

ADCARE HEALTH SYSTEMS, INC  
Form 424B3  
January 14, 2014

Filed Pursuant to Rule 424(b)(3)  
(Registration Statement Nos. 333-183912  
333-175541  
333-171184)  
PROSPECTUS

6,359,294 SHARES OF COMMON STOCK  
OF

ADCARE HEALTH SYSTEMS, INC.

This prospectus relates to the resale, from time to time, by the selling shareholders identified in this prospectus under “Selling Shareholders” of up to:

2,229,491 shares of common stock issuable upon conversion of our unsecured 10% subordinated convertible promissory notes, with a current conversion price of \$3.73 per share (the “2010 Notes”), issued by us in October 2010 (the “2010 Offering”);

1,114,675 shares of common stock issuable upon conversion of our unsecured 10% subordinated convertible promissory notes, with a current conversion price of \$4.80 per share (the “2011 Notes”), issued by us in March, April and May 2011 (the “2011 Offering”);

275,625 shares of common stock issuable upon exercise of a warrant issued to a placement agent in connection with the 2011 Offering, with a current exercise price of \$4.81 per share (the “2011 Placement Agent Warrant”);

2,267,003 shares of common stock issuable upon conversion of our unsecured 8% subordinated promissory notes, with a current conversion price of \$3.97 per share (the “2012 Notes” and, together with the 2011 Notes and the 2010 Notes, the “Notes”), issued by us in July 2012 (the “2012 Offering”);

105,000 shares of common stock issuable upon exercise of a warrant issued to a placement agent in connection with the 2012 Offering, with a current exercise price of \$3.81 per share (the “2012 Placement Agent Warrant”);

315,000 shares of common stock issuable upon exercise of a warrant issued to an affiliate of the placement agent in the 2012 Offering in connection with a certain bridge financing, with a current exercise price of \$3.81 per share (the “Bridge Warrant” and, together with the 2012 Placement Agent Warrant and the 2011 Placement Agent Warrant, the “Warrants”); and

52,500 shares of common stock issued to a placement agent in connection with the 2012 Offering.

The shares are being offered by the selling shareholders identified in this prospectus under “Selling Shareholders.” We are not selling any shares of common stock under this prospectus and will not receive any proceeds from the sale of shares by the selling shareholders. The selling shareholders will bear all

---

commissions and discounts, if any, attributable to the sale of the shares. We will bear all costs, expenses and fees in connection with the registration of the shares.

The selling shareholders may sell the shares of the common stock offered by this prospectus from time to time on terms to be determined at the time of sale through ordinary brokerage transactions or through any other means described in this prospectus under "Plan of Distribution." The prices at which the selling shareholders may sell the shares will be determined by the prevailing market price for the shares or in negotiated transactions.

The common stock is traded on the NYSE MKT under the symbol "ADK." On December 26, 2013, the last reported sale of the common stock on the NYSE MKT was \$4.27 per share.

You should read carefully both this prospectus and any prospectus supplement together with the additional information described in this prospectus under "Where You Can Find More Information" and "Incorporation of Certain Information by Reference."

Investing in our securities involves a high degree of risk. See "Risk Factors" beginning on page 9 of this prospectus. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is January 8, 2014

---

TABLE OF CONTENTS

	Page
Prospectus Summary	4
Risk Factors	9
Forward-Looking Statements	13
Use of Proceeds	15
Market Price of the Common Stock	16
Director and Executive Compensation	17
Description of Capital Stock	28
Selling Shareholders	33
Plan of Distribution	47
Legal Matters	50
Experts	50
Where You Can Find More Information	50
Incorporation of Certain Information by Reference	51
Disclosure of SEC Position on Indemnification for Securities Act Liabilities	52

---

You should rely only on the information contained or incorporated by reference into this prospectus and in any applicable prospectus supplement. We have not authorized any other person to provide you with different information. The information contained in this prospectus, any applicable prospectus supplement and the documents incorporated by reference into this prospectus are accurate only as of the date such information is presented. Our business, financial condition, results of operations and financial condition may have subsequently changed. You should also read this prospectus together with the additional information described under “Where You Can Find More Information” and “Incorporation of Certain Information by Reference.”

This prospectus may be supplemented from time to time to add, update or change the information in this prospectus. Any statement contained in this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in a prospectus supplement modifies or supersedes such statement. Any statement so modified will be deemed to constitute a part of this prospectus only as so modified, and any statement so superseded will be deemed not to constitute a part of this prospectus.

The registration statement containing this prospectus, including the exhibits to the registration statement, provides additional information about us and the securities offered under this prospectus. The registration statement, including the exhibits, can be read on the Internet website maintained by the Securities and Exchange Commission (the “SEC”) or at the SEC’s offices as further discussed under “Where You Can Find More Information.”

---

Except as otherwise indicated or unless the context requires, as used in this prospectus, references to “AdCare,” “we,” “us” and “our” refer to AdCare Health Systems, Inc., a Georgia corporation, and its consolidated subsidiaries.

## PROSPECTUS SUMMARY

This summary highlights certain information contained elsewhere in this prospectus or in the documents incorporated by reference into this prospectus. It may not contain all of the information that is important to you or that you should consider before investing in our securities. Before making an investment decision, you should read this entire prospectus carefully, including “Risk Factors” and the documents incorporated by reference into this prospectus, which are described under “Where You Can Find More Information” and “Incorporation of Certain Information by Reference.”

### The Company

#### Overview

We own and manage skilled nursing facilities and assisted living facilities in the states of Alabama, Arkansas, Georgia, Missouri, North Carolina, Ohio, Oklahoma, and South Carolina. As of September 30, 2013, we own, lease and manage 47 facilities consisting of 43 skilled nursing facilities, three assisted living facilities and one independent living/senior housing facility which total approximately 4,781 beds/units. Our facilities provide a range of health care services to patients and residents, including, but not limited to, skilled nursing and assisted living services, social services, various therapy services and other rehabilitative and healthcare services for both long-term residents and short-stay patients. As of September 30, 2013, of the total 47 facilities, we owned and operated 26 facilities, leased and operated nine facilities, managed 11 facilities for third parties and had one consolidated variable interest entity. Our skilled nursing and assisted living facilities provide services to individuals needing long-term care in a nursing home or assisted living setting. We provide a full complement of administrative services as well as consultative services that permit our local facility leadership teams to better focus on the delivery of healthcare services. We also provide these services to unaffiliated third party long-term care operators and/or owners with whom we enter into management contracts. We currently provide these services to two unaffiliated facility owners. Each of our facilities is led by highly dedicated individuals who are responsible for key operational decisions at their facilities. Facility leaders and staff are trained and motivated to pursue superior clinical outcomes, high patient and family satisfaction, operating efficiencies and financial performance at their facilities. In addition, our facility leaders are enabled and motivated to share real-time operating data and otherwise benchmark clinical and operational performance against their peers in other facilities in order to improve clinical care, maximize patient satisfaction and augment operational efficiencies, promoting the sharing of best practices.

Much of our historical growth can be attributed to our expertise in acquiring under-performing facilities and transforming them into market leaders in clinical quality, staff competency, employee loyalty and financial performance. We intend to continue to grow our revenue and earnings by:

- focusing on efficiencies in our operations and internal growth;
- increasing the proportion of sub-acute patients within our skilled nursing facilities;
- expanding clinical programs within our existing facilities;
- continuing to acquire additional facilities in existing and new markets; and
- evaluating and potentially targeting the acquisition of complementary businesses which provide services to skilled nursing facilities.

### Growth Strategy

Our objective is to be the provider of choice for health care and related services to the elderly in the communities in which we operate. We intend to grow our business through numerous initiatives.

We expect to continue to increase occupancy rates and revenue per occupied unit at our facilities. We believe that our current operations serve as the foundation on which we can build a large fully-integrated senior living company. We intend to target attractive geographic markets by using our existing infrastructure and operating model to provide a broad range of high quality care in a cost-efficient manner.

**Organic Growth.** We intend to focus on improving our operating margins within all of our facilities. We continually seek to maintain and improve our operating margins by:

- increasing the proportion of higher revenue sub-acute health care services delivered at our skilled nursing facilities;
- attracting new residents through the on-site marketing programs focused on residents and family members;
- actively seeking referrals from professional community outreach sources, including area religious organizations, senior social service programs, civic and business networks, as well as the medical community; and
- continually refurbishing and renovating our facilities.

**Pursue Strategic Acquisitions.** We believe that our current infrastructure and extensive contacts within the industry will continue to provide us with the opportunity to evaluate numerous acquisition opportunities. We believe there is a significant opportunity for growth with a private to public arbitrage and opportunity to increase our operating margins by evaluating and potentially targeting the acquisition of complementary businesses which provide services to skilled nursing facilities.

**Fragmentation in the Industry Provides Acquisition and Consolidation Opportunities.** The senior living industry is highly fragmented and we believe that this provides significant acquisition and consolidation opportunities. We believe that the limited capital resources available to many small, private operators impede their growth and exit prospects. We believe that we are well positioned to strategically approach small private operators and offer them exit strategies which are not currently available as well as the ability to grow their business.

**Emphasize Employee Training and Retention.** We devote special attention to the hiring, screening, training, supervising and retention of our employees and caregivers. We have adopted comprehensive recruiting and screening programs for management positions that utilize corporate office team interviews and background and reference checks. We believe our commitment to, and emphasis on, quality hiring practices, employee training and retention differentiates us from many of our competitors.

**Positioned for Growth.** As part of our growth strategy, we endeavor to acquire independently owned, often times family operated, skilled nursing facilities. We then utilize our proven clinical management and marketing programs to increase the proportion of more clinically complex sub-acute patients. These patients generate higher revenue per patient day. In many situations these patients are also more profitable. Additionally we are able to leverage our enhanced purchasing power and increase operating profit by

providing more cost effective supplies and ancillary services. These management practices also assist in providing quality care to our patients and residents.

**Pursue Management Contracts.** We intend to pursue management opportunities for senior living communities. We believe that our management infrastructure and proven operating track record will allow us to take advantage of increased opportunities in the senior living market for new management contracts for third-party operators.

#### **Operating Strategy**

Our operating philosophy is to provide affordable, quality care to our patients and residents. We execute this strategy by empowering and supporting our local leadership teams at the facilities. These facility teams are supported by seasoned regional staff that provide consultative assistance from both a clinical and operations perspective.

Additionally, we provide centralized back office administrative services to the facilities such as accounting, payroll and accounts payable processing, purchasing, and information technology support. Centralizing these non-patient centric activities is more efficient and cost effective and frees up facility staff to focus on patient care.

**Increase Revenues and Profitability at Existing Facilities.** Our strategy includes increasing facility revenues and profitability levels through increasing occupancy levels, increasing the percentage of sub-acute patients, maximizing reimbursement rates as appropriate, providing additional services to our current residents, and containing costs.

Ongoing initiatives to promote higher occupancy levels and appropriate payor and case mixes at our senior living facilities include corporate programs to promote specialized care and therapy services as well as initiatives to improve customer service and develop safety programs to improve worker compensation insurance rates.

**Offer Services Based on Level of Care.** Our range of products and services is continually expanding to meet the evolving needs of our patients and residents. We have developed a variety of special clinical programs and care offerings that are responsive to particular geographic markets.

**Improve Operating Efficiencies.** We actively monitor and manage our operating costs. By having an established portfolio of properties, we believe that we have a platform to achieve operating efficiencies through economies of scale in the purchase of bulk items, such as food, and in the spreading of fixed costs, such as corporate overhead, over a larger revenue base, and the ability to provide more effective management supervision and financial controls.

**Increase Occupancy Through Emphasis on Marketing Efforts.** We emphasize strong corporate support for the marketing of our various local facilities. At a local level, our sales and marketing efforts are designed to promote higher occupancy levels and optimal payor mix. Management believes that the long-term care industry is fundamentally a local industry in which both patients and residents and the referral sources for them are based in the immediate local geographic area of the facility.

**Promote an Internally-Developed Marketing Program.** We focus on the identification and provision of services needed by the community. We assist each facility administrator in analysis of local demographics and competition with a view toward complementary service development. Our belief is that this locally based marketing approach, coupled with strong corporate monitoring and support, provides an advantage over regional competitors.

**Operate the Facility Based Management Model.** We hire an administrator/manager and director of nursing for each of our skilled nursing facilities and provide them with autonomy, responsibility and

accountability. We believe this allows us to attract and retain higher quality administrators and directors of nursing. This leadership team manages the day-to-day operations of each facility, including oversight of the quality of care, delivery of resident services, and monitoring of the financial performance and marketing functions. We actively recruit personnel to maintain adequate staffing levels at our existing facilities and provide financial and budgeting assistance for our administrators, directors of nursing and department managers.

The Offering

Common stock offered by us	None
Common stock offered by selling shareholders <sup>(1)</sup>	<p>The prospectus covers the resale, from time to time, by the selling shareholders identified in this prospectus under “Selling Shareholders” of up to:</p> <p>2,229,491 shares of common stock issuable upon conversion of the 2010 Notes;</p> <p>1,114,675 shares of common stock issuable upon conversion of the 2011 Notes;</p> <p>275,625 shares of common stock issuable upon exercise of the 2011 Placement Agent Warrant;</p> <p>2,267,003 shares of common stock issuable upon conversion of the 2012 Notes;</p> <p>105,000 shares of common stock issuable upon exercise of the 2012 Placement Agent Warrant;</p> <p>315,000 shares of common stock issuable upon exercise of the Bridge Warrant; and</p> <p>52,500 shares of our common stock issued to a placement agent in connection with the 2012 Offering.</p>
Common stock outstanding immediately prior to the offering, as of December 26, 2013	16,016,373 shares <sup>(2)</sup>
Common stock outstanding immediately after the offering	22,375,667 shares <sup>(3)</sup>
Use of Proceeds	<p>We will not receive any proceeds from the resale by the selling shareholders of the common stock offered by this prospectus. We will receive proceeds from the exercise of the Warrants, if they are exercised on a cash basis. We intend to use any proceeds from the exercise of the Warrants for working capital and other general corporate purposes.</p>





Risk Factors

An investment in our securities involves a high degree of risk and could result in a complete loss of your entire investment. Prior to making an investment decision, you should carefully consider all of the information in this prospectus and, in particular, you should evaluate the risk factors identified in this prospectus under “Risk Factors” beginning on page 9.

- 
- (1) Pursuant to registration rights agreements we entered into in connection with the issuance and sale of the Notes, we agreed to register for resale 120% of the shares of the common stock issuable upon conversion of the Notes. Excludes: (i) 1,804,866 shares of common stock issuable upon exercise of outstanding options, at a current weighted-average exercise price of \$4.55 per share of common stock; and (ii) 379,718 shares of the common stock reserved for issuance under our existing equity incentive plans.
- (2) Assumes the conversion of all Notes and exercise of all Warrants.
- (3) Assumes the conversion of all Notes and exercise of all Warrants.

Corporate Information

Our principal executive offices are located at 1145 Hembree Road, Roswell, Georgia 30076, and our telephone number is (678) 869-5116. We maintain an Internet website at [www.adcarehealth.com](http://www.adcarehealth.com). This reference to our website is an inactive textual reference only and is not a hyperlink. The contents of our website are not part of this prospectus, and you should not consider the contents of our website in making an investment decision with respect to our securities.

## RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the risks and uncertainties described in this prospectus and the documents incorporated by reference into this prospectus, including the risks and uncertainties described in our Annual Report on Form 10-K for the year ended December 31, 2012 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013, June 30, 2013, and September 30, 2013. The risks and uncertainties described in this prospectus and the documents incorporated by reference into this prospectus are not the only ones we face. Additional risks and uncertainties that we do not presently know about or that we currently believe are not material may also adversely affect our business, results of operations or financial condition. If any of the risks and uncertainties described in this prospectus or the documents incorporated by reference into this prospectus actually occurs, then our business, results of operations and financial condition could be adversely affected in a material way. This could cause the market price of the common stock to decline, perhaps significantly, and you may lose part or all of your investment.

### Additional Risks Related to the Offering

The price of the common stock has fluctuated and is subject to volatility.

The market price of the common stock has fluctuated and could fluctuate significantly in the future as a result of various factors and events, many of which are beyond our control. These factors may include:

- variations in our operating results;
- changes in our financial condition, performance and prospects;
- changes in general economic and market conditions;
- the departure of any of our key executive officers and directors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, or transactions;
- press releases or negative publicity relating to us or our competitors or relating to trends in health care;
- government action or regulation, including changes in federal, state, and local health-care regulations to which we are subject;
- the level and quality of securities analysts' coverage for our stock;
- changes in financial estimates or recommendations by securities analysts with respect to us or our competitors; and
- future sales of the common stock.

Furthermore, the stock market in recent years has experienced sweeping price and volume fluctuations that often have been unrelated to the operating performance of affected companies. These market fluctuations may also cause the price of the common stock to decline.

In the event of fluctuations in the price of the common stock, shareholders may be unable to resell shares of the common stock at or above the price at which they purchased such shares. Additionally, due to fluctuations in the price of the common stock, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on past results as an indication of future performance.

Sales of a significant number of shares of the common stock in the public markets, or the perception that such sales could occur, could depress the market price of the common stock and impair our ability to raise capital.

Sales of a substantial number of shares of the common stock or other equity-related securities in the public markets, including the issuance of the common stock upon exercise of options or warrants or conversion of Notes could depress the market price of the common stock. Such sales also may impair our ability to raise capital through the sale of additional equity securities in the future at a time and price that our management deems acceptable, if at all.

We do not currently pay cash dividends on the common stock and do not anticipate doing so in the future.

We have never declared or paid any cash dividends on the common stock. We intend to retain any future earnings after payment of dividends on our 10.875% Series A Cumulative Redeemable Preferred Shares (the "Series A Preferred Stock") to fund our operations and, therefore, we currently do not anticipate paying any cash dividends on the common stock in the foreseeable future.

We could be prevented from paying dividends on the common stock.

We are a holding company, and we have no significant operations. We rely primarily on dividends and other distributions from our subsidiaries to us so we may, among other things, pay dividends on the common stock, if and to the extent declared by the Board of Directors. The ability of our subsidiaries to pay dividends and other distributions to us depends on their earnings and is restricted by the terms of certain agreements governing their indebtedness. If our subsidiaries are in default under any such agreement, then they may not pay dividends or other distributions to us. In addition, we may only pay dividends on the common stock if we have funds legally available for the payment of dividends and such payment is not restricted or prohibited by law, the terms of any shares with higher priority with respect to dividends or any documents governing our indebtedness. No cash dividends may be declared or paid on the common stock unless full cumulative dividends on the Series A Preferred Stock have been, or contemporaneously are, declared and paid, or declared and a sum sufficient for the payment thereof is set apart for payment, for all past dividend periods. In addition, one of our mortgage loans prohibits the payment of dividends on our stock if we fail to comply with certain financial covenants or if a default or event of default under the loan agreement has occurred.

Moreover, another one of our mortgage loans requires the consent of the lender and the guarantor prior to the payment of any dividends on our stock. As such, we could become unable, on a temporary or permanent basis, to pay dividends on our stock, including the common stock. In addition, future debt, contractual covenants or arrangements we or our subsidiaries enter into may restrict or prevent future dividend payments.

The payment of any future dividends on the common stock will be at the discretion of the Board of Directors and will depend, among other things, on the earnings and results of operations of our subsidiaries, their ability to pay dividends and other distributions to AdCare under agreements governing their indebtedness, our financial condition and capital requirements, any debt service requirements and any other factors the Board of Directors deems relevant.

In preparing our consolidated financial statements for recent periods, our management determined that our disclosure controls and procedures and internal control over financial reporting were ineffective. If they continue to be ineffective, then it could result in material misstatements in our financial statements, among other things.

As of December 31, 2012, our management determined that our disclosure controls and procedures and internal control over financial reporting were ineffective due to material weaknesses in our ability to appropriately account for complex or non-routine transactions and in the quality and sufficiency of our financial and accounting resources. Our management has also determined that our disclosure controls and procedures were not effective as of September 30, 2013.

We have implemented, or plan to implement, remedial measures designed to address the ineffectiveness of our disclosure controls and procedures and internal control over financial reporting. If these remedial measures are insufficient to address the ineffectiveness of our disclosure controls and procedures and internal control over financial reporting, or if material weaknesses in our internal control over financial reporting are discovered or occur in the future, then we may fail to meet our future SEC reporting obligations on a timely basis, our consolidated financial statements may contain material misstatements, we could be required to restate our prior period financial results, our operating results may be harmed, we may be subject to class action litigation, and the common stock and the Series A Preferred Stock could be removed from listing on the NYSE MKT. Any failure to address the ineffectiveness of our disclosure controls and procedures could also adversely affect the results of the periodic management evaluations regarding the effectiveness of our internal control over financial reporting and our disclosure controls and procedures that are required to be included in our SEC filings. Internal control deficiencies and ineffective disclosure controls and procedures could also cause investors to lose confidence in us and our reported financial information and, therefore, could adversely impact our ability to borrow money and readily access the capital markets to obtain required liquidity. We give no assurance that the measures we have taken, or plan to take in the future, will remediate the ineffectiveness of our disclosure controls and procedures or that any material weaknesses or restatements of financial results will not arise in the future due to a failure to implement and maintain adequate internal control over financial reporting or adequate disclosure controls and procedures. In addition, even if we are successful in strengthening our controls and procedures and internal control over financial reporting, in the future those controls and procedures may not be adequate to prevent or identify irregularities or errors or to facilitate the fair presentation of our consolidated financial statements.

Takeover defense provisions may adversely affect the market price of the common stock.

Various provisions of Georgia corporation law and of our corporate governance documents may inhibit changes in control not approved by the Board of Directors and may have the effect of depriving our investors of an opportunity to receive a premium over the prevailing market price of the common stock in the event of an attempted hostile takeover. In addition, the existence of these provisions may adversely affect the market price of the common stock. These provisions include:

- a requirement that special meetings of shareholders be called by the Board of Directors, the Chairman, the President, or the holders of shares with voting power of at least 25%;
- a classified Board of Directors; and
- availability of “blank check” preferred stock.

Furthermore, we have elected to be governed by the “business combination” and “fair price” provisions of the Georgia Business Corporation Code (the “GBCC”) that could be viewed as having the effect of discouraging an attempt to take control of us. The business combination provisions would prohibit us from engaging in various business combination transactions with any interested shareholder for a period of five years after the date of the transaction in which the person became an interested shareholder unless certain designated conditions are met. The fair price provision generally restricts us from entering into certain Business Combinations (as defined in the GBCC) with an interested shareholder unless the transaction is unanimously approved by the continuing directors who must constitute at least three members of the board of directors at the time of such approval; or the transaction is recommended by at least two-thirds of the continuing directors and approved by a majority of the shareholders excluding the interested shareholder. For more information on these provisions of the GBCC and our other takeover defense provisions see “Description of Capital Stock— Certain Provisions of our Articles of Incorporation and Bylaws and the GBCC.”

12

---

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus and the information incorporated by reference into this prospectus, or in other written or oral statements made by us, other than statements of historical fact, are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to matters such as our industry, business and acquisition strategies, goals and expectations concerning our market position, future operations, margins, profitability, capital expenditures, liquidity and capital resources and other financial and operating information. We have used the words “anticipate,” “assume,” “believe,” “budget,” “continue,” “could,” “estimate,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “will,” “future” and similar terms and phrases to identify forward-looking statements.

Forward-looking statements reflect our current expectations regarding future events, results or outcomes. These expectations may or may not be realized. Some of these expectations may be based upon assumptions or judgments that prove to be incorrect. In addition, our business and operations involve numerous risks and uncertainties, many of which are beyond our control, which could result in our expectations not being realized or otherwise materially affect our business, results of operations and financial condition.

Actual events, results and outcomes may differ materially from our expectations due to a variety of factors. Although it is not possible to identify all of these factors, they include, among others, the following:

- the impact of regulatory and licensing changes in the healthcare industry;
- changes in the healthcare industry due to economic and political influences;
  - delays in reimbursement, or changes to reimbursement levels, under current Medicaid and Medicare programs;
- changes to our mix of payment sources among our current and future patients;
- our ability to complete and successfully integrate future facility or business acquisitions;
- our ability to obtain financing in the future in order to fund future facility or business acquisitions;
- our ability to compete in a competitive industry;
- our ability to retain and replace qualified nurses, health care professionals and other key personnel;
- litigation risks;
- environmental compliance costs and liabilities associated with our facilities;
- the potential for us to experience additional operating losses;
- our need to make capital expenditures to maintain and improve our facilities;
- the potential for increased interest costs on our existing and future debt; and
- the other factors discussed in our filings with the SEC.

Any one of these factors or a combination of these factors could materially affect our future results of operations and could influence whether any forward-looking statements ultimately prove to be accurate. Our forward-looking statements are not guarantees of future performance, and actual results and future performance may differ materially from those suggested in any forward looking statements. We do not intend to update these statements unless we are required by the securities laws to do so.

14

---

USE OF PROCEEDS

All proceeds from the resale of the shares of the common stock offered by this prospectus will belong to the selling shareholders who offer and sell their shares. We will not receive any proceeds from the resale of the shares of the common stock by the selling shareholders. We may receive proceeds from the exercise of the Warrants, if they are exercised on a cash basis. We intend to use any proceeds from any such exercise for working capital and other general corporate purposes. We make no assurance that any Warrant will ever be exercised.

15

---



### MARKET PRICE OF THE COMMON STOCK

The common stock is listed on the NYSE MKT under the symbol "ADK." The following table sets forth the high and low sales prices per share of the common stock on the NYSE MKT, in each case for the periods indicated.

	High	Low
2013		
First Quarter	\$ 5.12	\$ 3.66
Second Quarter	\$ 6.26	\$ 3.85
Third Quarter	\$ 4.98	\$ 3.82
Fourth Quarter (through December 26, 2013)	\$ 4.50	\$ 3.62
2012		
First Quarter	\$ 4.89	\$ 3.68
Second Quarter	\$ 3.96	\$ 3.32
Third Quarter	\$ 4.70	\$ 3.47
Fourth Quarter	\$ 5.35	\$ 3.89
2011		
First Quarter	\$ 5.09	\$ 3.90
Second Quarter	\$ 6.31	\$ 4.66
Third Quarter	\$ 6.69	\$ 4.15
Fourth Quarter	\$ 4.71	\$ 3.70

On December 26, 2013, the last closing sale price reported on the NYSE MKT for the common stock was \$4.27 per share.

We have never declared or paid any cash dividends with respect to the common stock. Our ability to pay dividends will depend upon our future earnings and net worth. We are restricted by Georgia law from paying dividends on the common stock if we are not able to pay our debts as they become due in the normal course of business or if our total assets would be less than the sum of our total liabilities plus the amount that would be needed to satisfy the preferential rights upon dissolution of the shareholders whose preferential rights are superior. In addition, no cash dividends may be declared or paid on the common stock unless full cumulative dividends on the Series A Preferred Stock have been, or contemporaneously are, declared and paid, or declared and a sum sufficient for the payment thereof is set apart for payments, for all past dividend periods. Furthermore: (i) one of our mortgage loans prohibits the payment of dividends on our stock if we fail to comply with certain financial covenants or if a default or event of default under the loan agreement has occurred; and (ii) another one of our mortgage loans requires the consent of the lender and the guarantor prior to payment of dividends on our stock.

Except for payment of dividends on the Series A Preferred Stock, we currently intend to retain any future earnings to fund the operation and growth of our business. We do not anticipate paying cash dividends on the common stock in the foreseeable future.

## DIRECTOR AND EXECUTIVE COMPENSATION

## Director Compensation

Director Compensation and Reimbursement Arrangements. Effective July 1, 2012, our independent directors are paid \$6,000 per month plus an additional (i) \$1,500 per month, if serving as a chairperson of one of the committees of the Board of Directors; and (ii) \$500 per month, if serving on more than one committee.

On November 12, 2013, the Compensation Committee of the Board of Directors adopted a program, which was also approved by the entire Board of Directors, to replace certain cash compensation otherwise payable to our directors with equity compensation, thereby reducing the amount of cash compensation payable by us (the "Cash Compensation Reduction Program"). The Cash Compensation Reduction Program provides that: (i) director fees otherwise payable in cash to our independent directors for service on the Board of Directors will be paid 50% in cash and 50% in options to purchase common stock granted pursuant to the 2011 Stock Incentive Plan; and (ii) \$50,000 of the compensation otherwise payable in cash to Mr. Tenwick for his service as Chairman of the Board of Directors will be paid in options to purchase common stock granted pursuant to the 2011 Stock Incentive Plan. The options will be granted on November 12th of each year in respect of compensation for the following calendar year and will have an exercise price equal to the fair market value (as defined in the 2011 Stock Incentive Plan) of the common stock on the date of grant. The options will vest with respect to 1/12 of the underlying shares of common stock on the last day of each month of the following calendar year, with vesting to be accelerated upon a change of control (as defined in the 2011 Stock Incentive Plan) as provided for in the 2011 Stock Incentive Plan and each option will have a value equal to the amount of cash compensation such option is intended to replace in respect of compensation for the following calendar year, with such value to be determined as of the date of grant and in accordance with the Black-Scholes-Merton option-pricing model. The Cash Compensation Reduction Program is applicable commencing with compensation payable in respect of the year ending December 31, 2014.

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

Director Compensation Table. The following table sets forth information regarding compensation paid to our non-employee directors during the year ended December 31, 2013. Directors who are employed by us or subject to consulting agreements with us do not receive any compensation for their activities related to serving on the Board of Directors.

Name (a)(1)	Fees earned or paid in cash (b)	Stock awards (c)	Option awards (d)(2)(3)	Non equity incentive plan compensation (e)	Change in pension value and non qualified deferred compensation earnings (f)	All other compensation (g)	Total
Christopher F. Brogdon	—	—	—	—	—	\$335,000 <sup>4</sup>	\$335,000
Michael J. Fox	\$22,750	—	\$39,000 <sup>5</sup>	—	—	—	\$61,750
Peter J. Hackett	\$101,600	—	\$48,000 <sup>6</sup>	—	—	—	\$149,600
Jeffrey L. Levine*	\$80,800	—	—	—	—	—	\$80,800
Joshua J. McClellan*	\$67,500	—	—	—	—	—	\$67,000
Philip S. Radcliffe	\$101,600	—	\$48,000 <sup>6</sup>	—	—	—	\$149,600
Laurence E. Sturtz	\$83,200	—	\$48,000 <sup>6</sup>	—	—	—	\$131,200
David A. Tenwick	\$125,167	—	\$50,000 <sup>7</sup>	—	—	—	\$175,167
Gary L. Wade*	\$66,000	—	—	—	—	—	\$66,000

\*Each of Messrs. Levine, McClellan and Wade have resigned as directors of the Company effective January 1, 2014.

Mr. Gentry is an employee of the Company, as well as a named executive officer, and does not receive any director compensation. Mr. Brogdon has entered into a Consulting Agreement with the Company and does not receive any director compensation. See “Director and Executive Compensation-Director Compensation-Brogdon Consulting Agreement.”

The amounts set forth in Column (d) reflect the full aggregate grant date fair value of the awards. For a description of the assumptions used to determine fair value, see Note 2 to the Summary Compensation Table in “Directors and Executive Compensation-Executive Compensation-Summary Compensation Table.”

The number of outstanding exercisable and unexercisable options and warrants, and the number of unvested shares of restricted stock held by each of our directors (excluding Mr. Gentry) as of December 31, 2013 are shown below:

Director	Number of Shares Subject to Outstanding Options or Warrants as of December 31, 2013		Number of Shares of Unvested Restricted Stock as of December 31, 2013
	Exercisable	Unexercisable	
Christopher F. Brogdon	557,288	105,000†	31,500
Michael J. Fox	—	21,667††	—
Peter J. Hackett	14,204	26,667†††	31,500
Jeffrey L. Levine	29,947	—	31,500
Joshua J. McClellan	10,500	—	31,500
Philip S. Radcliffe	37,588	26,667†††	31,500
Laurence E. Sturtz	57,582	26,667†††	31,500
David A. Tenwick	362,888	27,778††††	31,500
Gary L. Wade	246,035	—	31,500

† Represents an option granted to purchase 105,000 shares of common stock with an exercise price of \$7.62 per share, which vests September 24, 2014.

†† Represents an option granted pursuant to the Cash Compensation Reduction Program to purchase 21,667 shares of common stock with an exercise price of \$4.06 per share, which vests 1/12 during each month for the year ending December 31, 2014.

††† Represents an option granted pursuant to the Cash Compensation Reduction Program to purchase 26,667 shares of common stock with an exercise price of \$4.06 per share which vests 1/12 during each month for the year ending December 31, 2014.

†††† Represents an option granted pursuant to the Cash Compensation Reduction Program to purchase 27,778 shares of common stock with an exercise price of \$4.06 per share which vests 1/12 during each month for the year ending December 31, 2014.

Represents (i) \$135,000 paid to or earned by Mr. Brogdon in 2013 pursuant to his Consulting Agreement with the (4) Company; and (ii) \$200,000 paid to Mr. Brogdon as a bonus in respect of his services during 2012. See “Director and Executive Compensation-Director Compensation-Brogdon Consulting Agreement.”

(5) Represents an option granted pursuant to the Cash Compensation Reduction Program in respect of 2014 compensation to purchase 21,667 shares of common stock with an exercise price of \$4.06 per share.

(6) Represents an option granted pursuant to the Cash Compensation Reduction Program to purchase 26,667 shares of common stock with an exercise price of \$4.06 per share.

(7) Represents an option granted pursuant to the Cash Compensation Reduction Program in respect of 2014 compensation to purchase 27,778 shares of common stock with an exercise price of \$4.06 per share.

Brogdon Consulting Agreement. Mr. Brogdon served as our Chief Acquisition Officer from September 2009 through December 2012, although we did not enter into an employment agreement with him. We entered into a three-year Consulting Agreement with Mr. Brogdon, dated December 31, 2012 (the “Brogdon Agreement”). If the Brogdon Agreement is not terminated prior to December 31, 2015, then it will renew automatically for successive one-year terms until it is terminated. As compensation for his services under the Brogdon Agreement, Mr. Brogdon shall receive: (i) \$10,000 per month in year one; (ii) \$15,000 per month in year two; and (iii) \$20,000 per month in year three of the Brogdon Agreement. In addition, Mr. Brogdon shall receive a success fee of \$20,000 for each completed transaction; provided, however, that barring a majority vote of the Board of Directors, such success fees shall not exceed \$80,000 in year one, \$120,000 in year two and \$160,000 in year three of the Brogdon Agreement. In addition, no success fee shall be paid for transactions involving leased facilities or transactions in which the overall consideration is less than \$2,500,000. The Brogdon Agreement may be terminated by us at any time without “cause” upon: (1) a vote of the majority of the Board of Directors; and (2) thirty (30) days written notice to Mr. Brogdon; provided, however, that we shall provide severance pay to Mr. Brogdon in an amount equal to eighteen (18) months of Mr. Brogdon’s maximum total compensation (including success fees). If after the “change in control” of the Company occurs, and Mr. Brogdon: (x) resigns for any reason; (y) is terminated by the Company without cause within six (6) months of the occurrence of the change in control; or (z) is terminated by the entity acquiring a controlling interest in the Company without cause, then the Company shall provide severance pay to Mr. Brogdon in an amount equal to three (3) years of his maximum total compensation (including success fees). For definitions of “cause,” “good reason” and “change of control” see “Director and Executive Compensation-Executive Compensation-Employment Agreements-Applicable Terms.”

#### Executive Compensation

Executive Officers. The following table sets forth certain information with respect to our current executive officers as of December 26, 2013. Our executive officers serve at the discretion of the Board of Directors, subject to applicable employment agreements.

Name	Age	Position
Boyd P. Gentry	54	President, Chief Executive Officer and Director
David Rubenstein	47	Chief Operating Officer
Ronald W. Fleming	55	Senior Vice President, Chief Financial Officer and Corporate Secretary

Summary Compensation Table. The following table sets forth the compensation paid to, earned by or accrued for our principal executive officer and our two other most highly compensated executive officers whose total compensation exceeded \$100,000 for the year ended December 31, 2013 (collectively, our “named executive officers”):

Name and Principal Position	Year	Salary (\$)	Bonus (\$) (1)	Stock Awards (\$) <sup>(2)</sup>	Option Awards (\$) <sup>(2)</sup>	All Other Compensation (\$)	Total (\$)
(A)	(B)	(C)	(D)	(E)	(F)	(I)	(J)
Boyd Gentry, President and Chief Executive Officer	2013	\$447,917	—	—	\$379,820 <sup>3</sup>	\$6,825 <sup>4</sup>	\$834,562
	2012	\$408,043	\$50,000	\$100,800 <sup>5</sup>	\$227,080 <sup>6</sup>	\$3,595 <sup>7</sup>	\$789,518
David Rubenstein, Chief Operating Officer	2013	\$325,000	\$25,000	—	\$25,000 <sup>8</sup>	\$1,080 <sup>9</sup>	\$376,080
	2012	\$297,678	—	—	—	—	\$297,678
Ronald W. Fleming, Chief Financial Officer	2013	\$163,146	\$80,000	\$129,000 <sup>10</sup>	\$233,907 <sup>11</sup>	\$1,686 <sup>12</sup>	\$607,739
	2012	—	—	—	—	—	—

(1) Bonuses for 2013 have not yet been finally determined. If a bonus is awarded for 2013, then the Company will file a Form 8-K reporting such award.

The amounts set forth in Columns (E) and (F) reflect the full aggregate grant date fair value of the awards. The Company uses the Black-Scholes-Merton option-pricing model for estimating the fair values of employee share options, employee and nonemployee warrants and similar instruments with the following key assumptions: (i) Expected Dividend Yield—the Company has not historically paid cash dividends on its common stock, and does not expect to pay cash dividends on its common stock in the near future. Accordingly, our expected dividend yield is zero; (ii) Expected Volatility—the Company estimates the expected volatility factor using the Company’s historical stock price volatility; (iii) Risk-Free Interest Rate—the Company bases the risk-free interest rate on the implied yield (2) currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the expected term of the options and warrants being valued; (iv) Expected Term—the Company currently uses a simplified method for calculating the expected term based on the vesting and contractual expiration dates. For non-employee warrants awarded to certain service providers or financing partners, the Company uses the contractual life of the warrants as the expected term, as the Company does not have sufficient experience with the service providers or financing partners to determine when they could be expected to exercise their warrants. The assumptions used in calculating the fair value of employee stock options and warrants using the Black-Scholes-Merton option-pricing model are set forth in the following table:

	2013	2012
Dividend Yield	0.0%	0.0%
Expected Volatility	43.5%-63.2%	40.0%-46.1%
Risk-Free Interest Rate	0.12%-0.88%	0.25%-1.05%
Expected Term	5.2 years	4.0-6.5 years

The assumptions used in calculating the fair value of non-employee stock options and warrants using the Black-Scholes-Merton option-pricing model are set forth in the following table:

	2013	2012
Dividend Yield	0.0%	0.0%
Expected Volatility	46.9%-51.7%	38.5%-47.8%
Risk-Free Interest Rate	0.07%-0.328%	0.25%-0.72%
Expected Term	2.0-5.2 years	3-10 years

Represents: (i) an option to purchase 125,000 shares of common stock with an exercise price of \$4.90 per share, which vest as follows: 41,662 shares on January 2, 2014, 41,663 shares on January 2, 2015, and 41,675 shares on (3) January 2, 2016; and (ii) an option granted pursuant to the Cash Compensation Reduction Program in respect of 2014 compensation to purchase 27,778 shares of common stock with an exercise price of \$4.06 per share, which vests 1/12 during each month for the year ending December 31, 2014.

(4) Represents: (i) matching contribution to the Company's 401(k) plan for Mr. Gentry in the amount of \$4,479, and (ii) group term life insurance paid for Mr. Gentry in the amount of \$2,346.

Represents an award of 30,000 shares of restricted common stock, granted on June 1, 2012, which award vests (5) three years after the date of grant. The award was adjusted to represent 31,500 shares of common stock as a result of 5% stock dividend paid in 2012.

Represents an option to purchase 125,000 shares of common stock with an exercise price of \$3.93 per share, which (6) vests 41,662 shares on November 16, 2013, 41,663 shares on November 16, 2014 and 41,675 shares on November 16, 2015.

(7) Represents matching contributions to the Company's 401(k) plan for Mr. Gentry.

Represents an option granted pursuant to the Cash Compensation Reduction Program in respect of 2014 (8) compensation to purchase 13,889 shares of common stock with an exercise price of \$4.06 per share, which vests 1/12 during each month for the year ending December 31, 2014.

(9) Represents group term life insurance paid for Mr. Rubenstein in the amount of \$1,080.

Represents an award of 30,000 shares of restricted common stock, granted pursuant to Mr. Fleming's employment (10) agreement with the Company on December 23, 2013, which award vests as follows: 10,000 shares of May 15, 2014, 10,00 shares of May 15, 2015 and 10,00 shares of May 15, 2016.

Represents (i) a warrant to purchase 70,000 shares of common stock with an exercise price of \$5.90 per share, which vest 23,333 shares on May 15, 2014, 23,333 shares on May 15, 2015 and 23,334 shares on May 15, 2016; (11) and (ii) an option granted pursuant to the Cash Compensation Reduction Program in respect of 2014 compensation to purchase 11,111 shares of common stock with an exercise price of \$4.06 per share, which vests 1/12 during each month for the year ending December 31, 2014.

(12) Represents group term life insurance paid for Mr. Fleming in the amount of \$1,686.

Outstanding Equity Awards at Fiscal Year-End Table. The Outstanding Equity Awards at Fiscal Year-End table below sets forth information regarding the outstanding equity awards held by our named executive officers as of December 31, 2013:

Name and Principal Position	OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END OPTIONS/WARRANTS AWARDS					STOCK AWARDS			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#)-Unexercisable	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	Total Number of Shares, Units or Rights that have Not Vested	Market or Payout Value of Unearned Shares, Units or Rights that have Not Vested
Boyd Gentry <sup>(1)</sup> President, Chief Executive Officer	275,625	—	—	3.75	1/10/2021	—	—	—	—
	41,662	83,338	—	3.93	11/16/2022	—	—	—	—
	—	125,000	—	4.90	1/2/2023	—	—	—	—
	—	27,778	—	4.06	11/12/2023	—	—	—	—
	—	—	—	—	—	—	—	31,500	\$136,710
David Rubenstein <sup>(2)</sup> Chief Operating Officer	69,993	35,007	—	3.93	12/19/2021	—	—	—	—
	34,996	70,004	—	4.58	12/19/2021	—	—	—	—
	—	13,889	—	4.06	11/12/2023	—	—	—	—
Ronald W. Fleming <sup>(3)</sup> Chief Financial Officer	—	70,000	—	5.90	5/15/2023	—	—	—	—
	—	11,111	—	4.06	11/12/2023	—	—	—	—
	—	—	—	—	—	—	—	30,000	\$130,200

- Options vest on the following schedule: 41,663 shares on November 16, 2014 and 41,675 shares on November 16, 2015; 41,662 shares on January 2, 2014, 41,663 shares on January 2, 2015, and 41,675 shares on January 2, 2016;
- (1) 27,778 shares vest 1/12 each month during the year ending December 31, 2014; 31,500 restricted shares vest on June 1, 2015.
- (2) Warrants vest on the following schedule: 70,004 shares on December 19, 2014, and 35,007 shares on December 19, 2015; 13,889 option shares vest 1/12 each month during the year ending December 31, 2014.
- Warrants vest on the following schedule: 23,331 shares on May 15, 2014, 23,331 shares on May 15, 2015; 23,338 shares on May 15, 2016; 11,111 option shares vest 1/12 each month during the year ending December 31, 2014;
- (3) restricted shares vest on the following schedule: 10,000 shares on May 15, 2014, 10,000 shares on May 15, 2015, and 10,000 shares on May 15, 2016.

Employment Agreements. We have entered into employment agreements with each of Messrs. Gentry, Rubenstein and Fleming. In addition, each of Messrs. Gentry, Rubenstein and Fleming have agreed to participate in the Cash Compensation Reduction Program. Pursuant to the Cash Compensation Reduction Program, Messrs. Gentry, Rubenstein and Fleming have agreed to accept options to purchase common stock granted pursuant to the 2011 Stock Incentive Plan in lieu of cash compensation otherwise payable to them under their employment agreements in the amounts of \$50,000, \$25,000 and \$20,000, respectively. Similar to the options granted to directors in the Cash Compensation Reduction Program, the options granted to Messrs. Gentry, Rubenstein and Fleming: (i) will be granted on November 12th of each year in respect of compensation for the following calendar year; (ii) will have an exercise price equal to the fair market value (as defined in the 2011 Stock Incentive Plan) of the common stock on the date of grant; (iii) will vest with respect to 1/12 of the underlying shares of common stock on the last day of each month of the following calendar year, with vesting to be accelerated upon a change of control (as defined in the 2011 Stock Incentive Plan) as provided for in the 2011 Stock Incentive Plan; and (iv) will have a value equal to the amount of cash compensation such option is intended to replace in respect of compensation for the following calendar year, with such value to be determined as of the date of grant and in accordance with the Black-Scholes-Merton option-pricing model. The participation of Messrs. Gentry, Rubenstein and Fleming in the Cash Compensation Reduction Program will cease upon a change of control (as defined in their respective employment agreements). Their participation in the Cash Compensation Reduction Program does not reduce or increase their salary for purposes of calculating any post-termination, change in control or severance payments, or any other payments or benefits calculated based upon salary, otherwise payable to them pursuant to their respective employment agreement. The Cash Compensation Reduction Program is applicable commencing with compensation payable in respect of the year ending December 31, 2014.

Boyd P. Gentry. We have entered into an Employment Agreement with Mr. Gentry (the "Gentry Agreement"). The terms of the Gentry Agreement provide for an initial annual salary of \$300,000 per year, subject to annual review by the Compensation Committee thereafter. Pursuant to such review: (i) from January 1, 2012 through July 1, 2012, Mr. Gentry received an annual salary of \$330,000; (ii) from July 1, 2012 through December 31, 2012, Mr. Gentry received an annual salary of \$400,000; and (iii) effective January 1, 2013, Mr. Gentry receives an annual salary of \$450,000. Pursuant to the Cash Compensation Reduction Program and commencing with compensation payable in respect of the year ending December 31, 2014, Mr. Gentry has agreed to accept \$50,000 of his salary payable in options to purchase common stock pursuant to the 2011 Stock Incentive Plan in lieu of cash compensation otherwise payable to him as discussed above. The Gentry Agreement also includes an annual performance bonus of up to 100% of the annual salary based on standards to be established by the Compensation Committee.



Pursuant to the Gentry Agreement, Mr. Gentry also received equity compensation in the form of a warrant to purchase 250,000 shares of common stock, with an exercise price equal to \$4.13 per share. As a result of certain anti-dilution adjustments, the warrant currently represents the right to purchase 275,626 shares of common stock at an exercise price of \$3.75. The warrant vested as to one-third of the underlying shares on each of January 10, 2011, January 9, 2012 and January 9, 2013. If Mr. Gentry resigns his employment for “good reason” or the Company terminates Mr. Gentry’s employment without “cause,” then Mr. Gentry 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 a period of twenty-four (24) months after his termination date (the “Gentry 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. Gentry is entitled to an additional payment equal to the sum of his 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. Notwithstanding the foregoing, if Mr. Gentry resigns his employment for any reason upon or within three (3) months after the occurrence of a “change in control,” Mr. Gentry shall be entitled to receive severance pay (in lieu of the severance pay described in the immediately preceding sentence) in an amount equal to three (3) times the sum of annual salary plus target bonus, payable in substantially equal installments at least monthly for thirty-six (36) months after the termination date. For the period for which severance pay is paid (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, if the Company is prohibited by applicable law or its insurer from covering Mr. Gentry under any such plan, then 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. For definitions of “cause,” “good reason” and “change of control” see “Executive and Director Compensation-Executive Compensation-Employment Agreements-Applicable Terms.”

David Rubenstein. We have entered into an Employment Agreement with Mr. Rubenstein (the “Rubenstein Agreement”). The terms of the Rubenstein Agreement include an annual salary of \$300,000 per year which increased to \$325,000 effective 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 and a one-time signing bonus of \$150,000. Pursuant to the Cash Compensation Reduction Program and commencing with compensation payable in respect of the year ending December 31, 2014, Mr. Rubenstein has agreed to accept \$25,000 of his annual salary payable in options to purchase common stock pursuant to the 2011 Stock Incentive Plan in lieu of cash compensation otherwise payable to him as described above. Pursuant to the Rubenstein Agreement, on December 19, 2011, Mr. Rubenstein received equity compensation in the form of: (i) a warrant to purchase 100,000 shares of 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 common stock, with an exercise price equal to \$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. As a result of such anti-dilution adjustments, the warrants now represent the right to purchase: (i) 105,000 shares at an exercise price of \$3.93 per share; and (ii) 105,000 shares at an exercise price of \$4.58 per share. In the event Mr. Rubenstein resigns for a “good reason” or a “change in control” occurs while Mr. Rubenstein is employed by the Company, the warrants immediately become 100% vested.

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 shall receive the severance pay and benefits

hereafter provided. The severance pay shall be an amount equal to one (1) times the sum of his annual salary payable in substantially equal installments at least monthly for a period of twelve (12) months after his 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 of the Company, then Mr. Rubenstein is entitled to an additional one-half (1/2) times the sum of his annual salary and target bonus, payable in substantially equal installments at least monthly for a period six (6) months, which period shall begin immediately after the expiration of the Rubenstein Initial Severance Period. For the period for which severance pay is paid (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, if the Company is prohibited by applicable law or its insurer 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 definitions of "cause," "good reason" and "change of control" see "Director and Executive Compensation-Executive Compensation-Employment Agreements-Applicable Terms."

Ronald W. Fleming. We have entered into an Employment Agreement with Mr. Fleming, effective May 15, 2013 and amended as of December 11, 2013 (the "Fleming Agreement"). The terms of the Fleming Agreement include an annual base salary of \$270,000 per year, to be subject to review on an annual basis thereafter, and an annual bonus with a target amount equal to at least 75% of the annual salary (provided, however, that the bonus paid for 2013 will be based on the salary actually paid during 2013 and shall not be less than \$80,000), based on reasonably expected performance. Pursuant to the Cash Compensation Reduction Program and commencing with compensation payable in respect of the year ending December 31, 2014, Mr. Fleming has agreed to accept \$20,000 of his salary payable in options to purchase common stock pursuant to the 2011 Stock Incentive Plan in lieu of cash compensation otherwise payable to him as described above. Pursuant to the Fleming Agreement: (i) on May 15, 2013, Mr. Fleming received equity compensation in the form of a warrant to purchase 70,000 shares of common stock, with an exercise price equal to \$5.90 per share, which vests as to one-third of the underlying shares on each of the three subsequent anniversaries of the grant date; and (ii) on December 23, 2013, Mr. Fleming received 30,000 shares of restricted common stock, which vest as to one-third of the shares on each of May 15, 2014, May 15, 2015 and May 15, 2016.

In the event Mr. Fleming resigns for "good reason" or a "change in control" occurs while Mr. Fleming is employed by the Company, the warrants and the restricted stock immediately become 100% vested. If, after a minimum of six (6) months of continuous employment with the Company Mr. Fleming resigns his employment for "good reason" or the Company terminates Mr. Fleming's employment without "cause" (other than due to his disability), then Mr. Fleming shall receive severance pay in the form of salary continuation, payable in substantially equal installments at least monthly for a period of twelve (12) months after his termination, plus if such termination occurs within three (3) months before or twenty-four (24) months after the occurrence of a change in control of the Company, then Mr. Fleming is entitled to severance pay in the form of salary continuation, payable in substantially equal installments at least monthly for a period of eighteen (18) months after his termination date, plus an additional sum equal to one-half (1/2) his target bonus, payable in substantially equal installments at least monthly for a period six (6) months, which period shall begin twelve (12) months following his termination date. For the period for which severance pay is paid (the "Fleming Severance Period"), Mr. Fleming 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, if the Company is prohibited by applicable law or its insurer from covering Mr. Fleming under any such plan, then the Company shall pay to Mr. Fleming an amount each month during the Fleming Severance Period equal to the Company's cost of coverage for similarly situated executive officers. For definitions of

“cause,” “good reason” and “change of control” see “Director and Executive Compensation-Executive Compensation-Employment Agreements-Applicable Terms.”

Applicable Terms. For purposes of each of the Gentry Agreement, Rubenstein Agreement and Fleming Agreement the term resignation for “good reason” means the officer’s resignation within ninety (90) days following the Company’s failure to cure a material breach of the 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. For the purposes of each of the Gentry Agreement, Rubenstein Agreement, Fleming Agreement and Brogdon Agreement, the term “cause” means the officer’s fraud, dishonesty, willful misconduct, or gross negligence in his performance of his duties, or the individual’s conviction for a crime of moral turpitude, or material breach by the individual of the agreement which the individual fails to cure within thirty (30) days after the Company gives the officer written notice of such breach. For purposes of each of the Gentry Agreement, Rubenstein Agreement, Fleming Agreement and Brogdon Agreement, the term “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 50% of the voting power of the common stock of the Company or its legal successor.

Stock Incentive Plans. At our 2011 Annual Meeting of Shareholders held on June 3, 2011, the shareholders adopted the 2011 Stock Incentive Plan. The 2011 Stock Incentive Plan is intended to further the growth and profitability of our Company by providing increased incentives to encourage share ownership on the part of key employees, officers, directors, consultants and advisors who render services to us and any future parent or subsidiary of ours, including our named executive officers. The 2011 Stock Incentive Plan permits the granting of stock options and restricted stock awards (collectively, “Awards”) to eligible participants. At our 2012 Annual Meeting of Shareholders held on June 1, 2012, the shareholders adopted an amendment to the 2011 Stock Incentive Plan that increased the maximum number of shares of Company stock that may be granted under the 2011 Stock Incentive Plan from 1,000,000 to an aggregate of 2,000,000 shares. 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 reporting persons; or (ii) in any way which would jeopardize the 2011 Stock Incentive Plan’s qualifying under Section 162(m) of the Internal Revenue Code of 1986 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 Compensation Committee: (1) by tendering previously acquired shares; (2) by tendering a full recourse promissory note of the optionee; (3) 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; (4) through a brokerage transaction; or (5) through any combination of the foregoing. The 2011 Stock Incentive Plan provides the issuance of both incentive stock options and nonqualified stock options.

Retirement Programs. Our retirement programs are designed to facilitate the retirement of employees, including our named executive officers, who have performed for us over the long term. We currently maintain a 401(k) plan with a match of 50% of the first 2% of an employee’s contribution 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. We do not provide our named executive officers any special retirement benefits.

27

---

## DESCRIPTION OF CAPITAL STOCK

The following is a summary of certain terms of our capital stock. This summary does not purport to be complete and is in all respects subject to, and qualified in its entirety to references to, the relevant provisions of our Articles of Incorporation and Bylaws and Georgia law. Our Articles of Incorporation and Bylaws are exhibits to the registration statement of which this prospectus form a part, and copies are available from us upon request.

### General

As of December 26, 2013, our authorized capital stock consisted of:

55,000,000 shares of common stock, no par value, of which 16,016,373 were outstanding; and  
5,000,000 shares of preferred stock, of which 950,000 shares have been designated as Series A Preferred Stock and all such designated shares are outstanding.

### Common Stock

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

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

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

**Preemptive Rights.** Holders of common stock do not have any preemptive rights to purchase, subscribe for or otherwise acquire any unissued or treasury shares or other securities of ours.

### Series A Preferred Stock

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

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

**Penalties as a Result of Failure to Pay Dividends.** If, at any time, there is a dividend default because cash dividends on the outstanding Series A Preferred Stock are accrued but not paid in full for any four consecutive or non-consecutive quarterly periods (a “Dividend Default”), then, until we have paid all accumulated and unpaid dividends on the shares of the Series A Preferred Stock in full: (i) the annual dividend rate on the Series A Preferred Stock will be increased to the Penalty Rate commencing on the first day after the missed fourth quarterly payment; and (ii) the holders of the Series A Preferred Stock will have the voting rights described under “—Voting Rights.” Once we have paid all accumulated and unpaid dividends in full and has paid cash dividends at the Penalty Rate in full for an additional two consecutive quarters the dividend rate will be restored to the stated rate and the foregoing provisions will not be applicable unless we again fail to pay a quarterly dividend during any future quarter.

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

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

A “Change of Control” will be deemed to occur when the following have occurred and are continuing: the acquisition by any person, including any syndicate or group deemed to be a “person” under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of our stock entitling that person to exercise more than 50% of the total voting power of our stock entitled to vote generally in the election of directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and following the closing of any acquisition described in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities (or American depositary receipts representing such securities) listed on a national exchange.

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

Ranking. The Series A Preferred Stock will rank: (i) senior to the common stock and any other shares of stock that we may issue in the future, the terms of which specifically provide that such stock ranks junior to the Series A Preferred Stock, in each case with respect to payment of dividends and amounts upon liquidation, dissolution or winding up (“junior shares”); (ii) equal to any shares of stock that we may issue in the future, the terms of which specifically provide that such stock ranks on parity with the Series A Preferred Stock, in each case with respect to payment of dividends and amounts upon liquidation, dissolution or winding up (“parity shares”); (iii) junior to all other shares of stock issued by us, the terms of which specifically provide that such stock ranks senior to the Series A Preferred Stock, in each case with respect to payment of dividends and amounts upon liquidation, dissolution or winding up (any such issuance would require the affirmative vote of the holders of at least two-thirds of the outstanding shares of the Series A Preferred Stock) (“senior shares”); and (iv) junior to all our existing and future indebtedness.

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

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

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

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

#### Other Series of Preferred Stock

Pursuant to our Articles of Incorporation, the Board of Directors has the authority, without further action by shareholders, to issue one or more additional series of preferred stock. The Board of Directors may determine the preferences, limitations and relative rights of: (i) any class of shares before the issuance of any shares of that class; or (ii) one or more series within a class, and designate the number of shares within that series, before the issuance of any shares of that series. In addition, after the Board of Directors has established a series of preferred stock, the Board of Directors may increase or decrease the number of shares contained in the series, but not below the number of shares then issued, or eliminate the series where no shares have been issued. The issuance of preferred stock, while providing desirable flexibility in connection

with possible acquisitions and other corporate purposes, could have the effect of delaying, deferring or preventing a change in control without further action by shareholders and may adversely affect the market price of, and the voting and other rights of the holders of, the common stock. These effects might include, among other things, restricting dividends on the common stock, diluting the voting power of the common stock or impairing the liquidation rights of the common stock.

**Certain Provisions of our Articles of Incorporation and Bylaws and the GBCC**

Our Articles of Incorporation and Bylaws contain provisions that could make more difficult an acquisition of us by means of a tender offer, a proxy contest or otherwise. These provisions are expected to discourage specific types of coercive takeover practices and inadequate takeover bids as well as to encourage persons seeking to acquire control to first negotiate with us. Although these provisions may have the effect of delaying, deferring or preventing a change in control, we believe that the benefits of increased protection through the potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging these proposals because, among other things, negotiation of such proposals could result in an improvement of their terms.

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

**Shareholder Action Through Written Consent.** Our Bylaws require unanimous consent for shareholder action by written consent in lieu of a meeting.

**Removal of Directors; Board of Directors Vacancies.** Our Articles of Incorporation provide that directors may be removed only for “cause” and only by the affirmative vote of the holders of at least a majority of all votes entitled to be cast in the election of such directors. “Cause” shall mean only: (i) conviction of a felony; (ii) declaration of unsound mind by an order of a court; (iii) gross dereliction of duty; (iv) commission of an action involving moral turpitude; or (v) commission of an action which constitutes intentional misconduct or a knowing violation of law if such action results in an improper substantial personal benefit and a material injury to the corporation. Furthermore, our Bylaws provide that, in the event a director was elected by the shares of one or more classes or series of our stock that are counted together collectively, then that director may only be removed by the majority vote of such voting group.

Our Bylaws provide that any vacancy on the Board of Directors (including vacancies resulting from an increase in the number of directors) may be filled: (i) by a majority of the remaining directors; or (ii) the shareholders. In addition, our Bylaws provide that, if a director is elected to fill a vacancy, then the director shall hold office until the next election of the class for which such director shall have been chosen, provided that any director filling a vacancy by reason of an increase in the number of directors, where such vacancy is filled by the directors, shall serve until the next annual meeting of shareholders and until the election of his successor. If the vacant office was held by a director elected by a voting group of shareholders, only the holders of shares of that voting group or the remaining directors elected by that voting may vote to fill the vacancy.



Georgia “Fair Price” Statute. Sections 14-2-1110 through 14-2-1113 of the GBCC (the “Fair Price Statute”), generally restrict a company from entering into certain Business Combinations (as defined in the GBCC) with an interested shareholder unless the transaction is: (i) unanimously approved by the continuing directors who must constitute at least three members of the board of directors at the time of such approval; or (ii) the transaction is recommended by at least two-thirds of the continuing directors and approved by a majority of the shareholders excluding the interested shareholder.

Georgia “Business Combination” Statute. Sections 14-2-1131 through 14-2-1133 of the GBCC (the “Business Combination Statute”), generally restrict a company from entering into certain business combinations (as defined in the GBCC) with an interested shareholder for a period of five (5) years after the date on which such shareholder became an interested shareholder unless: (i) the transaction is approved by the board of directors of the company prior to the date the person became an interested shareholder; (ii) the interested shareholder acquires at least 90% of the company’s voting stock in the same transaction (calculated pursuant to GBCC Section 14-2-1132) in which such person became an interested shareholder; or (iii) subsequent to becoming an interested shareholder, the shareholder acquires at least 90% (calculated pursuant to GBCC Section 14-2-1132) of the company’s voting stock and the business combination is approved by the holders of a majority of the voting stock entitled to vote on the matter (excluding the stock held by the interested shareholder and certain other persons pursuant to GBCC Section 14-2-1132).

The GBCC provides that the restrictions set forth in the Fair Price Statute and the Business Combination Statute will not apply unless the bylaws of the company specifically provide that these provisions of the GBCC are applicable to the corporation (and in certain other situations). In our Bylaws, we have elected to be covered by such statutes.

## SELLING SHAREHOLDERS

The selling shareholders may use this prospectus for the resale of shares of common stock being registered hereunder for their accounts, although no selling shareholder is obligated to sell any such shares. The following tables set forth certain information regarding the selling shareholders and the shares of common stock beneficially owned by them, which information is known to us as of December 26, 2013. We are not able to estimate the number of shares of common stock that will be held by the selling shareholders after the completion of this offering because the selling shareholders may offer all, some, or none of the shares and because, to our knowledge, there currently are no agreements, arrangements or understandings with respect to the sale of any such shares. See “Plan of Distribution.”

### 2010 Offering

In October 2010, we sold and issued an aggregate of \$11,800,000 in principal amount of the 2010 Notes to the selling shareholders identified in the table below under “2010 Offering.” The 2010 Notes bear interest at rate of 12.0% per annum payable quarterly in cash in arrears and mature on August 29, 2014. The 2010 Notes are unsecured and subordinated in right of payment to our existing and future senior indebtedness. The current conversion price of the 2010 Notes is \$3.73 per share. The conversion price is subject to adjustment for any stock dividend, stock split, combination of shares, reorganization, recapitalization, reclassification or other similar event. If at any time on or after the six-month anniversary date of the issuance of the 2010 Notes, the weighted average price of the common stock for any 20 trading days within a period of 30 consecutive trading days equals or exceeds 200% of the conversion price and the average daily trading volume of the common stock during such 20 days exceeds 50,000 shares, then we may, subject to the satisfaction of certain other conditions, redeem the 2010 Notes in cash at a redemption price equal to the sum of 100% of the principal amount being redeemed plus any accrued and unpaid interest on such principal. In addition, the holders of a majority of the aggregate principal amount of the 2010 Notes then outstanding may require us to redeem all or any portion of the 2010 Notes upon a change of control transaction, at a redemption price in cash equal to no less than 110% of the redemption amount. Effective October 26, 2013, the 2010 Notes were amended to, among other things: (i) extend the maturity date from October 26, 2013 until August 29, 2014; (ii) increase the interest rate from 10.0% per annum to 12.0% per annum; (iii) delete the requirement to adjust the conversion price of the 2010 Notes for dilutive equity issuances; and (iv) provide for a cash payment equal to 2.0% of any principal amount which is converted before August 29, 2014.

### 2011 Offering

In March, April and May 2011, we sold and issued an aggregate of \$4,508,700 in principal amount of the 2011 Notes to the selling shareholders identified in the table below under “2011 Offering.” The 2011 Notes bear interest at a rate of 10.0% per annum payable quarterly in cash in arrears and mature on March 31, 2014. The 2011 Notes are unsecured and subordinated in right of payment to our existing and future senior indebtedness. The current conversion price of the 2011 Notes is \$4.80 per share. The conversion price is subject to adjustment for any stock dividend, stock split, combination of shares, reorganization, recapitalization, reclassification or other similar event. If at any time on or after the six-month anniversary date of the issuance of the 2011 Notes, the weighted average price of the common stock for any 20 trading days within a period of 30 consecutive trading days equals or exceeds 200% of the conversion price and the average daily trading volume of the common stock during such 20 days exceeds 50,000 shares, then we may, subject to the satisfaction of certain other conditions, redeem the 2011 Notes in cash at a redemption price equal to the sum of 100% of the principal amount being redeemed plus any accrued and unpaid interest on

such principal. In addition, the holders of a majority of the aggregate principal amount of the 2011 Notes then outstanding may require us to redeem all or any portion of the notes upon a change of control transaction, at a redemption price in cash equal to no less than 110% of the redemption amount. As partial compensation for placement agent services rendered to us in the 2011 Offering, we issued to Cantone Research, Inc. the 2011 Placement Agent Warrant, which was originally to purchase 250,000 shares of common stock at an initial exercise price of \$5.30 per share, subject to anti-dilution adjustments. The 2011 Placement Agent Warrant represents the right to purchase 275,625 shares of common stock at an exercise price of \$4.81 per share.

#### 2012 Offering

In June 2012, we sold and issued an aggregate of \$7,500,000 in principal amount of the 2012 Notes to the selling shareholders identified in the table below under "2012 Offering." The 2012 Notes bear interest at a rate of 8.0% per annum payable quarterly in cash in arrears and mature on July 31, 2015. The 2012 Notes are unsecured and subordinated in right of payment to our existing and future senior indebtedness. The current conversion price of the 2012 Notes is \$3.97 per share. The conversion price is subject to adjustment for any stock dividend, stock split, combination of shares, reorganization, recapitalization, reclassification or other similar event. If at any time on or after the six-month anniversary date of the issuance of the 2012 Notes, the weighted average price of the common stock for any 20 trading days within a period of 30 consecutive trading days equals or exceeds 200% of the conversion price and the average daily trading volume of the common stock during such 20 days exceeds 50,000 shares, then we may, subject to the satisfaction of certain other conditions, redeem the 2012 Notes in cash at a redemption price equal to the sum of 100% of the principal amount being redeemed plus any accrued and unpaid interest on such principal. In addition, the holders of a majority of the aggregate principal amount of the 2012 Notes then outstanding may require us to redeem all or any portion of the 2012 Notes upon a change of control transaction, at a redemption price in cash equal to 110% of the redemption amount. In connection with the 2012 Offering, we issued to: (i) Cantone Research, Inc., as partial compensation for services as placement agent in the 2012 Offering, 50,000 shares of common stock and the 2012 Placement Agent Warrant, which was originally to purchase 100,000 shares of common stock at an initial exercise price of \$4.17 per share, subject to anti-dilution adjustments; and (ii) Cantone Asset Management LLC, as partial consideration for certain bridge financing, the Bridge Warrant, which was originally to purchase 300,000 shares of common stock at an initial exercise price of \$4.00 per share, subject to anti-dilution adjustments. The 2012 Placement Agent Warrant and the Bridge Warrant currently represent the right to purchase 105,000 shares of common stock and 315,000 shares of common stock, respectively, each at an exercise price of \$3.81 per share.

Selling Shareholder	Shares of	Number of	Shares of Common Stock		
	Common Stock		Beneficially Owned Prior to	Beneficially Owned After	
	Beneficially	Shares Being	(1)(3)(5)	Number	Percent
	Owned Prior to	Offered			
	the Offering	(2)(3)(4)			
	(1)(2)(3)				
2010 Offering					
AQR Funds – AQR Diversified Arbitrage Fund <sup>6</sup>	388,740 <sup>†</sup>	466,488 <sup>†</sup>	0	0.0	%
AQR Opportunistic Premium Offshore Fund, L.P. <sup>7</sup>	13,405 <sup>†</sup>	16,086 <sup>†</sup>	0	0.0	%
AQR DELTA Master Account, L.P. <sup>8</sup>	375,335 <sup>†</sup>	450,402 <sup>†</sup>	0	0.0	%
Attosa Financial LLC <sup>9</sup>	938,338 <sup>†</sup>	1,126,006 <sup>†</sup>	0	0.0	%
Anthony J. Cantone <sup>10</sup>	3,905,807 <sup>11</sup>	160,858 <sup>†</sup>	3,744,949	11.3	%
High Capital Funding, LLC <sup>12</sup>	8,043 <sup>†</sup>	9,652 <sup>†</sup>	0	0.0	%

Edgar Filing: ADCARE HEALTH SYSTEMS, INC - Form 424B3

2011 Offering

Aerial Gymnastics	10,417 <sup>††</sup>	12,500 <sup>††</sup>	0	0.0	%
Alan D. Matthes Revocable Trust	4,977 <sup>13</sup>	2,500 <sup>††</sup>	9,614	*	
Angelo Gigliotti & Paula J. Gigliotti	7,640 <sup>14</sup>	5,000 <sup>††</sup>	3,473	*	
Aronson, Michael	13,140 <sup>15</sup>	6,250 <sup>††</sup>	7,932	*	
Barbara Conlin & Robert Conlin	18,571 <sup>16</sup>	10,000 <sup>††</sup>	10,238	*	
Barnwell Sr., Robert J.	20,041 <sup>17</sup>	6,250 <sup>††</sup>	14,833	*	
Benach, Robert	32,409 <sup>18</sup>	25,000 <sup>††</sup>	11,576	*	
Benaderet, David H. <sup>19</sup>	135,758 <sup>20</sup>	37,500 <sup>††</sup>	104,508	*	
Benison, Jeff	10,417 <sup>††</sup>	12,500 <sup>††</sup>	0	0.0	%
Bernard F. Kolanowski & Mary Beth Kolanowski	3,241 <sup>21</sup>	2,500 <sup>††</sup>	1,558	*	
Blackstone, Dorothy	5,208 <sup>††</sup>	6,250 <sup>††</sup>	0	0.0	%
Bluth, Mordecai	3,125 <sup>††</sup>	3,750 <sup>††</sup>	0	0.0	%
Bob Seifert & Carolyn Seifert	2,083 <sup>††</sup>	2,500 <sup>††</sup>	0	0.0	%
Brad Cartier & Mun-Peng Tan	4,167 <sup>††</sup>	5,000 <sup>††</sup>	0	0.0	%
Bridges Sr., John	2,083 <sup>††</sup>	2,500 <sup>††</sup>	0	0.0	%
Cant, Geoffrey D.	31,146 <sup>22</sup>	3,750 <sup>††</sup>	28,021	*	
Cantone Research, Inc. <sup>23</sup>	629,269 <sup>24</sup>	275,625 <sup>25</sup>	353,644	3.8	%
Cantone, Maria A.	10,417 <sup>††</sup>	12,500 <sup>††</sup>	0	0.0	%
Chaikin, Douglas	16,205 <sup>26</sup>	12,500 <sup>††</sup>	5,788	*	
Charles Lasley & Rebecca Lasley	13,890 <sup>27</sup>	6,250 <sup>††</sup>	8,682	*	
Collins, Joe	56,435 <sup>28</sup>	25,000 <sup>††</sup>	35,602	*	
Conlin, Robert G.	6,019 <sup>29</sup>	3,750 <sup>††</sup>	2,894	*	
Coppola, Peter	6,250 <sup>††</sup>	7,500 <sup>††</sup>	0	0.0	%
Dale W. Miller & Melanie Trevino	10,997 <sup>30</sup>	6,250 <sup>††</sup>	6,720	*	
David V. Montieth & Karen B. Montieth	23,762 <sup>31</sup>	12,500 <sup>††</sup>	13,345	*	
Dennis, Patrick	16,205 <sup>32</sup>	12,500 <sup>††</sup>	5,788	*	
Donnelly, Michael	32,921 <sup>33</sup>	6,625 <sup>††</sup>	27,400	*	
Doremus, Raymond	2,083 <sup>††</sup>	2,500 <sup>††</sup>	0	0.0	%
Dukat Family Trust	5,208 <sup>††</sup>	6,250 <sup>††</sup>	0	0.0	%
Edward H. Gross & Suanne P. Gross	5,208 <sup>††</sup>	6,250 <sup>††</sup>	0	0.0	%
Edward Vander Meulen and Carol Vander Meulen	15,251 <sup>34</sup>	6,250 <sup>††</sup>	7,834	*	
Embry, Kenneth W.	4,167 <sup>††</sup>	5,000 <sup>††</sup>	0	*	
Embry Living Trust	84,653 <sup>35</sup>	75,000 <sup>††</sup>	23,153	*	
Ermis, Phil	2,083 <sup>††</sup>	2,500 <sup>††</sup>	0	0.0	%
Estate of Morris Emory Franklin, Morris E. Franklin Jr. Executor	4,167 <sup>††</sup>	5,000 <sup>††</sup>	0	0.0	%
Falick, Howard	4,167 <sup>††</sup>	5,000 <sup>††</sup>	0	0.0	%
Fedder, Joel	16,205 <sup>36</sup>	12,500 <sup>††</sup>	5,788	*	
Fiorilli, Matthew	18,229 <sup>††</sup>	21,875 <sup>††</sup>	0	0.0	%
Fish, Hamilton	7,121 <sup>37</sup>	2,500 <sup>††</sup>	4,621	*	
Franklin Living Trust Richard B. Franklin TTEE, Janie M Franklin TTEE	3,125 <sup>††</sup>	3,750 <sup>††</sup>	0	0.0	%
Gaur, Jean	11,575 <sup>38</sup>	12,500 <sup>††</sup>	1,158	*	
Gefkin, Christine	32,193 <sup>39</sup>	12,500 <sup>††</sup>	19,693	*	
The Goodrich Family Trust <sup>40</sup>	15,460 <sup>41</sup>	6,250 <sup>††</sup>	10,252	*	
Gosen, George	4,167 <sup>††</sup>	5,000 <sup>††</sup>	0	0.0	%
James J. Young & June A. Young	14,630 <sup>42</sup>	10,000 <sup>††</sup>	6,297	*	
Jeffrey A. Gudín & Susan H. Gerber	12,500 <sup>††</sup>	15,000 <sup>††</sup>	0	0.0	%



Edgar Filing: ADCARE HEALTH SYSTEMS, INC - Form 424B3

Jeffrey S. Hinkle & Kimberly L. Hinkle	28,078 <sup>43</sup>	10,000††	19,764	*	
John T. Bloom Jr & Janet Freenan Bloom	14,208 <sup>44</sup>	6,250††	7,958	*	
Jonathan E. Stone & Janet T. Stone	3,125††	3,750††	0	0.0	%
Hubert D. Meeks & Mary P. Meeks	3,750††	4,500††	0	0.0	%
KC Gamma Opportunity LP	110,417††	132,500††	0	0.0	%
Kardon, Carol	2,083††	2,500††	0	0.0	%
Keller, George M	2,083††	2,500††	0	0.0	%
Kenneth A Kranz TTEE Living Trust UA DTD 07/14/98	4,167††	5,000††	0	0.0	%
Kent, Dennis	2,083 <sup>45</sup>	2,500††	2,894	*	
Kruljac, Jon B.	19,987 <sup>46</sup>	5,300††	15,570	*	
Kullerstand, John F.	4,167††	5,000††	0	0.0	%
Langer, Milton F.	3,241 <sup>47</sup>	2,500††	1,158	*	
Lotter, Kraig	2,083††	2,500††	0	0.0	%
MacRae, Tim	4,398 <sup>48</sup>	2,500††	1,898	*	
Martin, Carol	2,083††	2,500††	0	0.0	%
Mary F. Sippell & John Sippell	2,083††	2,500††	0	0.0	%
Mayster, Gloria M.	5,325 <sup>49</sup>	5,000††	1,158	*	
Michael S. Krushinsky & Joyce L. Krushinsky	11,411 <sup>50</sup>	3,750††	8,286	*	
McQuaide, Thomas J.	3,750††	4,500††	0	0.0	%
Miller, Dale	52,358 <sup>51</sup>	6,250††	47,150	*	
Mintz, Gary	17,716 <sup>52</sup>	6,250††	12,508	*	
Mizrahi, Hinda	10,427 <sup>53</sup>	6,250††	5,219	*	
Money Market Investment Club of Toledo <sup>54</sup>	23,461 <sup>55</sup>	8,750††	16,169	*	
Moose Jr., Hoy A.	5,903 <sup>56</sup>	5,000††	1,736	*	
Moreland, William	82,813††	99,375††	0	0.0	%
Morocco, Daniel	5,324 <sup>57</sup>	5,000††	1,158	*	
Muller Patton, Pamela A.	4,167††	5,000††	0	0.0	%
Neathrey, Ivan	20,833††	25,000††	0	0.0	%
Nedbalek, Bobby	32,409 <sup>58</sup>	25,000††	11,576	*	
Neville-Landwehr, Rita A.	22,807 <sup>59</sup>	12,500††	12,391	*	
Nolan, John G.	4,167††	5,000††	0	0.0	%
P & W Exemption Trust Wallace Hollander	3,241 <sup>60</sup>	2,500††	1,158	*	
Paltrowitz, Goldfarb, Schmidt and Milale, MD PA Profit Sharing Plan	5,208††	6,250††	0	0.0	%
Papavasiliou, Constantinos	4,167††	5,000††	0	0.0	%
Pat S. West & Patricia K. West	2,083††	2,500††	0	0.0	%
Dr. Peter H. Ferber & Gloria P. Ferber	6,482 <sup>61</sup>	5,000††	2,315	*	
Phyllis Kargher & Jonathan Kushner	11,505 <sup>62</sup>	6,250††	6,297	*	
Ragonese, Patsy	8,102 <sup>63</sup>	6,250††	2,894	*	
Rahaim, T. Michael	29,356 <sup>64</sup>	5,000††	25,189	*	
Reamey, Gordon L.	11,858 <sup>65</sup>	5,000††	7,691	*	
Reklau, David L.	5,208††	6,250††	0	0.0	%
Rhodes, Carol	19,099 <sup>66</sup>	12,500††	8,682	*	
Richardson, Kenneth	8,333††	10,000††	0	0.0	%
Robert L. Boxer & Susan S. Rodio	19,886 <sup>67</sup>	8,750††	12,594	*	
Roe, Wayne W.	12,732 <sup>68</sup>	12,500††	2,315	*	
Santo Zito & Josephine Zito	6,250††	7,500††	0	0.0	%
Schleyer, John	7,061 <sup>69</sup>	5,000††	2,894	*	
Sharma, Suresh	2,083††	2,500††	0	0.0	%



Edgar Filing: ADCARE HEALTH SYSTEMS, INC - Form 424B3

Shayman, Linda R.	6,482 <sup>70</sup>	5,000††	2,315	*	
Shelton Steinle & Jeanette Steinle	19,909 <sup>71</sup>	10,000††	11,576	*	
Simonian, Edward	3,125††	3,750††	0	0.0	%
Stein, Steven	5,208 <sup>72</sup>	6,250††	600	*	
Thiry, Donald	20,833††	25,000††	0	0.0	%
Thomas R. Gardner TTEE DTD	11,861 <sup>73</sup>	2,500††	9,778	*	
Walters, Jeffrey M.	5,208††	6,250††	0	0.0	%
Weiss, Gordon J.	10,417††	12,500††	0	0	
Weiss, Neil	13,452 <sup>74</sup>	10,000††	5,209	*	
Wensley Hobby & Ronella Hobby	10,417††	12,500††	0	0.0	%
William B. Telfair & Carole H. Telfair	9,885 <sup>75</sup>	5,000††	5,718	*	
William Waack & Suzanne Waack	2,083††	2,500††	0	0.0	%
Young, Robert M.	21,342 <sup>76</sup>	12,500††	21,365	*	
2012 Offering					
Aronson, Michael L.	13,140 <sup>77</sup>	6,045†††	8,102	*	
Benaderet, David H <sup>78</sup>	135,758 <sup>79</sup>	90,680†††	60,191	*	
Cant, Geoffrey D.	31,146 <sup>80</sup>	12,091†††	21,070	*	
Cantone, Anthony J. <sup>81</sup>	3,905,807 <sup>82</sup>	314,868 <sup>83</sup>	3,590,939	11.3	%
Cantone Asset Management LLC <sup>84</sup>	1,699,605 <sup>85</sup>	1,976,526 <sup>86</sup>	0	0.0	%
Cullimore Jr., Kelvyn H.	2,519†††	3,023†††	0	0.0	%
Cantone Research, Inc. <sup>87</sup>	629,269 <sup>88</sup>	105,000 <sup>89</sup>	524,269	3.8	%
Fish, Hamilton C.	7,121 <sup>90</sup>	6,045†††	2,083	*	
Flying Arrow Estate Partners <sup>91</sup>	8,816†††	10,579†††	0	0.0	%
J. Kevin Davis & Melody L. Davis	13,345 <sup>92</sup>	9,068†††	5,788	*	
Jeffrey S. Hinkle & Kimberly L. Hinkle	28,078 <sup>93</sup>	18,136†††	12,964	*	
Liming, William F.	2,519†††	3,023†††	0	0.0	%
Mills, Kenneth	2,519†††	3,023†††	0	0.0	%
Money Market Investment Club of Toledo <sup>94</sup>	23,461 <sup>95</sup>	16,625†††	9,607	*	
Monte and Janet Anglin Revocable Trust <sup>96</sup>	4,834 <sup>97</sup>	3,023†††	2,315	*	
Montieth, David	23,762 <sup>98</sup>	9,068†††	16,205	*	
Neville-Landwehr, Rita	22,807 <sup>99</sup>	12,090†††	12,732	*	
Phyllis Kargher & Jonathan Kushner	11,506 <sup>100</sup>	7,557†††	5,208	*	
Polakoff, Stephen	12,594†††	15,113†††	0	0.0	%
Rahaim, T. Michael	29,356 <sup>101</sup>	30,227†††	4,167	*	
Richardson, Kenneth	15,890 <sup>102</sup>	9,068†††	8,333	*	
Robert L. Boxer & Susan S. Rodio	19,886 <sup>103</sup>	15,113†††	7,292	*	
Sun, Karen	7,557†††	9,068†††	0	0.0	%
Suntup, Paul	14,604 <sup>104</sup>	10,579†††	5,788	*	
Sylk, Leonard	12,594†††	15,113†††	0	0.0	%
The Goodrich Family Trust <sup>105</sup>	15,460 <sup>106</sup>	6,045†††	10,422	*	
Vander Meulen, Edward	13,042 <sup>107</sup>	3,023†††	10,523	*	
Weber, Marc D.	3,778†††	4,534†††	0	0.0	%
Young, June A.	14,630 <sup>108</sup>	7,557†††	8,333	*	
Young, Robert M.	31,782 <sup>109</sup>	7,557†††	25,485	*	

\* Represents less than 1% of the issued and outstanding shares of common stock as of December 26, 2013.

† Represents shares of common stock issuable upon conversion of the 2010 Notes.

†† Represents shares of common stock issuable upon conversion of the 2011 Notes.

††† Represents shares of common stock issuable upon conversion of the 2012 Notes.





<sup>1</sup> For purposes of this table, “beneficial ownership” is determined in accordance with Rule 13d-3 under the Exchange Act, pursuant to which a selling shareholder is deemed to have beneficial ownership of any shares of common stock that such selling shareholder has the right to acquire within 60 days of December 26, 2013.

<sup>2</sup> Shares are beneficially owned directly by the selling shareholder, unless otherwise indicated. Under the terms of the Notes, a selling shareholder holding any such Notes may not convert such Notes to the extent such conversion would cause such selling shareholder, together with its affiliates, to beneficially own a number of shares of common stock which would exceed 4.99% (or 9.99% upon the election of the holder) of our then outstanding shares of common stock following such conversion, excluding for purposes of such determination the number of shares of common stock issuable upon: (i) conversion of the Notes which have not been converted; and (ii) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company subject to an analogous limitation on conversion or exercise analogous.

<sup>3</sup> In accordance with the terms of the applicable registration rights agreement with the selling shareholders holding the Notes, this prospectus covers the resale of at least 120% of the maximum number of shares of common stock issuable upon conversion of the Notes. Because the conversion price of the Notes may be adjusted, the number of shares that will actually be issued upon conversion of the Notes may be more or less than the number of shares being offered by this prospectus.

<sup>4</sup> Based upon 16,016,373 shares of common stock outstanding as of December 26, 2013. For the purposes of computing the percentage of outstanding shares of common stock held by the selling shareholders named above, any shares which any selling shareholder has the right to acquire within 60 days of December 26, 2013, are deemed to be outstanding.

<sup>5</sup> Assumes that all shares of common stock being offered and registered hereunder are sold, although the selling shareholders are not obligated to sell any such shares.

<sup>6</sup> Clifford S. Asness and John S. Liew have voting and investment control with respect to the shares of common stock registered hereby for the account of AQR Funds - AQR Diversified Arbitrage Fund.

<sup>7</sup> Clifford S. Asness and John S. Liew have voting and investment control with respect to the shares of common stock registered hereby for the account of AQR Opportunistic Premium Offshore Fund, L.P.

<sup>8</sup> Clifford S. Asness and John S. Liew have voting and investment control with respect to the shares of common stock registered hereby for the account of AQR DELTA Master Account, L.P.

<sup>9</sup> Anthony J. Cantone, the Managing Member of Attosa Financial LLC, has sole voting and investment control with respect to the shares of common stock registered hereby for the account of Attosa Financial LLC. Attosa Financial LLC is an affiliate of Cantone Research, Inc., a registered broker-dealer. Attosa Financial LLC has represented to us that it purchased the 2010 Notes in the ordinary course of business and at the time of the purchase of the 2010 Notes, it had no agreements or understandings, directly or indirectly, with any person to distribute the 2010 Notes or the shares of common stock issuable upon conversion thereof.

<sup>10</sup> Pursuant to a Form 4 filed on July 13, 2012 with the SEC by Anthony J. Cantone, Mr. Cantone reported that he beneficially owns in excess of 10% of the common stock. Accordingly, Mr. Cantone may be deemed to be an “affiliate” of the Company as such term is defined in Rule 405 of the Securities Act. Mr. Cantone is an affiliate of Cantone Research, Inc., a registered broker-dealer. Mr. Cantone has represented to us that he purchased the 2010 Notes in the ordinary course of business and at the time of the purchase of the 2010 Notes, he had no agreements or understandings, directly or indirectly, with any person to distribute the 2010 Notes or the shares of common stock issuable upon conversion thereof. For a description of the arrangements between us and Mr. Cantone, see “Certain Relationships and Related Party Transactions - Related Party Transactions” in our Definitive Proxy Statement on Schedule 14A filed with the SEC on October 29, 2013.

<sup>11</sup> Represents: (i) 52,500 shares of common stock held by Mr. Cantone; (ii) 134,048 shares of common stock issuable upon conversion of a 2010 Note; (iii) 1,384,635 shares of common stock issuable upon conversion of a 2012 Note held

by an affiliate of Mr. Cantone; (iv) 938,338 shares of common stock issuable upon conversion of a 2010 Note held by an affiliate of Mr. Cantone; (v) 218,640 shares of common stock issuable upon conversion of a 2012 Note held by Mr. Cantone; (vi) warrants held by Mr. Cantone to purchase 201,831 shares of common stock at an exercise price of \$3.57 per share; (vii) warrants held by affiliates of Mr. Cantone to purchase 205,190 shares of common stock at an exercise price of \$3.57 per share; (viii) the 2011 Placement Agent Warrant held by an affiliate of Mr. Cantone to purchase 275,625 shares of common stock; (ix) a warrant held by an affiliate of Mr. Cantone to purchase 75,000 shares of common stock at \$3.96 per share; (x) the Bridge Warrant held by an affiliate of Mr. Cantone to purchase 315,000 shares of common stock; and (xi) the 2012 Placement Agent Warrant held by an affiliate of Mr. Cantone to purchase 105,000 shares of common stock.

<sup>12</sup> Frank Hart has voting and investment control with respect to the shares of common stock registered hereby for the account of High Capital Funding, LLC.

<sup>13</sup> Represents: (i) 2,083 shares of common stock issuable upon conversion of a 2011 Note; (ii) 2,894 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; and (iii) 6,720 shares of common stock.

<sup>14</sup> Represents: (i) 4,167 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 3,473 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>15</sup> Represents: (i) 5,038 shares of common stock issuable upon conversion of a 2012 Note; (ii) 5,208 shares of common stock issuable upon conversion of a 2011 Note; and (iii) 2,894 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>16</sup> Represents: (i) 8,333 shares of common stock issuable upon conversion of a 2011 Note; and (iii) 10,238 shares of common stock.

<sup>17</sup> Represents: (i) 5,208 shares of common stock issuable upon conversion of a 2011 Note; (ii) 2,894 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; and (iii) 11,939 shares of common stock.

<sup>18</sup> Represents: (i) 20,833 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 11,576 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>19</sup> David Benaderet, the Trustee of David Benaderet (Revocable Trust), has sole voting and investment control with respect to the shares of common stock registered hereby for the account of David Benaderet (Revocable Trust).

<sup>20</sup> Represents: (i) 75,567 shares of common stock issuable upon conversion of a 2012 Note; (ii) 31,250 shares of common stock issuable upon conversion of a 2011 Note; and (iii) 28,941 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014 issued in the name of David H. Benaderet.

<sup>21</sup> Represents: (i) 2,083 shares of common stock issuable upon conversion of a 2011 Note; (ii) 1,158 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; and (iii) 400 shares of common stock.

<sup>22</sup> Represents: (i) 3,125 shares of common stock issuable upon conversion of a 2011 Note; and (iii) 2,894 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; (iii) 10,076 shares of common stock issuable upon conversion of a 2012 Note; and (iv) 15,051 shares of common stock.

<sup>23</sup> Anthony J. Cantone, the President of Cantone Research, Inc., has sole voting and investment control with respect to the shares of common stock registered hereby for the account of Cantone Research, Inc. Cantone Research, Inc. is a registered broker-dealer and may be deemed to be an underwriter under the federal securities laws. Cantone Research, Inc. received the securities listed in this table for Cantone Research, Inc.'s account as compensation for placement agent services rendered to us by Cantone Research, Inc. in connection with the 2011 Offering and 2012 Offering. Cantone Research, Inc. served as a placement agent for our private placement offering of the 2012 Notes, 2011 Notes and the 2010 Notes and received customary compensation in connection therewith.

<sup>24</sup> Represents: (i) 75,000 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.96 per share which expires on October 26, 2015; (ii) 173,644 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; (iii) 105,000 shares of common stock issuable upon exercise of the 2012 Placement Agent Warrant; and (iv) 275,625 shares of common stock issuable upon exercise of the 2011 Placement Agent Warrant.

<sup>25</sup> Represents 275,625 shares of common stock issuable upon exercise of the 2011 Placement Agent Warrant.

<sup>26</sup> Represents: (i) 10,417 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 5,788 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>27</sup> Represents: (i) 5,208 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 8,682 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>28</sup> Represents: (i) 20,833 shares of common stock issuable upon conversion of a 2011 Note; (ii) 2,894 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; and (iii) 32,708 shares of common stock.

<sup>29</sup> Represents: (i) 3,125 shares of common stock issuable upon conversion of a 2011 Note; (ii) 2,894 shares of our common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>30</sup> Represents: (i) 5,208 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 6,720 shares of common stock.

<sup>31</sup> Represents: (i) 10,417 shares of common stock issuable upon conversion of a 2011 Note; (ii) 5,788 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; and (iii) 7,557 shares of common stock issuable upon conversion of a 2012 Note issued in the name of David Montieth.

<sup>32</sup> Represents: (i) 10,417 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 5,788 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>33</sup> Represents: (i) 5,521 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 27,400 shares of common stock.

<sup>34</sup> Represents: (i) 2,519 shares of common stock issuable upon conversion of a 2012 Note issued in the name of Edward Vander Meulen; (ii) 5,208 shares of common stock issuable upon conversion of a 2011 Note; (iii) 2,315 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; and (iv) 3,000 shares of common stock.

<sup>35</sup> Represents: (i) 62,500 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 23,153 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>36</sup> Represents: (i) 10,417 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 5,788 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>37</sup> Represents: (i) 5,038 shares of common stock issuable upon conversion of a 2012 Note and (ii) 2,083 shares of common stock issuable upon conversion of a 2011 Note.

<sup>38</sup> Represents: (i) 10,417 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 1,158 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>39</sup> Represents: (i) 10,417 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 5,788 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; and (iii) 15,988 shares of common stock.

<sup>40</sup> Raymond H. Goodrich, the Trustee of Goodrich Family Trust, has sole voting and investment control with respect to the shares of common stock registered hereby for the account of Goodrich Family Trust.

<sup>41</sup> Represents: (i) 5,038 shares of common stock issuable upon conversion of a 2012 Note; (ii) 5,208 shares of common stock issuable upon conversion of a 2011 Note; and (iii) 5,214 shares of common stock.

<sup>42</sup> Represents: (i) 8,333 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 6,297 shares of common stock issuable upon conversion of a 2012 Note issued in the name of June A. Young.

<sup>43</sup> Represents: (i) 15,133 shares of common stock issuable upon conversion of a 2012 Note; (ii) 8,333 shares of common stock issuable upon conversion of a 2011 Note; and (iii) 4,631 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>44</sup> Represents: (i) 5,208 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 9,000 shares of common stock.

<sup>45</sup> Represents: (i) 2,083 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 2,894 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>46</sup> Represents: (i) 4,417 shares of common stock issuable upon conversion of a 2011 Note; (ii) 8,622 shares of common stock; and (iii) 6,948 shares of common stock issuable upon exercise of a warrant with an exercise price of \$1.73 per share which expires on December 6, 2014.

<sup>47</sup> Represents: (i) 2,083 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 1,158 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>48</sup> Represents: (i) 2,083 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 2,315 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>49</sup> Represents: (i) 4,167 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 1,158 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>50</sup> Represents: (i) 3,125 shares of common stock issuable upon conversion of a 2011 Note; (ii) 1,736 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; and (iii) 6,550 shares of common stock.

<sup>51</sup> Represents: (i) 5,208 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 47,150 shares of common stock.

<sup>52</sup> Represents: (i) 5,208 shares of common stock issuable upon conversion of a 2011 Note; (ii) 6,720 shares of common stock; and (iii) 5,788 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>53</sup> Represents: (i) 5,208 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 5,219 shares of common stock.

<sup>54</sup> Marc Weber, Partner of Money Market Investment Club of Toledo, has sole voting and investment control with respect to the shares of common stock registered hereby for the account of Money Market Investment Club of Toledo.

<sup>55</sup> Represents: (i) 7,292 shares of common stock issuable upon conversion of a 2011 Note; (ii) 13,854 shares of common stock issuable upon conversion of a 2012 Note; and (iii) 2,315 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>56</sup> Represents: (i) 4,167 shares of common stock issuable upon conversion of a 2012 Note; and (ii) 1,736 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>57</sup> Represents: (i) 6,150 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 1,158 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>58</sup> Represents: (i) 20,833 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 11,576 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>59</sup> Represents: (i) 10,076 shares of common stock issuable upon conversion of a 2012 Note; (ii) 10,417 shares of common stock issuable upon conversion of a 2011 Note; and (iii) 2,315 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>60</sup> Represents: (i) 2,083 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 1,158 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>61</sup> Represents: (i) 4,167 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 2,315 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>62</sup> Represents: (i) 6,297 shares of common stock issuable upon conversion of a 2012 Note; and (ii) 5,208 shares of common stock issuable upon conversion of a 2011 Note.

<sup>63</sup> Represents: (i) 5,208 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 2,894 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>64</sup> Represents: (i) 25,189 shares of common stock issuable upon conversion of a 2012 Note; and (ii) 4,167 shares of common stock issuable upon conversion of a 2011 Note.

<sup>65</sup> Represents: (i) 4,167 shares of common stock issuable upon conversion of a 2011 Note; (ii) 5,376 shares of common stock; and (iii) 2,315 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>66</sup> Represents: (i) 10,417 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 8,682 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>67</sup> Represents: (i) 7,292 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 12,594 shares of common stock issuable upon conversion of a 2012 Note.

<sup>68</sup> Represents: (i) 10,417 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 2,315 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>69</sup> Represents: (i) 4,167 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 2,894 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>70</sup> Represents: (i) 4,167 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 2,315 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>71</sup> Represents: (i) 8,333 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 11,576 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>72</sup> Represents: (i) 5,208 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 600 shares of common stock.

<sup>73</sup> Represents: (i) 2,083 shares of common stock issuable upon conversion of a 2011 Note; (ii) 2,315 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; and (iii) 7,463 shares of common stock.

<sup>74</sup> Represents: (i) 8,333 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 5,209 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>75</sup> Represents: (i) 4,167 shares of common stock issuable upon conversion of a 2011 Note; and (ii) 5,718 shares of common stock.

<sup>76</sup> Represents: (i) 6,297 shares of common stock issuable upon conversion of a 2012 Note; (ii) 10,417 shares of common stock issuable upon conversion of a 2011 Note; (iii) 4,630 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; and (iv) 10,438 shares of common stock.

<sup>77</sup> Represents: (i) 5,038 shares of common stock issuable upon conversion of a 2012 Note; (ii) 5,208 shares of common stock issuable upon conversion of a 2011 Note; and (iii) 2,894 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>78</sup> David Benaderet, the Trustee of David Benaderet (Revocable Trust), has sole voting and investment control with respect to the shares of common stock registered hereby for the account of David Benaderet (Revocable Trust).

<sup>79</sup> Represents: (i) 75,567 shares of common stock issuable upon conversion of a 2012 Note; (ii) 31,250 shares of common stock issuable upon conversion of a 2011 Note; and (iii) 28,941 shares of common stock issuable upon exercise of a

warrant with an exercise price of \$3.57 per share which expires on March 13, 2014 issued in the name of David H. Benaderet.

<sup>80</sup> Represents: (i) 3,125 shares of common stock issuable upon conversion of a 2011 Note; and (iii) 2,894 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; (iii) 10,076 shares of common stock issuable upon conversion of a 2012 Note; and (iv) 15,051 shares of common stock.

<sup>81</sup> Pursuant to a Form 4 filed on July 13, 2012 with the SEC by Anthony J. Cantone, Mr. Cantone reported that he beneficially owns in excess of 10% of the common stock. Accordingly, Mr. Cantone may be deemed to be an “affiliate” of the Company as such term is defined in Rule 405 of the Securities Act. Mr. Cantone is an affiliate of Cantone Research, Inc., a registered broker-dealer. Mr. Cantone has represented to us that he purchased the 2012 Notes in the ordinary course of business and at the time of the purchase of the 2012 Notes, he had no agreements or understandings, directly or indirectly, with any person to distribute the 2012 Notes. For a description of the arrangements between us and Mr. Cantone, see “Certain Relationships and Related Party Transactions - Related Party Transactions” in our Definitive Proxy Statement on Schedule 14A filed with the SEC on October 29, 2013.

<sup>82</sup> Represents: (i) 52,500 shares of common stock held by Mr. Cantone; (ii) 134,048 shares of common stock issuable upon conversion of a 2010 Note; (iii) 1,384,635 shares of common stock issuable upon conversion of a 2012 Note held by an affiliate of Mr. Cantone; (iv) 938,338 shares of common stock issuable upon conversion of a 2010 Note held by an affiliate of Mr. Cantone; (v) 218,640 shares of common stock issuable upon conversion of a 2012 Note held by Mr. Cantone; (vi) warrants held by Mr. Cantone to purchase 201,831 shares of common stock at an exercise price of \$3.57 per share; (vii) warrants held by affiliates of Mr. Cantone to purchase 205,190 shares of common stock at an exercise price of \$3.57 per share; (viii) the 2011 Placement Agent Warrant held by an affiliate of Mr. Cantone to purchase 275,625 shares of common stock; (ix) a warrant held by an affiliate of Mr. Cantone to purchase 75,000 shares of common stock at \$3.96 per share; (x) the Bridge Warrant held by an affiliate of Mr. Cantone to purchase 315,000 shares of common stock; and (xi) the 2012 Placement Agent Warrant held by an affiliate of Mr. Cantone to purchase 105,000 shares of common stock.

<sup>83</sup> Represents: (i) 52,500 shares of common stock held by Mr. Cantone; and (ii) 218,640 shares of common stock upon conversion of a 2012 Note held by Mr. Cantone.

<sup>84</sup> Anthony J. Cantone, the Managing Member of Cantone Asset Management LLC, has sole voting and investment control with respect to the shares of our common stock registered hereby for the account of Cantone Asset Management LLC. Cantone Asset Management LLC is an affiliate of Cantone Research, Inc., a registered broker-dealer. Cantone Asset Management LLC has represented to us that it purchased the 2012 Notes in the ordinary course of business and at the time of the purchase of the 2012 Notes to be resold, it had no agreements or understandings, directly or indirectly, with any person to distribute the 2012 Notes.

<sup>85</sup> Represents: (i) 1,384,605 shares of common stock issuable upon conversion of a 2012 Note; and (ii) 315,000 shares of common stock issuable upon exercise of the Bridge Warrant.

<sup>86</sup> Represents: (i) 1,384,605 shares of common stock issuable upon conversion of a 2012 Note; and (ii) 315,000 shares of common stock issuable upon exercise of the Bridge Warrant.

<sup>87</sup> Anthony J. Cantone, the President of Cantone Research, Inc., has sole voting and investment control with respect to the shares of common stock registered hereby for the account of Cantone Research, Inc. Cantone Research, Inc. is a registered broker-dealer and may be deemed to be an underwriter under the federal securities laws. Cantone Research, Inc. received the securities listed in this table for Cantone Research, Inc.’s account as compensation for placement agent services rendered to us by Cantone Research, Inc. in connection with the 2011 Offering and 2012 Offering. Cantone Research, Inc. served as a placement agent for our private placement offering of the 2012 Notes, 2011 Notes and the 2010 Notes and received customary compensation in connection therewith.



<sup>88</sup> Represents: (i) 75,000 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.96 per share which expires on October 26, 2015; (ii) 173,644 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; (iii) 105,000 shares of common stock issuable upon exercise of the 2012 Placement Agent Warrant; and (iv) 275,625 shares of common stock issuable upon exercise of the 2011 Placement Agent Warrant.

<sup>89</sup> Represents 105,000 shares of common stock issuable upon exercise of the 2012 Placement Agent Warrant.

<sup>90</sup> Represents: (i) 5,038 shares of common stock issuable upon conversion of a 2012 Note; and (ii) 2,083 shares of common stock issuable upon conversion of a 2011 Note.

<sup>91</sup> Patricia West, Partner of Flying Arrow Estate Partners, has sole voting and investment control with respect to the shares of common stock registered hereby for the account of Flying Arrow Estate Partners.

<sup>92</sup> Represents: (i) 7,557 shares of common stock issuable upon conversion of a 2012 Note; and (ii) 5,788 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>93</sup> Represents: (i) 15,133 shares of common stock issuable upon conversion of a 2012 Note; (ii) 8,333 shares of common stock issuable upon conversion of a 2011 Note; and (iii) 4,631 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>94</sup> Marc Weber, Partner of Money Market Investment Club of Toledo, has sole voting and investment control with respect to the shares of common stock registered hereby for the account of Money Market Investment Club of Toledo.

<sup>95</sup> Represents: (i) 13,854 shares of common stock issuable upon conversion of a 2012 Note; (ii) 7,292 shares of common stock issuable upon conversion of a 2011 Note; and (iii) 2,315 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>96</sup> Monte Anglin and Janet Anglin, the Trustees of Monte and Janet Anglin Revocable Trust, have sole voting and investment control with respect to the shares of common stock registered hereby for the account of Monte and Janet Anglin Revocable Trust.

<sup>97</sup> Represents: (i) 2,519 shares of common stock issuable upon conversion of a 2012 Note; and (ii) 2,315 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014 issued in the name of Monte Anglin.

<sup>98</sup> Represents: (i) 7,557 shares of common stock issuable upon conversion of a 2012 Note; (ii) 10,417 shares of common stock issuable upon conversion of a 2011 Note; and (iii) 5,788 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014

<sup>99</sup> Represents: (i) 10,076 shares of common stock issuable upon conversion of a 2012 Note; (ii) 10,417 shares of common stock issuable upon conversion of a 2011 Note; and (iii) 2,315 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014.

<sup>100</sup> Represents: (i) 6,297 shares of common stock issuable upon conversion of a 2012 Note; and (ii) 5,208 shares of common stock issuable upon conversion of a 2011 Note.

<sup>101</sup> Represents: (i) 25,189 shares of common stock issuable upon conversion of a 2012 Note; and (ii) 4,167 shares of common stock issuable upon conversion of a 2011 Note.

<sup>102</sup> Represents: (i) 7,557 shares of common stock issuable upon conversion of a 2012 Note; and (ii) 8,333 shares of common stock issuable upon conversion of a 2011 Note.

<sup>103</sup> Represents: (i) 12,594 shares of common stock issuable upon conversion of a 2012 Note; and (ii) 7,292 shares of common stock issuable upon conversion of a 2011 Note.

<sup>104</sup> Represents: (i) 8,816 shares of common stock issuable upon conversion of a 2012 Note; and (ii) 5,788 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014 in the name of Alan Suntup & Paul Suntup as joint tenants.

<sup>105</sup> Raymond H. Goodrich, the Trustee of Goodrich Family Trust, has sole voting and investment control with respect to the shares of common stock registered hereby for the account of Goodrich Family Trust.

<sup>106</sup> Represents: (i) 5,038 shares of common stock issuable upon conversion of a 2012 Note; (ii) 5,208 shares of common stock issuable upon conversion of a 2011 Note; and (iii) 5,214 shares of common stock.

<sup>107</sup> Represents: (i) 2,519 shares of common stock issuable upon conversion of a 2012 Note; (ii) 5,208 shares of common stock issuable upon conversion of a 2011 Note; (iii) 2,315 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; and (iv) 3,000 shares of common stock.

<sup>108</sup> Represents: (i) 6,297 shares of common stock issuable upon conversion of a 2012 Note; and (ii) 8,333 shares of common stock issuable upon conversion of a 2011 Note issued in the name of James J. Young & June A. Young as joint tenants.

<sup>109</sup> Represents: (i) 6,297 shares of common stock issuable upon conversion of a 2012 Note; (ii) 10,417 shares of common stock issuable upon conversion of a 2011 Note; (iii) 4,630 shares of common stock issuable upon exercise of a warrant with an exercise price of \$3.57 per share which expires on March 13, 2014; and (iv) 10,438 shares of common stock.

## PLAN OF DISTRIBUTION

We are registering the shares of common stock issuable upon conversion of the Notes and exercise of the Warrants to permit the resale of these shares of common stock by the holders of the Notes and Warrants from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling securityholders of the shares of common stock. We will bear all fees and expenses incident to our obligation to register the shares of common stock.

The selling shareholders may sell all or a portion of the shares of common stock beneficially owned by them and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the shares of common stock are sold through underwriters or broker-dealers, the selling shareholders will be responsible for underwriting discounts or commissions or agent's commissions. The shares of common stock may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale, or at negotiated prices. These sales may be affected in transactions, which may involve crosses or block transactions,

• on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;

• in the over-the-counter market;

• in transactions otherwise than on these exchanges or systems or in the over-the-counter market;

• through the writing of options, whether such options are listed on an options exchange or otherwise;

• ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

• block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

• purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

• an exchange distribution in accordance with the rules of the applicable exchange;

• privately negotiated transactions;

• short sales;

• sales pursuant to Rule 144;

• broker-dealers may agree with the selling securityholders to sell a specified number of such shares at a stipulated price per share;

• a combination of any such method of sale; and

• any other method permitted pursuant to applicable law.

If the selling shareholders effect such transactions by selling shares of common stock to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling shareholders or commissions from

purchasers of the shares of common stock for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved.) In connection with sales of the shares of common stock or otherwise, the selling shareholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the shares of common stock in the course of hedging in positions they assume. The selling shareholders may also sell shares of common stock short and deliver shares of common stock covered by this prospectus to close out short positions and to return borrowed shares in connection with such short sales. The selling shareholders may also loan or pledge shares of common stock to broker-dealers that in turn may sell such shares. The selling shareholders may pledge or grant a security interest in some or all of the convertible notes or shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledges or secured parties may offer and sell the shares of common stock from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933, as amended (the "Securities Act"), amending, if necessary, the list of selling shareholders to include the pledgee, transferee or other successors in interest as selling shareholders under this prospectus. The selling shareholders also may transfer and donate the shares of common stock in other circumstances in which case the transferees, donees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling shareholders and any broker-dealer participating in the distribution of the shares of common stock may be deemed to be "underwriters" within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the shares of common stock is made, a prospectus supplement, if required, will be distributed which will set forth the aggregate amount of shares of common stock being offered and the terms of the offering, including the name and names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling shareholders and any discounts, commissions or concessions allowed or reallocated or paid to broker-dealers.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the shares of common stock may not be sold unless such shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that any selling shareholder will sell any or all of the shares of common stock registered pursuant to the registration statement, of which this prospectus forms a part.

The selling shareholders and any other person participating in such distribution will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including, without limitation, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the shares of common stock by the selling shareholders and any other participating person. Regulation M may also restrict the ability of any person engaged in the distribution of the shares of common stock to engage in market-making activities with respect to the shares of common stock. All of the foregoing may affect the marketability of the shares of common stock and the ability of any person or entity to engage in market-making activities with respect to the shares of common stock.

We will indemnify the selling shareholders against liabilities, including some liabilities under the Securities Act, in accordance with the applicable registration rights agreements to which they are a party, or

the selling shareholders will be entitled to contribution. We may be indemnified by the selling shareholders against civil liabilities, including liabilities under the Securities Act, that may arise from any written information furnished to us by the selling shareholder specifically for use in this prospectus, in accordance with the applicable registration rights agreement to which they are a party, or we may be entitled to contribution.

49

---

## LEGAL MATTERS

The validity of the common stock offered by this prospectus has been passed upon for us by Carlile Patchen & Murphy LLP, Columbus, Ohio. Attorneys at Carlile Patchen & Murphy LLP beneficially own 11,000 shares of the common stock.

## EXPERTS

The consolidated financial statements of AdCare Health Systems, Inc. and subsidiaries as of December 31, 2012, and for the year then ended, have been incorporated by reference herein and into the registration statement in reliance upon the report of KPMG LLP, independent registered public accounting firm, which report is incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

The consolidated balance sheet of AdCare Health Systems, Inc. and subsidiaries as of December 31, 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended, have been incorporated by reference into this prospectus and the registration statement in reliance upon the report of Battelle Rippe Kingston LLP (formerly Battelle & Battelle LLP), independent registered public accounting firm, which report is incorporated by reference into this prospectus and the registration statement, and upon authority of said firm as experts in accounting and auditing.

## WHERE YOU CAN FIND MORE INFORMATION

We file annual reports, quarterly and current reports, proxy statements and other information with the SEC. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). We maintain an Internet website at [www.adcarehealth.com](http://www.adcarehealth.com). All of our reports filed with the SEC (including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and proxy statements) are accessible through the Investor Relations section of our website, free of charge, as soon as reasonably practicable after electronic filing. The reference to our website in this prospectus is an inactive textual reference only and is not a hyperlink. The contents of our website are not part of this prospectus, and you should not consider the contents of our website in making an investment decision with respect to our securities.

We have filed with the SEC a registration statement under the Securities Act that registers the distribution of the securities offered hereby. The registration statement, including the attached exhibits and schedules, contains additional relevant information about us and the securities being offered. This prospectus, which forms part of the registration statement, omits certain of the information contained in the registration statement in accordance with the rules and regulations of the SEC. Reference is hereby made to the registration statement and related exhibits for further information with respect to us and the securities offered hereby. Statements contained in this prospectus concerning the provisions of any document are not necessarily complete and, in each instance, reference is made to the copy of such document filed as an exhibit to the registration statement or otherwise filed with the SEC. Each such statement is qualified in its entirety by such reference.

#### INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to “incorporate by reference” into this prospectus information we file with the SEC in other documents. This means that we can disclose important information to you by referring to another document we filed with the SEC. The information relating to us contained in this prospectus should be read together with the information in the documents incorporated by reference.

We incorporate by reference, as of their respective dates of filing, the documents listed below (excluding any portions of such documents that have been “furnished” but not “filed” for purposes of the Exchange Act):

- our Annual Report on Form 10-K for the year ended December 31, 2012;
- our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013, June 30, 2013 and September 30, 2013;
- Amendment No. 1 to our Quarterly Report on Form 10-Q for each of the quarters ended March 31, 2012; June 30, 2012; and September 30, 2012; each filed with the SEC on July 8, 2013;
- Amendment No. 2 to our Quarterly Report on Form 10-Q for each of the quarters ended March 31, 2012; June 30, 2012; and September 30, 2012; each filed with the SEC on October 22, 2013;
- our Current Reports on Form 8-K filed with the SEC on each of January 4, 2013; January 7, 2013; January 31, 2013; February 22, 2013; March 6, 2013; March 8, 2013; March 13, 2013; March 20, 2013; April 19, 2013; April 23, 2013; April 29, 2013; May 1, 2013; May 10, 2013; May 21, 2013; May 23, 2013; June 5, 2013; June 7, 2013; June 18, 2013; July 3, 2013; October 3, 2013; October 4, 2013; October 7, 2013; October 18, 2013; October 23, 2013; October 29, 2013; October 31, 2013; November 12, 2013; November 13, 2013; November 15, 2013; November 22, 2013; December 3, 2013; December 9, 2013; December 18, 2013; December 27, 2013; and December 31, 2013;

• Amendment No. 1 to our Current Report on Form 8-K/A filed with the SEC on July 26, 2013;

• our Definitive Proxy Statement on Schedule 14A filed with the SEC on October 29, 2013; and

• Supplement No. 1 to our Definitive Proxy Statement on Schedule 14A filed with the SEC on November 15, 2013.

Any statement incorporated by reference in this prospectus from an earlier dated document that is inconsistent with a statement contained in this prospectus or in any other document filed after the date of the earlier dated document, but prior to the date hereof, which also is incorporated by reference into this prospectus, shall be deemed to be modified or superseded for purposes of this prospectus by such statement contained in this prospectus or in any other document filed after the date of the earlier dated document, but prior to the date hereof, which also is incorporated by reference into this prospectus.

Any person, including any beneficial owner, to whom this prospectus is delivered may request copies of this prospectus and any of the documents incorporated by reference into this prospectus, without charge, by written or oral request directed to AdCare Administrative Services, 1145 Hembree Road, Roswell, Georgia 30076, Attention: Investor Relations, Telephone: (678) 869-5116, or from the SEC through the SEC’s Internet website at the address provided under “Where You Can Find More Information.” Documents incorporated

by reference into this prospectus are available without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference into those documents.

**DISCLOSURE OF SEC POSITION ON INDEMNIFICATION  
FOR SECURITIES ACT LIABILITIES**

While indemnification for liabilities under the Securities Act is permitted to our directors, officers, and controlling people, we have been advised that, in the opinion of the SEC, indemnification is against public policy as expressed in the Securities 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 Securities Act. We will be governed by the final adjudication of the issue.