

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

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(Registration Statement No. 333-193155)

PROSPECTUS

3,153,647 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:

714,136 shares of common stock issuable upon exercise of warrants issued by us to investors in a financing transaction in September 2010, with a current exercise price of \$3.57 per share which expires on March 13, 2014 (the “2010 Warrants”);

2,364,511 shares of common stock issuable upon exercise of warrants issued by us to certain of our officers and directors, consultants, placement agents, vendors and other service providers in connection with services rendered to us (the “Service Warrants”); and

75,000 shares of common stock issuable upon exercise of a warrant issued by us in partial settlement of certain claims alleged by a placement agent and its affiliates, with a current exercise price of \$3.96 per share (the “Settlement Warrant” and, together with the 2010 Warrants and the Service Warrants, the “Warrants”).

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 13, 2014

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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	<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 style="padding-left: 40px;">714,136 shares of common stock issuable upon exercise of the 2010 Warrants;</p> <p style="padding-left: 40px;">2,364,511 shares of common stock issuable upon exercise of the Service Warrants; and</p> <p style="padding-left: 40px;">75,000 shares of common stock issuable upon exercise of the Settlement Warrant.</p>
Common stock outstanding immediately prior to the offering, as of December 26, 2013	16,016,373 shares ⁽¹⁾
Common stock outstanding immediately after the offering	19,170,020 shares ⁽¹⁾
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	<p>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.</p>

Excludes: (i) 1,804,866 shares of common stock issuable upon exercise of outstanding options, at a current (1) weighted-average exercise price of \$4.55 per share of common stock; (ii) 1,857,909 shares of common stock issuable upon conversion of our subordinated convertible promissory notes issued

in 2010, with a current conversion price of \$3.73 per share (the “2010 Notes”); (iii) 928,896 shares of common stock issuable upon conversion of our subordinated convertible promissory notes issued in 2011, with a current conversion price of \$4.80 per share (the “2011 Notes”); (iv) 1,889,169 shares of common stock issuable upon conversion of our subordinated convertible promissory notes issued in 2012, with a current conversion price of \$3.97 per share (the “2012 Notes”); and (v) 379,718 shares of the common stock reserved for issuance under our existing equity incentive plans. Assumes the conversion 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. 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.”

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.

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.

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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 ⁴	\$335,000
Michael J. Fox	\$22,750	—	\$39,000 ⁵	—	—	—	\$61,750
Peter J. Hackett	\$101,600	—	\$48,000 ⁶	—	—	—	\$149,600
Jeffrey L. Levine*	\$80,800	—	—	—	—	—	\$80,800
Joshua J. McClellan*	\$67,500	—	—	—	—	—	\$67,000
Philip S. Radcliffe	\$101,600	—	\$48,000 ⁶	—	—	—	\$149,600
Laurence E. Sturtz	\$83,200	—	\$48,000 ⁶	—	—	—	\$131,200
David A. Tenwick	\$125,167	—	\$50,000 ⁷	—	—	—	\$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 (\$)	Stock Awards (\$) ⁽²⁾	Option Awards (\$) ⁽²⁾	All Other Compensation (\$)	Total (\$)
(A)	(B)	(C)	(D)	(E)	(F)	(I)	(J)
Boyd Gentry, President and Chief Executive Officer	2013	\$447,917	—	—	\$379,820 ³	\$6,825 ⁴	\$834,562
	2012	\$408,043	\$50,000	\$100,800 ⁵	\$227,080 ⁶	\$3,595 ⁷	\$789,518
David Rubenstein, Chief Operating Officer	2013	\$325,000	\$25,000	—	\$25,000 ⁸	\$1,080 ⁹	\$376,080
	2012	\$297,678	—	—	—	—	\$297,678
Ronald W. Fleming, Chief Financial Officer	2013	\$163,146	\$80,000	\$129,000 ¹⁰	\$233,907 ¹¹	\$1,686 ¹²	\$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.