grant date and (ii) a warrant to purchase 100,000 shares of the Company's common stock, with an exercise price of \$4.97 per share, which warrant vests as to one-third of the underlying shares on each of the second, third and fourth anniversaries of the grant date. In the event Mr. Rubenstein resigns for a "good reason" or a "change in control" occurs while he is employed by the Company, the warrants immediately become 100% vested. If, during the first three (3) months of continuous employment with the Company, Mr. Rubenstein resigns his employment for "good Reason" or the Company terminates his employment without "cause," then Mr. Rubenstein is entitled to severance pay in the form of salary continuation for three (3) months. If after a minimum of three (3) months of continuous employment with the Company, but less than six (6) months of continuous employment with the Company, Mr. Rubenstein resigns his employment for "good reason" or the Company terminates Mr. Rubenstein's employment without "cause" (other than due to his disability), then Mr. Rubenstein or his successors and assigns, is entitled to receive severance pay in an amount equal to one-half ( $\frac{1}{2}$ ) of

his annual salary, payable in substantially equal installments at least monthly for six (6) months after his termination date. If, after a minimum of six (6) months of continuous employment with the Company Mr. Rubenstein resigns his employment for "good Reason" or the Company terminates Mr. Rubenstein's employment without "cause" (other than due to his disability) then Mr. Rubenstein's successors and assigns shall receive the severance pay and benefits hereafter provided. The severance pay shall be an amount equal to one (1) times the sum of annual salary payable in substantially equal installments at least monthly for twelve (12) months after the termination date (the "Rubenstein Initial Severance Period"), plus if such termination occurs within three (3) months before or twenty-four (24) months after the occurrence of a "change in control," then Mr. Rubenstein is entitled to an additional one-half time the sum of annual salary plus target bonus, payable in substantially equal installments at least monthly for six (6) months beginning immediately after the expiration of the Rubenstein Initial Severance Period. For the period for which severance pay is paid, i.e., three (3), six (6), twelve (12) or eighteen (18) months following termination of employment (the "Rubenstein Severance Period"), Mr. Rubenstein and his family are entitled to continue to be covered under all employee benefit plans of the Company under which executive officers of the Company are covered and at the same cost and under the same terms and conditions as apply to executive officers, provided, however, that if the Company is prohibited by applicable law or its issuer from covering Mr. Rubenstein under any such plan, then the Company shall pay to Mr. Rubenstein an amount each month during the Rubenstein Severance Period equal to the Company's cost of coverage for similarly situated executive officers.

For purposes of the above referenced Gentry Agreement and Rubenstein Agreement, the following terms have the following meanings: (i) resignation for "good reason" means the officer's resignation within ninety (90) days following the Company's failure to cure a material breach of this Agreement within thirty (30) days after the officer gives the Company written notice of such breach within ninety (90) days of the occurrence of such breach; (ii) "cause" means the officer's fraud, dishonesty, willful misconduct, or gross negligence in his performance of his duties, or the officer's conviction for a crime of moral turpitude, or material breach by the officer of this Employment Agreement which the officer fails to cure within thirty (30) days after the Company gives the officer written notice of such breach; (iii) "change in control" means one or more sales or dispositions, within a twelve (12) month period, of assets representing a majority of the value of the assets of the Company or the acquisition (whether by purchase or through a merger or otherwise) of common stock of the Company immediately following which the holders of common stock of the Company immediately prior to such acquisition cease to own directly or indirectly common stock of the Company or its legal successor representing more than fifth percent (50%) of the voting power of the common stock of the Company or its legal successor.

In connection with his hiring, we provided to Mr. Brew an Offer Letter, effective May 17, 2011 (the "Brew Letter"). Pursuant to the Brew Letter, Mr. Brew was offered an annual salary of \$175,000 and is eligible to receive and increase in annual salary of \$25,000 or more no later than May 17, 2012, which increase shall be based on Mr. Brew's work performance. Additionally, Mr. Brew is eligible to receive an annual performance bonus of 75% of his annual salary based on his achievement of the same goals established for the Chief Executive Officer's receipt of incentive compensation and participation in the Company's Executive Expense Allowance program to the extent of \$15,000 per year. Mr. Brew also received equity compensation in the form of an option to purchase 50,000 shares of the Company's common stock, which option vests as to one-third of the underlying shares on each of the three subsequent anniversaries of the grant date, June 6, 2011. If after a minimum of six (6) months or continuous employment with the Company, but less than twelve (12) months of continuous employment with the Company, the Company terminates Mr. Brew's employment without cause, then Mr. Brew is entitled to severance pay in the form of salary continuation for a period of six (6) month, or twelve (12) months in the event of termination without cause in connection with a change of control event. If after twelve (12) months of continuous employment with the Company, the Company terminates Mr. Brew's employment without cause, then Mr. Brew is entitled to severance pay

in the form of salary continuation for a period of twelve (12) months, or twenty-four (24) months in the event of termination without cause in connection with a change of control event.

Mr. Tenwick had an employment agreement that expired in September of 2011. The Company is currently not a party to an employment agreement with either Mr. Brogdon.

### ***Stock Incentive Plans***

At our 2011 Annual Meeting of Shareholders held on June 3, 2011, the stockholders of the Company adopted the 2011 Stock Option Plan. The 2011 Stock Incentive Plan is intended to further the growth and profitability of our Company by providing increase incentives to encourage the share ownership, on the part of key employees, officers, directors, and consultants and advisors who render services to the Company, and any future parent or subsidiary of the Company. The 2011 Stock Incentive Plan permits the granting of stock options and restricted stock awards (collectively, "Awards") to eligible participants. The 2011 Stock Incentive Plan authorizes issuance of options to purchase up to 1,050,000 shares of common stock (adjusted for stock dividends) and is administered by the Compensation Committee of the Board of Directors. Subject to the terms of the 2011 Stock Incentive Plan, the Compensation Committee has the sole discretion to determine the persons, who will be granted Awards under the 2011 Stock Incentive Plan and the terms and conditions of such Awards, and to construe and interpret the 2011 Stock Incentive Plan. The Compensation Committee is also responsible for making adjustments in outstanding Awards, the shares available for Awards, and the numerical limitations for Awards to reflect transactions such as stock splits and dividends. The Compensation Committee may delegate its authority to one or more directors or officers; provided, however, that the Committee may not delegate its authority and powers (i) with respect to Section 16 Persons, or (ii) in any way which would jeopardize the 2011 Stock Incentive Plan's qualifying under Section 162(n) of Code or Rule 16b-3 promulgated under the Exchange Act. The 2011 Stock Incentive Plan allows for the exercise of options through cash, or with the consent of the Committee: (a) by tendering previously acquired shares; (b) by tendering a full recourse promissory note of the optionee; (c) through a cashless exercise without the payment of cash by reducing the number of shares of common stock that would be obtainable upon the exercise of the option; (d) through a brokerage transaction; or (e) any combination of the foregoing. Benefits under the 2011 Stock Incentive Plan will depend on a number of factors, including the fair market value of the Company's common stock on future dates. Consequently, it is not possible to determine the benefits that might be received by participants receiving Awards under the 2011 Stock Incentive Plan. The Company is not obligated to make any future grants of awards under the 2011 Stock Incentive Plan. The 2011 Stock Incentive Plan provides the issuance of both incentive stock options and nonqualified stock options as permitted by the 2005 stock option plan described below. As of December 31, 2011, 277,000 incentive options with prices ranging from \$4.96 to \$5.75 and 210,000 nonqualified options with prices ranging from \$4.32 to \$7.00 have been granted under the 2011 Stock Incentive Plan. A total of 75,000 of these options have been forfeited due to routine staff attrition. See page 20 of this proxy statement concerning our proposal to amend the 2011 Plan to increase the number of shares of common stock available for issuance under the Plan from 1,000,000 to 2,000,000 shares.

In November, 2007, the Board of Directors of the Company granted warrants to officers and directors of the Company equal to two warrants for every share of stock owned. The original warrants vested ratably over a period of five years and matured on the tenth anniversary of their grant. The exercise price of the warrants in each of the five years following the issuance of the warrants was initially determined as follows: warrants vesting in 2008 were exercisable at \$1.21; warrants vesting in 2009 were exercisable at \$2.25; warrants vesting in 2010 through 2012 were exercisable at a price equal to the greater of (i) the average closing price of the Company's common stock on NYSE-Amex exchange during the month of January each year or (ii) \$3.00. The issuance of these Warrants was approved at a Special Meeting of the Shareholders on August 15, 2008. In connection with the Company's private placement approved by shareholders on November 30, 2009, the Company amended

## Edgar Filing: ADCARE HEALTH SYSTEMS INC - Form DEF 14A

this plan to provide that (i) the unvested Warrants scheduled to vest in 2011 will be exercisable at \$4.00 per share, (ii) the unvested Warrants scheduled to vest in 2012 will be eliminated; and (iii) all unexercised warrants would be exercisable on a cashless basis. The warrants that were to vest in 2012 will be replaced by a like number of Restricted Shares.

In August 2005, we adopted a Stock Option Plan (the "2005 Plan") to secure for us and our shareholders the benefits arising from capital stock ownership by our officers, directors, employees, and consultants who are expected to contribute to our future growth and success. The 2005 Plan authorizes the grant of options to purchase an aggregate of 220,500 shares of our common stock (adjusted for stock splits and stock dividends) both as "incentive stock options" as that term is defined under Section 422(A) of the Internal Revenue Code of 1986, as amended, and stock options which do not qualify as incentive stock options ("non-qualified stock options"). The 2005 Plan provides that the Board of Directors or the Compensation Committee of the Board of Directors may grant options and otherwise administer the 2005 Plan. As of December 31, 2011, 166,800 incentive stock options and 32,200 non-qualified stock options have been granted at an exercise price of \$1.50 per share under the 2005 Plan. A total of 61,400 of these options have been forfeited due to routine staff attrition.

In August 2004, we adopted a Stock Option Plan ("2004 Plan") to secure for us and our shareholders the benefits arising from capital stock ownership by our officers, directors, employees, and consultants who are expected to contribute to our future growth and success. The terms and conditions of this plan is exactly the same as the 2005 Plan. The 2004 Plan authorizes the grant of options to purchase an aggregate of 132,300 shares of our common stock (adjusted for the stock split and stock dividends) As of December 31, 2011, 98,200 incentive stock options and 16,000 non-qualified stock options have been granted at an exercise price of \$2.50 per share under the 2004 Plan. A total of 28,040 of these options have been forfeited due to routine staff attrition and 38,280 have expired.



**Retirement Programs**

The Company's retirement programs are designed to facilitate the retirement of employees who have performed for AdCare over the long term. We currently maintain a 401(k) Plan with a match of 50% of the first 2% of an employee's gross income as well as non-qualified employee stock purchase program. The terms of these plans are essentially the same for all employees. Our named executive officers participate in the plans on the same basis as all other employees. AdCare does not provide our named executive officers any special benefits such as executive life insurance.

Name and Principal Position	OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END OPTIONS/WARRANTS AWARDS					STOCK AWARDS			
	Number of securities underlying unexercised options (#)	Number of securities underlying unexercised options (#)	Equity incentive plan awards: number of securities underlying unexercised options (#)	Option exercise price	Option expiration date	Number of shares or units of stock that have not vested	Market value of stock that is not vested	Market or Total number of unearned shares, units or other rights that have not vested	Market or Total number of unearned shares, units or other rights that have not vested
Chairman	104,260		0	1.11	11/16/2017	0	\$ 0	0	\$ 0
David A. Tenwick(1)	104,260			2.05	11/16/2017				
	104,260			2.73	11/16/2017				
	104,260			3.63	11/16/2017				
Vice-Chairman & Chief	110,250		0	2.72	11/1/2017	150,000	\$ 597,000	0	\$ 0
Acquisitions Officer	110,250			3.63	11/1/2017				
Christopher Brogdon(2)	110,250			4.53	11/1/2017				
		100,000		6.00	11/18/2021				
		50,000		7.00	11/18/2021				
Co-CEO to 6/30/2011	2,205		0	1.36	5/09/2013	0	\$ 0	0	\$ 0
Gary L. Wade(3)	2,205			1.36	5/09/2014				
	2,205			1.36	5/09/2015				
	2,205			1.36	5/09/2016				
	10,000			4.32	11/18/2016				
	56,079			1.11	11/16/2017				
	56,079			2.05	11/16/2017				
	56,079			2.73	11/16/2017				
	56,079			3.63	11/16/2017				
CFO to 6/30/2011	3,528		0	2.27	8/24/2012	0	\$ 0	0	\$ 0
Scott Cunningham(4)	2,205			1.36	5/09/2012				
	2,205			1.36	5/09/2013				
	2,205			1.36	5/09/2014				
	2,205			1.36	5/09/2015				
	2,205			1.36	5/09/2016				
	1,940			1.11	11/16/2017				
	1,940			2.05	11/16/2017				
	1,940			2.73	11/16/2017				
	1,940			3.63	11/16/2017				&